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**INTERNATIONAL DEVELOPMENT ASSOCIATION
PROGRAM DOCUMENT
FOR A PROPOSED DEVELOPMENT POLICY CREDIT
IN THE AMOUNT OF SDR 14.2 MILLION
(US\$20 MILLION EQUIVALENT)
TO THE
REPUBLIC OF BENIN
FOR THE
TENTH POVERTY REDUCTION SUPPORT CREDIT**

February 18, 2015

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Africa Region**

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GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

Exchange Rate Effective as of January 31, 2015

Currency Unit = CFA Franc

US\$1.00 = CFAF 572

US\$1.00 = SDR 0.70932047

Weights and Measures

Metric System

ABBREVIATION AND ACRONYMS

AAA	Analytic and Advisory Activities
ABERPRoFA	Agency for the Promotion of Agricultural Commodities
AFRITAC	Africa Regional Technical Assistance Center
AIC	Inter-professional Cotton Association (<i>Association Interprofessionnelle de Coton</i>)
ANLC	National Anti-Corruption Authority (<i>Autorité Nationale de Lutte contre la Corruption</i>)
ARMP	Public Procurement Regulatory Authority (<i>Autorité de Régulation des Marchés Publics</i>)
ASTER	Accounting Software
BCEAO	Central Bank of West African States (<i>Banque Centrale des Etats de l'Afrique de l'Ouest</i>)
CAMEC	Arbitrage and Mediation Center (<i>Centre d'Arbitrage et de Médiation</i>)
CARDER	Regional Center for Rural Development (<i>Centre Agricole Régionale pour le Développement Rurale</i>)
CATT	Customs Assessment Trade Toolkit
CEM	Country Economic Memorandum
CFAF	West African CFA Franc
CGA	Certified Management and Accounting Center (<i>Centre de Gestion Agréé</i>)
CIGOP	Competitiveness and Integrated Growth Opportunity Project
CPS	Country Partnership Strategy
CSPEF	Monitoring Unit for Economic and Financial Programs (<i>Cellule de Suivi des Programmes Economiques et Financiers</i>)
DB	Doing Business
DNCMP	Public Procurement Control Division (<i>Direction Nationale de Contrôle des Marchés Publics</i>)
DSA	Debt Sustainability Analysis
ECF	Extended Credit Facility
ESW	Economic and Sector Work
EU	European Union
FADEC	Community-Development Support Fund (<i>Fonds d'Appui au Développement des Communes</i>)
FDI	Foreign Direct Investment
FM	Financial Management
FNDA	National Agricultural Development Fund

GDP	Gross Domestic Product
GoB	Government of Benin
HIV/AIDS	Human Immunodeficiency Virus/Acquired Immune Deficiency Syndrome
IAD	Income and Asset Disclosure
ICA	Investment Climate Assessment
ICC	Investment Climate Council
IDA	International Development Association
IDF	Institutional Development Fund
IEG	Independent Evaluation Group
IFC	International Financial Corporation
IMF	International Monetary Fund
INSAE	National Statistics and Economic Analysis Institute (<i>Institut National de la Statistique et de l'Analyse Economique</i>)
LOLF	Organic Law on Financial Legislation (<i>Loi Organique Relative aux Lois de Finances</i>)
NADA	National Data Archive
NBE	Budget Nomenclature
NPL	Non-Performing Loan
PCE	Public Accounting Plan
PEFA	Public Expenditure and Financial Accountability
PER	Public Expenditure Review
PFM	Public Financial Management
PPP	Public-Private Partnership
PRSC	Poverty Reduction Support Credit
PRSP	Poverty Reduction Strategy Paper
PSRSA	Strategic Program for the Reform of the Agricultural Sector (<i>Plan Stratégique de Relance du Secteur Agricole</i>)
PVI	Imports Verification Program (Programme de Vérification des Importations)
RCCM	Registry of Commerce and Credit (Registre du Commerce et du Crédit Mobilier)
SCRIP	Growth for Poverty Reduction Strategy (<i>Stratégie de Croissance pour la Réduction de la Pauvreté</i>)
SDR	Special Drawing Rights
SEZ	Special Economic Zone
SMEs	Small and Medium Enterprises
TA	Technical Assistance
TOFE	Government's Financial Operation Table (<i>Tableau des Opérations Financières de l'Etat</i>)
WAEMU	West African Economic and Monetary Union
WARCIP	West Africa Communications Infrastructure Program
WATH	West Africa Trade Hub
WB	World Bank
WBI	World Bank Institute

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REPUBLIC OF BENIN
TENTH POVERTY REDUCTION SUPPORT CREDIT (PRSC 10)

TABLE OF CONTENTS

CREDIT AND PROGRAM SUMMARY	iv
1. INTRODUCTION.....	1
2. MACROECONOMIC POLICY FRAMEWORK.....	3
A. Recent Economic Developments.....	3
B. Macroeconomic Outlook and Debt Sustainability	8
3. THE GOVERNMENT’S PROGRAM.....	10
4. THE PROPOSED TENTH POVERTY REDUCTION SUPPORT CREDIT	11
A. Links to the Government’s Program and Operational Description	11
B. Prior Actions, Results and Analytical Underpinnings.....	14
C. Link to the CPS and Other Bank Operations	30
D. Consultations and Collaboration with Other Development Partners.....	31
5. OTHER DESIGN AND APPRAISAL ISSUES.....	31
A. Poverty and Social Impacts	31
B. Environmental Aspects	33
C. Monitoring and Evaluation.....	33
D. PFM, Disbursement and Auditing Aspects	34
6. SUMMARY OF RISKS AND RISK MITIGATION.....	35

List of Tables:

Table 2.1: Key Economic Indicators, 2009-2016.....	4
Table 2.2: Key Fiscal Indicators, 2009-2016 (% of GDP)	6

List of Annexes:

Annex 1: Policy and Results Matrix.....	38
Annex 2: Letter of Development Policy.....	42
Annex 3: Fund Relations Note	54
Annex 4: Country Map.....	57

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SUMMARY OF PROPOSED CREDIT AND PROGRAM
REPUBLIC OF BENIN
TENTH POVERTY REDUCTION SUPPORT CREDIT

Borrower	Republic of Benin.
Implementing Agency:	The Ministry of Economy and Finance.
Financing Data:	IDA Credit Amount: SDR 14.2 million (US\$20 million equivalent). Standard IDA terms: 38-year maturity with a 6-year grace period; single tranche.
Operation Type:	This Development Policy Credit is the second in a programmatic series of three operations, PRSCs 9 through 11.
Pillars and Program Development Objectives:	The pillars and program development objectives of this PRSC series are: (i) Promoting good governance and high-quality public financial management; and (ii) Strengthening private-sector competitiveness.
Results Indicators:	<p>The indicators are primarily a subset of those presented in the Government’s Third Growth for Poverty Reduction Strategy (SCRIP III) for the period 2011-2015 and include (details on baselines and targets can be found in the policy and results matrix in Annex 1):</p> <ul style="list-style-type: none"> Unallocated percentage of budget. Time required to submit national accounts to the Chamber of Accounts. Average public procurement delay (days). Percentage of Ministers and National Assembly members that complete an asset declaration. Internal and external audits of customs transactions undertaken. Number of data bases on NADA (National Data Archive) site. Number of data bases on Benin’s Open Data site. Credit registry coverage (%). Number of PPP arrangements/contracts entered into. Number of formal registered companies. Percentage of labor force in salaried employment. Number of non-cotton agricultural commodities having an inter-professional organization. Percentage of non-cotton farmers having access to extension services through CARDERS. Number of non-cotton agricultural commodities having an inter-professional organization. Volume of agricultural credit extended under the guarantee. Percentage of total credit extended to agriculture. Value of non-cotton agricultural exports. Port of Cotonou dwell time (days). Cost to Export (US\$ per container). Cost to Import (US\$ per container). Number of roadblocks per corridor (WATH data).
Overall Risk Rating:	Moderate.
Climate and disaster risks:	There are no short or long term climate or disaster risks relevant to this operation as identified as part of the SORT environmental and social risk rating.
Operation ID:	P146665

**IDA PROGRAM DOCUMENT FOR A
PROPOSED TENTH POVERTY REDUCTION SUPPORT CREDIT
TO THE REPUBLIC OF BENIN**

1. INTRODUCTION

1.1 **This program document presents the second operation in a programmatic series of three poverty reduction support credits (PRSCs 9 through 11) to the Republic of Benin and follows two previous stand-alone operations (PRSCs 7 and 8).** The proposed PRSC-10 will be in the amount of SDR 14.2 million (US\$20 million equivalent), disbursed in a single tranche on standard IDA terms. This operation is designed to assist the recipient's efforts to accelerate growth and extend opportunities for equitable growth by addressing key challenges in the areas of governance, public financial management (PFM) and business-climate reform.

1.2 **Benin is one of the world's least-developed countries, with an annual per capita income of approximately US\$820 in 2014.** Despite moderate GDP growth of between 4 and 5 percent annually over the past two decades, poverty remains widespread as per capita GDP has increased little. The national headcount poverty rate was estimated at 37.5 percent in 2006, 35.2 percent in 2009 and 36.2 percent in 2011. There are significant regional disparities in poverty rates, and while female-headed households experience lower levels of poverty (28 percent, compared to 38 percent for male-headed households), women continue to suffer from lack of economic opportunity and are underrepresented in politics and in other high-level decision making positions.

1.3 **Benin's economy relies heavily on agricultural production, cotton in particular, and on re-export and transit trade with Nigeria and other neighboring countries.** Informal re-export trade with Nigeria makes up roughly 20 percent of GDP, leaving the economy vulnerable to trade-policy changes or economic downturns in neighboring Nigeria. The agricultural sector accounts for over 30 percent of GDP and provides nearly 70 percent of the country's employment.

1.4 **Benin's economy is characterized by a high degree of informality, with informal activities representing as much as 75 percent of the total economy.** Less than 10 percent of the economically active in Benin are engaged in salaried employment and more than 50 percent of the workforce is under-employed. If Benin wants to sustainably accelerate growth and reduce poverty by providing quality, high productivity and high wage jobs, it must be through growth of the formal economy. Unfortunately, the existing private sector enabling environment is not conducive to creating new businesses, and growing existing, formal sector enterprises.

1.5 **Furthermore, despite improvements, the country's weak, business environment creates strong incentives to engage in arbitrage opportunities, especially with Nigeria,** rather than pursuing productive, value-adding and employment-generating activities in the domestic economy. This slows economic growth and limits diversification.

1.6 **Achieving its development objectives, and ultimately reducing poverty, will require that Benin increasingly capitalizes on its comparative advantages in agriculture and its position as a regional trading center.** Agricultural diversification and improved productivity will

be essential not only to raising overall growth rates, but also to reducing regional disparities and narrowing the rural-urban gap in incomes and poverty levels. Due to low productivity levels, agriculture does not currently represent an effective path out of poverty. Results from the Poverty Assessment indicate that while agricultural growth has contributed strongly to overall growth, rising production has been spurred by increases in the amount of land under cultivation and in the share of labor devoted to the sector, rather than by improvements in marginal productivity. As a result, while production has increased, incomes in the agricultural sector remain low and stagnant. Diversifying production into more valuable crops, focusing more resources on export-oriented crops, and increasing the level of mechanization and the availability of inputs are needed to raise productivity and boost incomes among the large share of the population (especially the poor) involved in agriculture.

1.7 Similarly, an improved business environment will be necessary to increasingly formalize the economy, create official salaried employment and to fully exploit Benin's geographic position as a gateway to the Nigerian market and to landlocked countries to its north. Furthermore, a stronger business environment and a more level economic playing field should particularly benefit women, as they are most vulnerable to the economic instability associated with informal activities.

1.8 A decade ago, Benin was an ambitious and innovative performer and was seen as a model among West African countries. Economic performance improved markedly post-1989 following political reform, macroeconomic stabilization, trade liberalization, and divestiture of state-owned enterprises. Unfortunately, this performance was not maintained, momentum was lost and a period of reform stagnation set in. As a result, economic growth over the past decade has remained too low for meaningful poverty reduction. Difficulties in the cotton and port sectors in 2011 and 2012 contributed to the decision to proceed with two standalone operations prior to the proposed PRSC series.

1.9 Since late-2012, President Yayi's government has demonstrated a renewed commitment to pursuing substantive reforms. The Government has implemented difficult reforms at the Port of Cotonou, taken some action to strengthen public financial management systems, accelerated civil service reforms, and taken important steps to improve the business environment. Some of these efforts were met by stiff resistance, though the Government persisted. In sum, the Government has demonstrated considerable resolve in proceeding with its reform agenda, and progress continues to be made across a range of policy areas. Progress however, has been less substantive in the area of governance/anti-corruption and cotton sector reform has proven to be particularly problematic.

1.10 Within the past year, the Government has demonstrated a strong commitment to accelerate public investment, particularly in the transport and energy sectors. The Government organized a Round Table on development financing from June 17-19, 2014 in Paris, in an effort to mobilize the public and private financing necessary to fast-track the Poverty Reduction and Growth Strategy (SCRIP). Donors and private investors pledged a record US\$10.4 billion, against a funding gap of US\$6.7 billion, over the period 2014/2018.

1.11 **While clear progress has been made, public sector capacity remains weak, governance issues persist, and the business environment remains inadequate, with bureaucratic costs continuing to impose a substantial burden on the private sector.** PRSC-10 continues efforts to support the Government's ongoing reform efforts in two broad areas:

- (i) Promoting good governance and high-quality public financial management; and
- (ii) Strengthening private-sector competitiveness.

2. MACROECONOMIC POLICY FRAMEWORK

A. RECENT ECONOMIC DEVELOPMENTS

Real Sector

2.1 **Benin has demonstrated considerable macroeconomic stability in recent years, and the Government has adopted a conservative fiscal stance in response to a number of exogenous food and oil price shocks as well as the global economic and financial crisis in 2008/09.** Benin completed an Enhanced Credit Facility (ECF) program with the IMF in 2014 and the Government has expressed interest in a new program. The IMF relations note is attached as Annex 3.

2.2 **Real GDP growth has averaged about 4 percent annually over the past decade, though growth has increased since 2012 to 5.4 percent in 2012, 5.6 percent in 2013 and 5.5 percent in 2014.** Cotton production of 307,000 tons in 2013/14 (up from 240,000 tons in 2012/13), strong activity at the Port of Cotonou and rising telecommunications and transport sector activity have supported this improved performance.

2.3 **Investment also increased strongly in 2013 due to oil exploration activities, cement and some expansion of light manufacturing.** However, this has had little impact on the demand for domestically produced goods and services, as evidenced by the marked decrease in net exports, which reflects a commensurate increase in investment related imports of goods and services. Increased levels of investment continued through 2014 and are expected to continue in the near term following the successful conclusion of the Round Table in June 2014.

2.4 **2015 growth estimates are in the range of 5.5 to 6.0 percent based on continued strength in the cotton sector and agriculture more broadly, consistently improving port performance and increased investment levels, both public and private.** However, ongoing customs reforms at the port, unresolved questions regarding the Government's role in the cotton sector and implementation issues around public investment plans continue to present cause for concern. The Government has reiterated its commitment to pursuing substantive reform in these two key sectors – agriculture and port/commerce -- and provisions have been made in the proposed PRSC series to support its reform agenda.

Table 2.1: Key Economic Indicators, 2010-2017

	-----Actual-----				-----Projections-----			
	2010	2011	2012	2013	2014	2015	2016	2017
	(annual percentage change, unless otherwise indicated)							
Population growth (%)	3.5	3.5	3.5	3.5	3.5	3.5	3.5	3.5
Real GDP Growth (%)	2.6	3.5	5.4	5.6	5.7	5.5	5.0	5.0
Real GDP per capita growth (%)	-0.9	0.0	1.9	2.1	2.0	2.0	1.5	1.5
GDP deflator	1.9	2.7	6.7	1.0	1.7	2.8	2.8	2.8
Inflation (CPI, average, %)	2.2	1.8	6.7	1.0	1.7	2.8	2.8	2.8
External Sector (CFA Francs)								
Exports	21.3	-30.8	32.5	25.0	2.3	6.7	5.4	5.8
Share of cotton exports (% of exports)	13.7	15.7	29.5	26.9	27.8	27.0	26.1	23.3
Imports	1.3	-16.4	24.2	42.2	-12.8	1.4	9.7	8.9
Terms of trade(deterioration = negative)		-0.9	0.7	1.4	0.6	-0.4	0.0	-0.9
Money and Credit								
Net domestic assets	5.2	10.0	4.6	10.3	9.0	9.3	9.5	
Domestic Credit	4.4	12.8	4.4	8.3	9.0	9.3	9.5	
Net claims on central government	-0.9	7.1	-0.6	0.6	0.2	1.7	1.7	
Credit to the nongovernment sector	5.3	5.7	5.0	7.7	8.8	7.6	7.9	
Broad Money (M2)	11.6	9.1	8.9	17.0	17.1	12.9	12.2	
	(percent of GDP, unless otherwise indicated)							
National Accounts								
Gross investment	17.6	18.7	17.6	25.6	19.5	19.5	19.6	19.9
Gross government investment	5.5	6.6	5.6	7.0	6.9	6.8	6.8	6.9
Gross private investment	12.1	12.1	12.0	18.6	12.5	12.7	12.8	13.0
Gross domestic savings	5.6	6.6	5.2	6.6	6.4	8.1	7.3	7.0
Government saving	3.0	2.6	3.4	4.0	3.3	3.5	3.7	3.8
Nongovernment saving	2.6	4.0	1.8	2.6	3.1	4.6	3.6	3.2
Gross National Saving	8.9	10.9	9.7	11.1	10.3	12.3	12.7	12.8
Central Government Finance								
Total Revenue	18.6	17.6	18.8	19.4	18.7	18.7	18.8	19.0
Expenditure and net lending	21.6	21.9	21.2	23.2	21.8	22.0	21.9	22.0
Overall fiscal deficit (excl. grants)	-3.1	-4.3	-2.4	-3.8	-3.1	-3.3	-3.1	-3.1
Primary Balance (1)	-2.5	-3.9	-1.8	-3.3	-2.6	-2.7	-2.5	-2.4
External Sector								
Balance of goods and services	-12.0	-12.1	-12.5	-19.0	-13.0	-11.4	-12.3	-12.9
Current account (excl. grants)	-9.6	-8.1	-8.7	-14.8	-9.4	-7.5	-7.3	-7.3
Overall balance of payments	0.8	-4.4	-2.8	-0.8	0.6	0.8	1.1	1.1
Total Government debt	30.2	31.9	29.2	29.7	29.5	29.0	28.4	27.8
External Debt to GDP	18.1	17.8	16.6	18.4	18.0	17.6	17.3	17.0
Debt service to exports ratio (%)	5.6	5.4	6.7	6.2	7.9	7.4	7.3	7.2

Source: Beninese authorities and IMF staff estimates and projections.

(1) Total revenue minus current primary expenditures, capital expenditures and net lending.

2.5 Port reform has been a Government priority over the past couple of years with measurable results being achieved. Port traffic increased by nearly 20 percent from 2012 to 2013, and dwell time at the port fell from 30 days to fewer than 10 days. As a result, Customs revenue rose by 22 percent in 2012 and 17 percent in 2013, though Customs revenues have stagnated in 2014. The Government is currently implementing a customs reform program and the customs authority has assumed full responsibility for the program. Certain aspects of the program will be contracted to international private firms over the short term (three years). Customs reform will likely constitute a core element of Benin's new ECF program with the IMF, which is complementary to this operation. Significant improvements in port operations have also been achieved, including full implementation of the Single Window that consolidates all payments involved in the clearance and handling of goods, the introduction of a truck traffic system with a call system to manage the exit and entry of trucks in the port and computerized management of traffic flow. The 2014 Doing Business report noted, that of all countries, "Benin made the biggest improvement in the ease of trading across borders in the past year."

2.6 In April 2012, the Government assumed management of the entire cotton-sector value chain and continues to manage the 2014/15 campaign. The authorities have expressed the intent to restructure the governance of the cotton sector using a zoning/regional concession model that will allow important private sector involvement. However, given the economic importance of the sector and the fact that it touches the lives of the majority of Benin's citizens, cotton sector reform is rife with political economy issues that make the reform process particularly difficult. As a result reforms are proceeding haltingly. The Government of Benin (GoB) has requested Bank support in its restructuring efforts. Cotton production reached 307,000 tons in 2013/14 and is expected to total 350,000 tons in 2014/15. Cotton currently represents just less than 7 percent of all value-added in Benin and has typically accounted for up to 40 percent of official exports.

External Sector

2.7 The balance of payments deficit was 0.8 percent of GDP in 2013, compared to 2.8 percent in 2012. The current account deficit (excluding grants) reached record levels at approximately 14.8 percent of GDP in 2013, up from the 8.7 percent posted in 2012. This poses minimal concern as it is largely driven by capital imports financed by FDI related to expanded light manufacturing capacity, cement investments and oil exploration. However, official Balance of Payments (BOP) and Current Account (CA) figures can be difficult to interpret due to the very high degree of informal cross-border trade in Benin.

2.8 Increased cotton output positively impacted exports. In addition, an improved financial account (balance increased to 13 percent of GDP compared to 2.3 percent in 2012) contributed to the reduction of Benin's BOP balance. The 2013 current account deficit was essentially financed through foreign direct investment (FDI) (9.0 percent), and medium and long term loans to the Government (4.1 percent).

Fiscal Situation

2.9 Benin's fiscal stance remains stable; the overall fiscal deficit is expected to be 3.7 percent of GDP in 2014 (cash basis, excluding grants), following 3.6 percent in 2013 and 2.6 percent in 2012. Total revenue collection in 2013, excluding grants, was 19.4 percent of GDP,

higher than the 18.8 percent observed in 2012. Customs revenue amounted to CFAF 371.6 billion (9.1 percent of GDP), up from CFAF 318.1 billion in 2012 (8.3 percent of GDP), due to a rise in imports destined as informal re-exports to Nigeria where new trade barriers were introduced. Customs revenues have slightly underperformed over 2014 (falling below expectations by 5.5 percent as of end-November) as have domestic tax revenues, but the deficit remains in line with projections due to expenditure reductions.

2.10 On the expenditure side, a relatively tight fiscal stance continued. Capital expenditure was ½ percentage point of GDP higher than projected in 2013, while current expenditure remained on track. Net lending exceeded projections by about ½ percentage point of GDP, stemming from a loan to the state owned company in charge of cotton sector management.

Table 2.2: Key Fiscal Indicators, 2010-2017 (% of GDP)

	-----Actual-----					-----Projections-----		
	2010	2011	2012	2013	2014	2015	2016	2017
Total Revenue	18.6	17.6	18.8	19.4	18.7	18.7	18.8	19.0
Tax Revenue								
Tax on International Trade	8.6	7.6	8.3	9.1	8.9	9.0	9.0	9.1
Direct and Indirect taxes	7.6	7.9	7.3	7.2	7.7	7.7	7.8	7.9
Non-tax revenue	2.4	2.1	3.2	3.1	2.0	2.0	2.0	2.0
Total Expenditures and net lending	21.6	21.9	21.2	23.2	21.8	22.0	21.9	22.0
Current Expenditures	15.5	15.0	15.4	15.4	15.3	15.2	15.1	15.1
Current primary expenditures	15.0	14.5	14.8	14.9	14.7	14.6	14.5	14.5
Wages	7.3	7.4	7.3	7.3	7.2	7.2	7.2	7.2
Pensions and Scholarships	1.3	1.4	1.4	1.5	1.5	1.5	1.4	1.4
Current transfers	3.5	3.2	3.2	3.2	3.3	3.3	3.3	3.3
Goods and Services	2.8	2.6	2.9	2.9	2.7	2.7	2.7	2.7
Interest	0.5	0.4	0.6	0.5	0.6	0.6	0.6	0.6
Capital Expenditure and net lending	6.1	6.9	5.8	7.8	6.5	6.8	6.8	6.9
Capital expenditure	5.5	6.6	5.6	7.0	6.9	6.8	6.8	6.9
Financed by domestic resources	3.1	3.1	3.4	3.3	3.6	3.6	3.6	3.7
Financed by external resources	2.3	3.5	2.3	3.8	3.3	3.2	3.2	3.2
Net lending	0.6	0.4	0.2	0.8	-0.4	0.0	0.0	0.0
Overall Balance	-3.1	-4.3	-2.4	-3.8	-3.1	-3.3	-3.1	-3.1
Primary Balance (1)	-2.5	-3.9	-1.8	-3.3	-2.6	-2.7	-2.5	-2.4
Basic Primary Balance (2)	0.5	-0.1	0.6	1.2	0.3	0.5	0.7	0.8
Overall Balance (cash basis excl. grants)	-3.3	-4.9	-2.6	-3.6	-3.7	-3.7	-3.4	-3.4
Financing	3.4	4.8	2.6	3.6	3.7	3.7	3.4	3.4
External financing	3.5	3.2	2.4	4.3	3.0	3.0	3.0	3.0
Domestic financing	0.0	1.6	0.2	-0.7	0.7	0.7	0.4	0.3

Source: Beninese authorities and IMF staff estimates and projections.

(1) Total revenue minus current primary expenditures, capital expenditures and net lending (payment order basis, excl. grants).

(2) Total revenue minus current primary expenditures and capital expenditures financed by domestic resources (payment order basis, excl. grants).

2.11 **To finance its moderate fiscal deficit the Government issued treasury bills and bonds in the West African Economic and Monetary Union (WAEMU) monetary market.** Overall, debt levels remain moderate with total government debt amounting to 29.7 percent of GDP in 2013, of which external debt was 18.4 percent. Overall, fiscal policy has been conducted in a manner to ensure debt sustainability and increased fiscal space for future investment and economic growth.

Money and Banking

2.12 **As a WAEMU member, Benin's monetary policy is managed at the regional level by the West African Central Bank (BCEAO – Banque Centrale des États de l'Afrique de l'Ouest).** The CFAF is pegged to the euro. Monetary policies remained prudent in 2013 and 2014 as the BCEAO continued to focus on achieving the WAEMU Stability, Convergence, Growth and Solidarity Pact objectives. Broad money, which was estimated at 45 percent of GDP in 2012, grew by 17.3 percent in 2013 due to increases in domestic assets of 10.0 percent and domestic credit of 8.3 percent. While growth in credit has been reasonable, banks have continued to accumulate non-performing loans (NPLs). The NPL ratio now exceeds 20 percent, the capital adequacy ratio has declined to 8.5 percent, and banks have limited margin for covering their risks and boosting credit. With respect to the fragile situation of the banking sector, the Government intends to strengthen the soundness of the system by working together with the BCEAO and the WAEMU Commission and is ruling out any form of subsidy.

2.13 **While the level of NPLs in the banking sector is a source of concern, it does not appear at present to pose systemic risks.** Recapitalization needs appear manageable in view of the volumes mobilized for recapitalizations in the past, and spillover risks are limited because inter-bank transactions are few. The Banking Commission has intensified on-site supervision and will take necessary action based on these findings. Meanwhile, banks have taken steps to improve loan quality by launching a project to centralize and share loan information given that BCEAO efforts to establish a regional credit information office have not been completed.

Inflation and Prices

2.14 **Inflation has typically remained under the WAEMU target of 3.0 percent and was 1.0 percent in 2013** thanks to lower food prices following a good harvest. The impact of a cut in fuel subsidies by Nigeria in January 2012 proved transient. Following the permanent Nigerian-induced gas price shock of 50 percent in 2012, inflation in Benin jumped from 1.8 percent in 2011 to 6.7 percent in 2012. This arose from the fact that Benin sources over 85 percent of its petroleum products from Nigeria through unofficial channels. As such, this policy change in Nigeria, which resulted in a 50 percent increase in fuel costs, directly and immediately increased fuel prices in Benin by the same magnitude.

2.15 **Increased fuel prices arising from subsidy reductions in Nigeria not only affect household welfare through rising consumer prices, but can also directly affect income, as many households in Benin are involved in the informal petroleum-products trade with Nigeria.** Estimates vary widely, but up to 500,000 people may be directly or indirectly involved in this trade. Falling subsidies in Nigeria reduced profit margins, decreased the difference between the official price and the informal 'street' price, and increased competition. Should Nigerian

subsidies be cut further, or the global oil price fall sufficiently, the informal petroleum-products trade and its associated livelihoods could cease altogether.

B. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

2.16 **The medium-term macroeconomic outlook (2015-17) assumes a steady recovery in economic activity, a generally benign external economic environment and more effective implementation of the Government's reform agenda; given these conditions real GDP growth is projected at 5.5 percent in 2015, following 5.7 percent in 2014.** Further improvement in port and customs management is expected to support trade and commerce activity. High levels of private investment have continued in 2014 and should continue into 2015 due to oil investments and continuing investment in cement production. Manufacturing investment in 2013/14 is also expected to provide some impetus to manufacturing GDP in 2014 and 2015. Agriculture output, including cotton production, should remain strong; however, dependence on weather conditions implies significant uncertainty.

2.17 **In order to further accelerate medium- and long-term growth the Government is looking to scale up public investment after several years of relatively low levels of public investment.** Priority investments have been identified with a vision to accelerate, facilitate and leverage related private sector investment and directly support the Government's SCRP III objectives. They include road, energy, telecommunication, and value-added agricultural processing investments, including many to be pursued on a public-private partnership (PPP) basis.

2.18 **In addition, in order to attract the private sector investment pledged Benin will need to continue to reform its business enabling environment so that it creates a level playing field for small, medium, large and very large formal sector enterprises alike.** While Benin's current business environment faces several challenges significant progress has been made. Benin demonstrated significant improvement in moving from 167th to 151st in the latest Doing Business (DB) ranking and is among the top 10 largest movers on the list. Particular weaknesses remain in the areas of paying taxes, resolving insolvencies, and protecting investors. Recent progress has been realized in starting a business, with the introduction of a single window for business formation and a lower fee structure, in trading across borders with improvements at the port, in customs administration, and in contract enforcement with the creation of the *Tribunal de Commerce* and the *Centre d'arbitrage et de mediation* (CAMEC), an arbitration and mediation mechanism. Furthermore, the PPP environment has been improved with the introduction of new PPP legislation and the creation of the Agence des Grands Travaux. Greater effort is needed however to make Benin an attractive place for both domestic and foreign private investors, particularly in light of plans to scale up investment as discussed at the June 2014 Round Table.

2.19 **Fiscal policy is on track and the overall fiscal deficit is projected at 3.1 percent in 2014 (payment order basis) and 3.3 in 2015.** This is expected to maintain the total (domestic and external) debt-to-GDP ratio below 30 percent. This rather positive fiscal position reflects a tight expenditure policy. Public wage pressures continue, particularly from the teachers' unions and in light of the expiration of a civil service wage agreement in mid-2015, which coincides with parliamentary elections. However, the Government has effectively resisted this pressure to date, and with inflation expected to remain low over the medium-term, moderate wage pressures should

be manageable. Furthermore, the Government has taken several measures, as detailed later in this document, to increase the effectiveness and efficiency of government spending.

2.20 Risks to revenue performance, although not absent, have diminished as uncertainty and instability at the Port of Cotonou has been reduced considerably. Given that the port is responsible for 50 percent of tax revenues and typically represents the country's greatest source of revenue volatility, revenue performance should become increasingly stable and predictable, though it remains vulnerable to policy changes in Nigeria. Some issues within the customs administration remain, and resistance to planned customs reforms may yet materialize, particularly as efforts to reduce corruption and rent-seeking opportunities progress. Trade-related fiscal revenues in 2014, while above 2013 figures, are coming in below projections and pose some risk.

2.21 However, past experience has demonstrated the Government's resolve to keep expenditures in line with revenues, and there is no reason to believe this commitment to fiscal responsibility will not continue. If revenues fail to meet expectations, recent successful measures to protect priority social expenditures would likely continue through 2014. Unfortunately, infrastructure investment may continue to bear the brunt of any expenditure cuts, as experienced in 2010 and 2012. While this could result in lower medium- and longer-term growth as public investment projects are delayed or cancelled in order to manage the budget, the successful conclusion of the Round Table may mitigate this risk and investment levels are likely to remain robust. Recent government efforts to improve public investment planning, prioritization and execution should also help. In addition, measures to strengthen public procurement should increase the effectiveness and efficiency of public investment spending.

2.22 The greatest risks to the macroeconomic outlook are external in nature and include the possibility of declining external demand, including in Benin's major trade partners (e.g., China and India). The outlook also remains highly sensitive to trade policy decisions in Nigeria, which receives an estimated 80 percent of Benin's imports through informal re-exports. Minor policy changes in Nigeria can have considerable spillover effects in Benin and continue to pose the most significant external risk. There is a close connection between policy events in Nigeria and economic outcomes in Benin. Finally, falling global cotton prices could impact macroeconomic and fiscal performance, the latter due to ongoing government management of the sector and related direct budgetary costs and contingent liabilities.

2.23 The impact of falling global oil prices is somewhat ambiguous in the case of Benin. As an oil importer, Benin would clearly benefit directly from falling global oil prices. This is complicated however, by the fact that Benin sources 85 percent of its oil informally from Nigeria. As such, the real effective price of oil in Benin is the price of oil in Nigeria, which is subsidized and less than the global price. In light of falling global prices Nigeria has reduced its domestic price and subsidies have essentially been eliminated. With oil prices now under \$50 per barrel there is minimal difference in price between the global price and the Nigerian price. As prices stay in this range the unofficial trade with Nigeria in petroleum products may eventually cease. This should have a positive impact on fiscal revenues as a greater proportion of oil is imported through official channels.

2.24 **However, on the negative side, given its heavy economic reliance on Nigeria, slower growth in Nigeria resulting from falling global oil prices will have an impact on growth in Benin.** Estimates are that Benin suffers a 0.2 to 0.3 percent reduction in growth for each 1.0 percent reduction of growth in Nigeria. Furthermore, falling oil prices could dampen the recent significant interest in offshore oil exploration along Benin’s coast and thus lower foreign direct investment. As noted however, this investment in oil exploration has had little direct impact on domestic demand. In sum, the various effects likely balance out to a great degree and Benin should remain largely unaffected at the macro level by falling global oil prices.

2.25 **The Heavily Indebted Poor Countries and Multilateral Debt Relief Initiative programs have helped reduce Benin’s external debt stock from 47 percent of GDP at end-2002 to 18.0 percent currently.** The latest debt sustainability analysis (October 2012) places Benin at a low risk of debt distress. However, with Benin’s plans to significantly scale up public investment, which could potentially increase the public debt burden over the medium term, there is some concern that the risk of debt distress could increase over the medium term. The trajectory of public debt in light of the scaled up investment plans will depend to a considerable extent on the mix of public and private funding and the extent to which confirmed pledges are realized.

2.26 **Bank staff consider Benin’s macroeconomic policy framework to provide an adequate basis for the proposed operation.** As described and highlighted in the preceding discussion, Benin currently benefits from a stable macroeconomic outlook supported by responsible fiscal and debt-management policies.

C. IMF RELATIONS

2.27 **Relations with the IMF are strong and constructive.** IMF program-review missions are undertaken as joint Fund/Bank missions, and Bank participation is integral to the review process. Structural benchmarks and performance criteria included in the IMF program are not only coordinated and consistent with PRSC prior actions, but also with investment operations and Analytic and Advisory Activities (AAA). The IMF has been fully consulted in the preparation of the proposed series and has made substantive contributions to its design.

2.28 **Reviews under the recently completed ECF program (final program review was completed in June 2014) confirmed that Benin made strong progress under the arrangement.** In concluding their program review, the IMF noted that; “The implementation of structural reforms has been positive overall despite delays. Progress has been achieved in several areas of public management, including PFM, tax administration, and human resource management. The new approach to customs reform addressed delays in customs reform. However, to sustain strong economic growth, the business environment has to be further improved through broad-based reforms beyond the ECF arrangement’s conditionality”.

3. THE GOVERNMENT’S PROGRAM

3.1 **Benin’s current Growth for Poverty Reduction Strategy (*Stratégie de Croissance pour la Réduction de la Pauvreté – SCRP III*) for 2011-2015 is the country’s third poverty reduction strategy paper (PRSP).** It is designed to consolidate progress achieved under prior PRSPs and reconfirms the Government’s commitment to the objectives set forth in the SCRP II.

The SCRP III not only builds on the successes of its predecessors, but also addresses key constraints and policy failures encountered during the implementation of previous strategies. Its overriding objective is to achieve sustained growth and poverty reduction and to place the country firmly on the path to emerging-market status. The SCRP III is organized around five strategic pillars.

3.2 Pillar 1: Accelerating Economic Growth. Benin's economic growth rate remains too low to meet the material needs of its people, particularly given the country's rapid population growth. The economy is hindered by its lack of diversification and limited competitiveness. In response the authorities are accelerating reforms to improve the business and investment climate.

3.3 Pillar 2: Infrastructure Development. In Benin the Port of Cotonou represents both a major asset, as it provides a natural trade gateway to landlocked countries to the north, and a serious liability, as the economy is structurally sensitive to any shock affecting its primary connection to world markets. Five priority infrastructure types are identified under Pillar 2: (i) transportation infrastructure; (ii) energy; (iii) information and communication technology; (iv) water and sanitation; and (v) housing and urban development.

3.4 Pillar 3: Strengthening Human Capital and Social Protection. Despite progress achieved during the implementation of SCRP I and II, Benin's social indicators remain among the lowest in the world. The Government recognizes the need to strengthen human capital not only as a matter of public welfare, but also as a fundamental prerequisite for sustaining medium- and long-term economic growth.

3.5 Pillar 4: Promoting Good Governance. Good governance is essential to the success of the SCRP III's objectives. Benin's development is severely hindered by the lack of an enabling private-sector environment, the inadequate quality of public financial management, and the limited effectiveness of public programs and essential services. The government has stated its commitment to good governance and public-sector reform, and the SCRP III advances the country's ongoing reform agenda.

3.6 Pillar 5: Fostering Balanced and Sustainable Regional Development. Given Benin's high and rising regional disparities, achieving the objectives of the SCRP III will require more balanced development across different areas of the country. The strategy seeks to cultivate local resources and reduce spatial inequalities in the provision of infrastructure and services, through a program of administrative decentralization, targeted regional development, and enhanced environmental protection.

4. THE PROPOSED TENTH POVERTY REDUCTION SUPPORT CREDIT

A. LINKS TO THE GOVERNMENT'S PROGRAM AND OPERATION DESCRIPTION

4.1 In line with the goals of the third SCRP, the overarching goal of the proposed PRSC series is to boost real economic growth, reduce poverty and increase opportunities for equitable growth. The PRSC-10 will focus its support on two critical objectives:

- (i) Promoting good governance and high-quality public financial management; and
- (ii) Strengthening private-sector competitiveness.

4.2 **The first objective of the proposed operation supports specific measures to improve PFM in the context of a broader effort to promote good governance and public-sector accountability, which is fully in line with SCRP III's Pillar 4.** Accordingly, the operation focuses on PFM reforms, especially in the areas of budget execution and public procurement processes, while also supporting the Government's larger good-governance and anticorruption efforts.

4.3 **The second objective of the proposed operation supports measures aimed at strengthening private-sector competitiveness, in line with the specific objectives of SCRP's Pillar 1.** The operation focuses on measures aimed at enhancing the business environment, improving port operations and customs performance, and fostering agricultural growth and diversification.

4.4 **The operation will directly support implementation of the SCRP III by focusing on the Government's stated priorities and building on past PRSC operations.** It seeks to create a healthy, competitive business environment conducive to investment in the country's most promising sectors. Removing administrative barriers to investment and formalization, reducing transaction costs, alleviating infrastructure bottlenecks, and leveling the playing field by minimizing distortive policies and interventions are all essential to facilitating the structural transformation of the economy and permanently raising Benin's growth trajectory.

4.5 **Effective and efficient delivery of government services and sound management of scarce public resources is central to meeting these goals and advancing the broader SCRP III reform agenda.** The role of government in fostering economic growth is not only to provide a suitable enabling environment, in which the private sector can prosper; it is also to deliver effective public services that maximize the impact of available revenues. Strong governance and responsible PFM grounded in a commitment to transparency and accountability are critical to ensuring that prosperity is widely shared and that growth is closely linked to poverty reduction.

Lessons Learned

4.6 **PRSG-7 and PRSC-8 laid the foundation for the PRSC 9-11 programmatic series by supporting key measures toward improved public financial management, strengthened governance and increased competitiveness, particularly in agriculture and at the port.** Specifically, PRSG-7 supported submission and passage of the new Budget Framework Law (LOLF), approval of key procurement regulations (decrees), the adoption of a Code of Value and Ethics in the Public Service, the adoption and promulgation of an anti-corruption law, and the adoption of a new agriculture development strategy. PRSC-8 followed with the creation of necessary public procurement agencies, adoption of the remaining procurement regulations, and passage of key anti-corruption regulations necessary for implementation of the new anti-corruption law. The Independent Evaluation Group (IEG) had been critical of the on-going use of stand-alone operations in the absence of full government commitment in certain important reform areas,

suggesting instead waiting until greater commitment existed. PRSC-10 now forms part of a programmatic series in light of strengthened government commitment.

4.7 **A number of important lessons can be drawn from Benin's previous PRSCs.** This proposed series consolidates and builds upon the reforms launched under the PRSG-7 and PRSC-8, and is informed by the following lessons learned during these operations:

- **Policy actions are often not enough to affect significant and sustainable change.** While policy actions are necessary to create an environment conducive to change, additional enabling interventions are also frequently required. In past PRSC operations, greater impact was achieved by concentrating prior actions in areas that were already the focus of Bank investment or technical assistance (TA) operations, or complementary donor activities aligned with the PRSC. The proposed series incorporates this lesson by targeting its support to areas in which the Bank and other donors are already involved.
- **PRSC support can be more effective if the series supports a deep reform agenda rather than a broad one.** Focusing on a narrow range of key policy measures, along with carefully selected complementary actions related to implementation or to laying the groundwork for second-generation reforms, yields greater results than expanding the supported reform agenda to new policy areas. The proposed series concentrates on a few critical areas, and its prior actions and triggers directly support the continued implementation of reforms commenced under PRSG-7, PRSC-8 and PRSC-9.
- **Resistance to change and administrative capacity limitations should not be underestimated.** Selectivity and simplicity in program design are essential to success, as is realism regarding the scope and pace of reform. Setbacks and reversals can be expected. Progress is not always linear, and local realities must be fully understood and incorporated into reform plans and expectations. In evaluating prior PRSCs, IEG noted the slow progress on governance, especially procurement and PFM reforms. In this regard, difficult dialogue has been undertaken with the authorities around the procurement and governance reform agenda. Engagement with Parliament, civil society and other stakeholders is also important in explaining and garnering support for reform. Furthermore, TA has been provided in the governance area and an investment operation is being designed to strengthen procurement processes and public investment planning and implementation capacity.
- **Lessons learned from PRSC-9 reinforce the preceding lesson** in that governance and cotton sector reforms are proving difficult in an environment of internal resistance and considerable self-interest in these areas. Political economy considerations are important to consider in the timing, sequencing and level of ambition inherent in supported reforms. It may be necessary to recalibrate the level of ambition and pace of reform in order to maintain steady, if unspectacular, progress in establishing a legislative and institutional environment conducive to reform should the political economy environment become more amenable to reform.
- **Finally, the operation's stated objectives and monitored results indicators must be realistic, focused on measures that are directly attributable to supported actions and**

consistent over time. Prior PRSC series in Benin included results indicators that did not always have a clear causal link to specific supported actions, and in some cases exogenous factors had a considerable influence on their success or failure. This was confirmed by IEG comments that indicators included in previous series were on occasion too far removed from supported actions and attribution was therefore difficult. In addition, IEG noted that indicators were often changed from one operation to the next, which did not allow for the tracking of long-term progress. As such, some indicators included in the PRSC 9-11 series maintain indicators used in previous PRSC operations and this accounts to some extent for the large number of indicators. Nonetheless, for PRSC-10 some indicators included from previous operations have been removed as they have essentially now been fully met and have stabilized. Furthermore, in response to further IEG comments concerning level of ambition and attribution some of the indicators or associated results have been slightly modified from those presented in PRSC-9. These are noted in the results matrices.

B. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

4.8 **This section details the proposed operation’s pillars along with its relevant prior actions, triggers, indicators and expected results, as well as the analytical underpinnings for the present operation.** In the tables that follow, PRSC-10 prior actions are noted in **bold** and new actions, triggers or results indicators that have been added since the original presentation of the series are noted in *italics*. The tables also note changes in prior actions, triggers and results indicators.

Pillar 1: Promoting Good Governance and High-Quality Public Financial Management

Budget Execution, Transparency and Public Accounting

PRSC-9 Prior Actions	PRSC-10 Prior Actions	PRSC-11 Triggers
PILLAR 1: PROMOTING GOOD GOVERNANCE AND HIGH-QUALITY PUBLIC FINANCIAL MANAGEMENT		
BUDGET EXECUTION		
	Adoption of the decree related to the Transparency Code. (Prior Action 1)	Public dissemination of budget/public finance information in accordance with Chapter VI of the Transparency Code Directive.
	Adoption and publication of the decrees necessary for enactment and implementation of the Guidelines for the General Rules of Public Accounting, Budget Nomenclature (NBE), the Table of Government Financial Operations (TOFE) and approval of an arrêté establishing the Public Accounting Plan (PCE). (Prior Action 2)	<i>Electronic interconnection of central and decentralized government accounts centers/units to allow improved real-time supervision and oversight of accounts consolidation by the Accountant General.</i>
Unallocated percentage of budget: Baseline (2012): 12.4 Target (2017): <5		
Time required to submit national accounts to the Chamber of Accounts (months): Baseline (2012): 9 Target (2017): <6		

PRSC-9 Prior Actions	PRSC-10 Prior Actions	PRSC-11 Triggers
Changes to prior actions and triggers since original presentation of the series:		
	None	Updating of existing financial software applications to make them compatible with the new harmonized public finance framework, including the LOLF, NBE and PCE. (This trigger has been dropped) Trigger above in Italics has been added
Changes to indicators and targets since original presentation of the series:		
The following two indicators were dropped:		
Average payment delay (days): <i>Met and stable – will no longer track</i>	Baseline (2012): 15	Target (2017): <15
Exceptional Payment orders (% of total budget): <i>Met and stable – will no longer track.</i>	Baseline (2012): 3.18	Target (2017): <3
Analytical Underpinnings:		
2013 SCRP Annual Performance Report	2014 and 2007 PEFA	Periodic IMF TA Reports
2012 SCRP Annual Performance Report	2013 Policy Note on Broadening the Tax Base	
2012 Public Remuneration Study (Netherlands)	2012 PEFA Self-Assessment	
2011 Analysis of Central Financial Agencies	2012 Civil Service Reform Stocktaking and Strategy (Denmark)	
2010 Public Expenditure Review	Progress Reports on the PFM Action Plan	
2010 Public Expenditure Review	2009 Action Plan for Improving Public Financial Management 2009-2013	
Complementary Bank Operations and TA:		
Community Driven Decentralized Services		Wage Bill TA (FY14)
FM and Public Investment Capacity Building/TA Project (FY15)		Decentralized CDD Project Phase 2 (FY17)

4.9 **The 2014 PEFA and the 2010 Public Expenditure Review (PER) indicate that PFM in Benin has shown modest improvement.** Comparing the 2014 PEFA indicators to those of 2007, 14 indicators were identical between the two assessments, while 7 improved and 10 deteriorated. Six indicators were not ranked due to unavailability of supporting documents. Most of those that deteriorated, were not necessarily the result of a deterioration in performance, but rather stemmed from a change in analytical approach between 2007 and 2014. Recent progress has stemmed from (i) reforms to institutionalize program based budgeting, including procedures for their preparation, implementation and control; (ii) the computerization of budget execution, accounting and reporting; (iii) measures to strengthen the design and implementation of procurement reforms; and (iv) improvements in internal budget controls. However, challenges remain in improving budget credibility and the quality of public spending, as well as streamlining budget execution, improving financial reporting, and strengthening overall financial accountability and procurement processes. Hence, the focus in this series on budget execution and procurement.

4.10 **The new Organic Law on Financial Legislation (*Loi Organique relative aux Lois de Finances – LOLF*) was introduced to the National Assembly on October 24, 2012 and became law on September 27, 2013.** An action plan for implementing the LOLF and the new budget framework was also drafted and approved in 2013. Implementation will proceed over a number of years and will require TA and capacity-building support from the Bank and ongoing TA from the IMF and the donor community. The new budget-framework law requires new accounting rules and a new budget nomenclature in line with WAEMU directive. PRSC-10 supports the approval

of decrees concerning public accounting, budget nomenclature, the TOFE, and an arrêté on the public accounting plan, as these are critical to render the new LOLF effective and ensure its full implementation.

4.11 To implement the new budgetary framework several measures have already been undertaken. A comprehensive plan for training of state officials in various line and central ministries is being prepared. In addition, a number of other reforms have been undertaken to reinforce the new budgetary framework and modernization of the legal and regulatory framework, including: improved communication with taxpayers and the quality of service to the user; modernization of the tax administration; further computerization and interconnection between all revenue agencies, including the Treasury and the Directorate General of Budget; implementation of the Unique Taxpayer Identification Number (IFU); and finally efforts to increase integration of the informal sector into the tax system.

4.12 Like the LOLF, the application of the Transparency Code is a WAEMU directive; it complements the LOLF and other WAEMU instruments in harmonizing the legal, accounting and statistical frameworks governing public finance. The Transparency Code further consolidates the gains made by WAEMU member states, including Benin, during the last decade of fiscal consolidation. It also represents a major contribution to good governance and reinforces the other governance measures supported by this series. The Transparency Code will help hold government agencies more accountable in meeting their obligations and financial responsibilities. It will raise awareness of the Government's macroeconomic, fiscal and PFM policies and promote greater adherence to these policies through stronger oversight.

4.13 Both the 2007 PEFA and 2014 PEFA noted that internal and external oversight institutions were among the main weaknesses in Benin's PFM system. Some progress has been made on reinforcing the status and effectiveness of the general inspectorates and in coordinating their programs to avoid duplication. However, little has been done to develop risk-based audit work plans in order to focus efforts on priority objectives. Furthermore, internal audit mechanisms are not fully operational in all central government entities, and ministerial inspectorate units remain weak because of their poorly defined legal status and limited capacity. Enacting the Transparency Code will help ensure legal implementation of the necessary oversight framework, will require compliance and should shorten the time required to finalize, submit and publish annual national accounts.

Public Procurement

PRSC-9 Prior Actions	PRSC-10 Prior Actions	PRSC-11 Triggers									
PILLAR 1: PROMOTING GOOD GOVERNANCE AND HIGH-QUALITY PUBLIC FINANCIAL MANAGEMENT											
PUBLIC PROCUREMENT											
<p>The preparation and publication of detailed procedural manuals for the public-procurement supervisory bodies.</p> <p>The commencement of annual evaluations of the public procurement system (i.e. annual performance reports).</p> <p>The finalization of the 2008, 2009 and 2010 procurement audits and the publication of results.</p>	<p>Adoption and publication of a decree authorizing the delegation of contract signature to sector ministers in line with the thresholds assigned to ministerial procurement units. (Prior Action 3)</p>	<p><i>Further selected actions to strengthen public procurement processes to be determined, such as potentially: (i) clarifying the role of budget controller Contrôleur financier (CF) so as to avoid interference and duplication in the procurement chain; (ii) placing line ministry procurement units under the supervision of the DNCMP; (iii) staff the DNCMP with procurement agents selected by the ARMP; (iv) operationalize provincial public procurement control units; and/or (v) require the MOD (Agences de Maitrise d'Ouvrage Délégué) to submit for prior review of the DNCMP, the procurement procedures they lead.</i></p>									
<p>Average public procurement delay (days):</p> <table> <tr> <td>Goods</td> <td>Baseline (2012): 64</td> <td>Target (2017): <50</td> </tr> <tr> <td>Services</td> <td>Baseline (2012): 71</td> <td>Target (2017): <60</td> </tr> <tr> <td>Public works</td> <td>Baseline (2012): 59</td> <td>Target (2017): <60</td> </tr> </table>			Goods	Baseline (2012): 64	Target (2017): <50	Services	Baseline (2012): 71	Target (2017): <60	Public works	Baseline (2012): 59	Target (2017): <60
Goods	Baseline (2012): 64	Target (2017): <50									
Services	Baseline (2012): 71	Target (2017): <60									
Public works	Baseline (2012): 59	Target (2017): <60									
Changes to prior actions and triggers since original presentation of the series:											
	None	Trigger above in italics has been added									
Changes to indicators and targets since original presentation of the series:											
None											
Analytical Underpinnings:											
SCRIP Annual Performance Reports	2013 Policy Note on Strengthening Public Investment Planning										
2012 PEFA Self-Assessment	2010 Public Expenditure Review	2014 and 2007 PEFA									
Complementary Bank Operations and TA:											
Public Procurement and Public Investment Capacity Building/TA Project (FY15)											

4.14 **The original trigger for the PRSC-11 requiring the updating of necessary expenditure-chain software to ensure that the new systems are up and running has proven to be too general and too ambiguous.** Updating software and systems to reflect the new budget environment is a significant undertaking that will require several years to fully implement and involves a number of intermediate steps. To demonstrate progress toward this ultimate objective a specific identifiable trigger was selected, namely, the electronic interconnection of government accounts centers/units to allow improved real-time supervision and oversight by the Accountant General. This is an important step in improving the effectiveness of public expenditure management and oversight and is a verifiable independent action. This trigger will also reinforce the trend of timely production of the Government's financial statements and will equally be a key contribution in producing the TOFE (*Tableau des Opérations Financières de l'Etat*) from the Public Treasury trial balance as required by the new WAEMU PFM directives

4.15 **The actions and triggers discussed above emanate directly from findings included in the PEFA reports, the PER and the 2011 Analysis of Central Financial Agencies.** The Government’s progress reports on their Action Plan for Improving Public Financial Management also provided important information in identifying key measures for support. Other analytical reports noted in the matrix above provided important opportunities for furthering the policy dialogue process on several of these measures.

4.16 **Procurement reform has been ongoing in Benin for a number of years, though progress has been slow and subject to some resistance.** A new Procurement Code was passed in August 2009, but it has taken time to put the necessary regulatory framework in place. Most of the decrees establishing the legal basis for the new procurement code have now been approved and were recognized as prior actions under PRSG-7 and PRSC-8, though implementation remains slow and institutional arrangements in some areas do not reflect the new requirements. Maintaining momentum in procurement reform is important and ongoing procurement reform continues to be a focus in PRSC 10 and 11. This is reflected in the Government’s focus on procurement reform in its medium-term reform plan and supported by the proposed PRSC series, which goes substantially deeper than just the passage of the decrees and the creation of an enabling regulatory and institutional environment.

4.17 **The prior action for PRSC-10 delegating the authority to award procurement contracts up to a given threshold to sector ministries is intended to reduce public procurement delays, increase transparency in lines of decision making and accountability, and limit opportunities for corruption.** This follows actions supported in the PRSC-8 concerning procurement timelines, which restricted central ministries from withholding procurement approval on arbitrary grounds and thereby reduced their ability to seek rents. It also follows actions supported under PRSC-9 regarding the publication of procurement manuals, the completion of procurement audits and the commencement of annual evaluations of the procurement system.

4.18 **The new triggers introduced for PRSC-11 are intended to ensure procurement authority is delegated to line ministries in line with best procurement practices.** The supported triggers will help ensure that standardized procedures are institutionalized, oversight and control functions are appropriate and effective, that line ministries are staffed and empowered to accept and carry out decentralized procurement responsibilities.

Governance

PRSC-9 Prior Actions	PRSC-10 Prior Actions	PRSC-11 Triggers
PILLAR 1: PROMOTING GOOD GOVERNANCE AND HIGH-QUALITY PUBLIC FINANCIAL MANAGEMENT		
GOVERNANCE		
Appointed and installed the members of the National Anti-Corruption Authority (ANLC).	<i>Completed asset declarations for serving Ministers have been received by the ANLC and the ANLC has publicly disclosed the names of all Ministers for whom it is not in possession of an asset declaration.</i> (Prior Action 4)	<i>Completed asset declarations for serving Ministers and members of the National Assembly have been received by the ANLC and the ANLC has publicly disclosed the names of all Ministers and members of the National Assembly for whom it is not in possession of an asset declaration</i>

PRSC-9 Prior Actions	PRSC-10 Prior Actions	PRSC-11 Triggers
	<i>Adopted and published a decree specifying financing regulations for the ANLC.</i> (Prior Action 5)	<i>Establishment of a monitoring, reporting and evaluation system for monitoring efforts against corruption and effectiveness of the anti-corruption legislation.</i>
	<i>Strengthened and reinforced internal control within the Customs Administration by hiring an additional three inspectors and created a specialized internal audit unit within the Inspection Générale des Services (IGS).</i> (Prior Action 6)	<i>Integrate Customs Administration (DGDDI) related audits within the annual audit plans of the Inspection Générale du Finance (IGF) and the Inspection Générale d'État (IGE).</i>
The Minister of Development approves and publishes a timetable for implementation of an open data initiative.	<i>As part of NADA, to have made available, on the INSAE website, the micro and meta data from the following surveys and censuses: RGPH3; RGE2; EMICoV; and ETVA.</i> (Prior Action 7)	<i>Build, populate, test and launch Benin's Open Data site, including updating the NADA page on the INSAE website, and populating the sites with all survey data identified in the inventory.</i>
<p>Percentage of Ministers that complete an asset declaration: Baseline (2012): NA Target (2017): 95</p> <p>Percentage of National Assembly members that complete an asset declaration: Baseline (2012): NA Target (2017): 95</p> <p>Internal and external audits of customs transactions undertaken: Baseline (2012): No Target (2017): Yes</p> <p>Number of data bases on NADA site: Baseline (2012): 0 Target (2017): 10</p> <p>Number of data bases on Benin's Open Data site: Baseline (2012): 0 Target (2017): 20</p>		
Changes to prior actions and triggers since original presentation of the series:		
	<p>Implementation of a fully operational system of asset and conflict of interest declaration for all senior public-sector officials and all elected and appointed public officials. (This prior action has been replaced by the first action above.)</p> <p>Establishment of a monitoring, reporting and evaluation system for monitoring ANLC efforts against corruption and effectiveness of the anti-corruption legislation. (This prior action has been moved to PRSC-11 as a trigger.)</p> <p>Adopted a decree specifying financing regulations for the ANLC. (This prior action has been added).</p> <p>Implementation of an internal audit system of customs processes and transactions to reduce corruption. (This prior action has been replaced by Prior Action 6 above).</p> <p>Open data initiative fully operational and INSAE micro-data made publicly available. (This prior action has been replaced by Prior Action 7 above).</p>	<p>Verification of declarations made under the system of asset and conflict of interest declarations and the publishing of a report on adherence to the system. (This trigger has been dropped.)</p> <p>Publication of a progress report on the fight against corruption based on the monitoring, reporting and evaluation system prepared earlier. (This trigger has been dropped.)</p> <p>Implementation of an external audit system of customs processes and transactions to reduce corruption and to identify customs officers involved in fraudulent practices. (This trigger has been dropped and has been replaced by the Customs trigger noted above.)</p> <p>Triggers above in Italics has been added/modified.</p>

PRSC-9 Prior Actions	PRSC-10 Prior Actions	PRSC-11 Triggers
Changes to indicators and targets since original presentation of the series:		
Percentage of asset declarations verified: Baseline (2012): 0 target (2017): TBD (prior to PRSC-10) (This indicator has been dropped following changes in actions and triggers).		
Percentage of Ministers that complete an asset declaration: Baseline (2012): NA Target (2017): 95		
Percentage of National Assembly members that complete an asset declaration: Baseline (2012): NA Target: 95		
Number of data bases on NADA site: Baseline (2012): 0 Target (2017): 10		
Number of data bases on Benin’s Open Data site: Baseline (2012): 0 Target (2017): 20 (These indicators have been added to reflect changed actions and triggers).		
Analytical Underpinnings:		
2011 Analysis of Central Financial Agencies	2010 National Governance and Anti-Corruption Strategy	
2012 National Charter on Development Governance	2008 White Paper on the State of Corruption in Benin	
2014 Poverty and Gender Assessment	2014 TA reports	
Complementary Bank Operations and TA:		
ANLC TA (FY14 and 15)	TA and Trust Fund support (TFSCB) to INSAE	

4.19 **Anti-corruption legislation supported under previous PRSC operations addressed a wide range of corruption issues including fraud, embezzlement, misuse of public funds, influence peddling, party and electoral financing, abuse of public procurement, and nepotism in hiring practices.** It establishes stiff penalties, particularly for those in key positions within the government, and puts in place a National Anti-Corruption Authority (ANLC) made up of 13 representatives including members of civil society and the private sector. Although operating largely independently this authority is under the authority of the Presidency. This was a positive and encouraging step taken by the Government.

4.20 **Implementation has been slow and commitment to combatting corruption appears to be limited.** The Bank will nonetheless continue to support actions that strengthen the legislative and institutional environment so that when greater commitment is demonstrated the necessary mechanisms and tools are in place to effectively address the problem. Corruption is frequently noted as a primary, if not the leading constraint, to doing business in Benin and continued engagement in strengthening the legislative and institutional framework is seen as important.

4.21 **While ANLC staff are fully committed to the effort, the Government has not provided sufficient resources or support to the ANLC to allow it to fulfill its mandate.** In response, the current operation supports a new prior action that formalizes financing mechanisms for the ANLC and includes ANLC financing in the national budget. In addition to ensuring resources are devoted to the ANLC and its anti-corruption efforts, incorporation of the ANLC in the budget should also raise awareness and encourage debate around anti-corruption efforts over the budget cycle. This requirement should also facilitate ANLC efforts to raise its institutional profile within important government institutions such as Parliament (*Assemblée Nationale*) and Cabinet (*Conseil des Ministres*), as well as among civil society, and help it make its case for adequate funding.

4.22 **The responsibilities of the ANLC are largely three-fold.** First, it is to act as a resource and knowledge center for the Government in the fight against corruption. It is to fulfill this function by providing advisory services, recommendations, undertaking studies, reports and analysis for presentation to government in furthering the fight against corruption. Second, the ANLC works

with the judiciary, upon demand or independently, in identifying, denouncing and bringing to the attention of the respective judicial authorities individual cases of corruption or issues of more systemic interest. Finally, the ANLC has specific responsibilities related to asset declarations made by public officials and the receipt and retention of declarations.

4.23 The creation and operationalization of ANLC were supported as prior actions under PRSC-8 and PRSC-9. The members of the ANLC, and particularly its president, are strongly committed to the struggle against corruption, though they remain realistic in their objectives and recognize that challenges will be encountered. The Bank has assisted the ANLC with TA in the development of a strategy as ANLC members are acutely aware of the need for a credible and strategic approach to fighting corruption in order to maintain public support for such efforts. TA has also been provided in furthering a credible and effective asset and conflict of interest declaration system.

4.24 Both TA exercises identified significant challenges in proceeding with an asset declaration system and in devising an effective anti-corruption strategy in the present environment. The asset declaration system is largely non-functional (the original trigger for PRSC 10 was to have such a system fully functional). Most Ministers have apparently completed asset declarations, but there is no sanction process for those that have not. Very few, if any, members of the National Assembly have completed such declarations despite the legislation requiring that they do so. A primary constraint seems to be that responsibility for the system lies with the *Chambres des Comptes* within the Supreme Court. The *Chambres des Comptes* is seriously understaffed and has difficulty keeping up with the annual budget audits, let alone supervising and overseeing a system of asset declarations for the long list of public officials required to complete such declarations under the new legislation. This is one area where the legislation needs to be clearly amended in order to clarify responsibilities and provide the ANLC with more responsibility and authority since the *Chambres des Comptes* demonstrates limitations in adequately monitoring the asset declaration system. Complementary TA has also identified needed changes in the anti-corruption legislation beyond the asset declaration provisions.

4.25 In response, the prior action requiring a fully operational asset declaration system has been modified to require that asset declarations of serving Ministers be filed with the ANLC and that the ANLC publish the names of those Ministers for whom it has not received an asset declaration. This is supported by a trigger for PRSC-11 requiring the same action not only for Ministers, but for Members of the National Assembly as well. This action is seen as an intermediary step to ensure commitment on the part of the Government in implementing their anti-corruption legislation, while providing the time to fully develop a broader, more extensive and more effective asset declaration system in line with the new legislation.

4.26 The design and implementation of a monitoring and evaluation system to track progress in fighting corruption has not advanced largely due to a lack of resources and has been moved to PRSC-11 as a trigger. Should the ANLC receive adequate funding this important measure should be completed in time for PRSC-11. The ANLC remains committed to and recognizes the importance of implementing a monitoring and evaluation framework and so this action has been retained as a trigger for PRSC-11.

4.27 **The measures for PRSC-10 and PRSC-11 concerning the implementation of internal and external audit functions of the Customs administration have been modified.** These actions are supported in order to facilitate the adoption of specific important and clearly identifiable anti-corruption measures, and complement efforts to increase economic competitiveness and improve the business environment. They also build on efforts by the IMF and the Bank to more broadly support improved port and customs performance, reduce trade costs, and increase transparency. Reforms in customs transparency reinforce the TA currently being provided by the IMF through the West Africa Regional Technical Assistance Center (AFRITAC), as well as analysis and TA provided by the Bank and other donors. The supported actions and triggers seek to ensure the establishment of internal and external audit functions by ensuring that an appropriate institutional framework, set within existing structures, is in place to effectively implement the audit function.

4.28 **Finally, implementing an open data initiative is important to increase transparency, strengthen the demand side in public policy debates, and facilitate increased engagement by the citizenry.** Benin's National Statistics and Economic Analysis Institute (*Institut National de la Statistique et de l'Analyse Economique – INSAE*) has closely guarded its data in the past and has not made its databases available for scrutiny or use, even among government institutions. INSAE has now decided to make data publicly available. Allowing academics, civil society groups, donors, international and domestic institutions, and individuals to access data will encourage a more open public policy environment, greater engagement by marginalized and under-represented groups, and fairer and more equitable public policy choices. The need for improved data availability became clear during the Poverty and Gender Assessment process which highlighted several data and methodological issues within INSAE and included several recommendations for strengthening data collection and analysis.

4.29 **The original trigger of having a fully functional Open Data initiative operating has proven too ambitious technically.** INSAE and the Government of Benin remain fully committed to an Open Data Initiative, are making significant progress toward that end and the prior actions included in the current operation, and the new triggers for PRSC-11, represent important identifiable milestones toward effective implementation of an Open Data initiative.

Pillar 2: Strengthening Private-Sector Competitiveness

Business Enabling Environment

PRSC-9 Prior Actions	PRSC-10 Prior Actions	PRSC-11 Triggers
Pillar 2: Strengthening Private-Sector Competitiveness		
BUSINESS ENABLING ENVIRONMENT		
Adoption of a ministerial order identifying the Registry of Commerce and Credit (<i>Registre du Commerce et du Crédit Mobilier – RCCM</i>) at the Court of First Instance, First Class, of Cotonou (<i>Tribunal de Première Instance de Première Classe de Cotonou</i>) as the sole registry for recording all collateral and leasing arrangements.		
Submission to the Supreme Court of a Public-Private Partnership (PPP) bill. Creation of the Agence Beninoise des Grand Travaux (Agency for National Projects).	Submission of a Competition Act to the National Assembly. (Prior Action 8)	
Signing of an agreement between the <i>Centres de Gestion Agréé</i> and the tax administration.	Included in the 2015 national budget a simplified turnover-based tax regime for small- and micro-sized enterprises. (Prior Action 9)	
Credit registry coverage (%):	Baseline (2012): 10.9	Target (2017): >20
Number of PPP arrangements/contracts entered into:	Baseline (2012): 0	Target (cumulative through 2017): 6
Number of formal registered companies:	Baseline (2012): 29,386	Target (2017): 35,000
Percentage of labor force in salaried employment: (Source: INSAE)	Baseline (2012): Total 7.0 Female: 3.4	Target (2017): 9.0 Target (2017): 4.5
Changes to prior actions and triggers since original presentation of the series:		
	Included in the 2015 national budget a simplified turnover-based tax regime for small- and micro-sized enterprises. (This prior action has been added).	No changes
Changes to indicators and targets since original presentation of the series:		
Credit registry coverage (%): (This indicator has been changed to remove reference to gender disaggregation due to lack of data).	Baseline (2012): 10.9	Target (2017): >20
Percentage of labor force in salaried employment: (Source: INSAE) (This indicator has been changed to reduce the fine level of disaggregation, but retain female disaggregation).	Baseline (2012): Total: 7.0 Female: 3.4	Target (2017): 9.0 Target (2017): 4.5
Analytical Underpinnings:		
Annual Doing Business Reports	2009 Country Economic Memorandum	
2005 Investment Climate Assessment (ICA)	<i>Doing Business</i> 2014: Reforms for Improving Benin's Ranking	
2013 Policy Note on Broadening the Tax Base	2014 Poverty and Gender Assessment	
Complementary Bank Operations and TA:		
E- Benin Project	Competitiveness and Integrated Growth Opportunity Project (CIGOP)	
IFC Benin Investment Climate Project	West Africa Communications Infrastructure Program (WARCIP)	
Youth Employment Project (FY14)	Cross-border SEZ along Nigeria-Benin border (FY15)	

4.30 Benin has demonstrated significant improvement in its *Doing Business* ranking, moving from 167th to 151st in the latest 2015 rankings, and being identified as one of the top 10 global performers by making the greatest progress toward the frontier in regulatory practice. It

must be recognized however, that this improvement begins from a very low base and Benin's business environment remains weak and businesses, both foreign and domestic, continue to face significant challenges. The President has reinvigorated the Investment Climate Council (ICC) in the Presidency and is seeking assistance to both strengthen the institutional framework for doing business and ensure that the policy and regulatory environment is appropriate to fostering growth and competitiveness. The President has asked for direct Bank assistance with these efforts, and both the IFC and the Bank are helping strengthen the ICC.

4.31 While the prior action related to the Competition Act is not specific to trade, transport or agriculture (areas of focus under the present operation), it is essential to fostering a business environment conducive to private-sector-led growth. In supporting Government efforts to strengthen the business environment through a scaling up of investments, including infrastructure investments in transport, energy, telecommunications, water management and irrigation, etc., an effective Competition Act is important in creating a regulatory environment conducive to PPPs. Furthermore, cotton reform and a potential move to a zoning system whereby private sector, PPP or government entities will cover geographic zones will to some extent be dependent on an effective competition framework to allow for and regulate a zonal approach to the cotton value chain.

4.32 The addition of the prior action simplifying the tax regime for small- and micro-sized enterprises is an important step in broadening the tax base and in encouraging the creation of formal enterprises and the transition of informal enterprises into the formal economy. This prior action was identified through the CIGOP project, was refined with TA provided by the IMF, and further supported in its design and implementation by the IFC Investment Climate project. It builds on the agreement entered into between the tax administration and the Centres de Gestion Agréées supported under PRSC-9, which facilitates tax compliance and filing by micro-, small- and medium-sized enterprises.

4.33 The recently completed poverty assessment found that the labor market is not fully playing its role with respect to poverty reduction, as poverty rates remain high even among those fully employed (greater than 30 percent poverty among employed persons). This arises primarily as a result of the prevalence of the low-productivity and low-wage informal sector and high levels of underemployment, with women being particularly vulnerable. Currently only 7 percent of the labor force enjoys salaried formal sector employment, with women and youth experiencing even lower levels. To sustainably accelerate growth and reduce poverty by creating high-productivity and high-wage jobs, will require accelerated growth of the formal economy. Results tracking the percentage of the labor force engaged in formal salaried employment seek to capture progress on improving the business climate for formal enterprises, progress in creating formal sector employment opportunities, and thus measures results across all actions, triggers and government efforts to improve the business climate.

4.34 As noted, Benin possesses an important and largely unexploited comparative advantage in agriculture. Agriculture accounts for over 30 percent of GDP and nearly 70 percent of total employment. Benin has a large endowment of arable land, fertile soil and adequate water resources. However, yields of major crops, including cotton, have remained persistently low over time. Agricultural growth is typically around 3 percent annually, though the SCRP III predicts

significant improvements in agricultural productivity. Much of Benin’s agricultural production currently relies heavily on family labor and traditional farming methods, with limited use of improved inputs, modern techniques or modern equipment, and as a result productivity is low. Access to financing for agriculture is limited outside the cotton subsector.

Agricultural Diversification and Cotton Reform

PRSC-9 Prior Actions	PRSC-10 Prior Actions	PRSC-11 Triggers
Pillar 2: Strengthening Private-Sector Competitiveness		
AGRICULTURAL DIVERSIFICATION AND COTTON REFORM		
<p>Establishment of an institutional framework for implementation of the PSRSA by having:</p> <ul style="list-style-type: none"> • Reorganized the Ministry of Agriculture through the adoption of a decree describing the powers, organization and operation of the Ministry; • Adopted a decree describing the powers, organization and operation of CARDERS. 	<p><i>Publication/circulation of the audit report undertaken of the 2012-2013 cotton campaign.</i> (Prior Action 10)</p> <p><i>Approval of decrees nominating the Board members and Director General of the newly created FNDA.</i> (Prior Action 11)</p>	<p>Accreditation of a Central Laboratory for Food Safety according to European Union standards.</p> <p><i>To have developed an actionable roadmap/strategy for cotton sector reform within the context of the Comité de Réflexion and to have it validated by the Government.</i></p> <p><i>Operationalization (i.e., provision of credit to the agricultural community) of the agricultural credit guarantee facility (FNDA) with commercial banks.</i></p> <p><i>Created, by decree, the Agency for the Promotion of Agricultural Commodities (ABERPRoFA).</i></p>
<p>Number of specialized agencies operational under new PSRSA: Baseline (2012): 0 Target (2017): 4</p> <p>Number of non-cotton agricultural commodities having an inter-professional organization: Baseline (2012): 0 Target (2017) : 4</p> <p>Percentage of non-cotton farmers having access to extension services through CARDERS¹: Baseline (2012): To Be Determined Target (2017) : To Be Determined</p> <p>Volume of agricultural credit extended under guarantee scheme: Baseline (2012):0 Target (2017): CFAF 3 bn</p> <p>Percentage of total credit extended to agriculture: Baseline (2012): 4 Target (2017): 6</p> <p>Value of non-cotton agricultural exports: Baseline (2012):CFAF65 bn Target (2017): CFAF120 bn</p>		
Changes to prior actions and triggers since original presentation of the series:		
	<p>Created, by decree, the Agency for the Promotion of Agricultural Commodities (ABERPRoFA). (This action has been moved to PRSC-11 as a trigger).</p>	<p>To have developed an actionable roadmap/strategy for cotton sector reform within the context of the Comité de Réflexion and to have it validated by the Government.</p>

¹ Identification of baseline and target for this indicator is still under discussion and determination and will be clarified prior to PRSC-11 or removed at that time.

PRSC-9 Prior Actions	PRSC-10 Prior Actions	PRSC-11 Triggers
	Approval of decrees nominating the Board members and Director General of the newly created FNDA. (This is new prior action as envisaged though not identified at inception of the series).	Operationalization (i.e., provision of credit to the agricultural community) of the agricultural credit guarantee facility (FNDA) with commercial banks. (These two triggers have been added as envisaged though not identified at inception of the series).
Changes to indicators and targets since original presentation of the series:		
Volume of agricultural credit extended under guarantee scheme: Baseline (2012):0 Target (2017): CFAF 3 bn		
Percentage of total credit extended to agriculture: Baseline (2012): 4 Target (2017): 6		
Value of non-cotton agricultural exports: Baseline (2012):CFAF65 bn Target (2017): CFAF120 bn		
(These indicators have been added to reflect new actions and triggers on cotton and agricultural credit).		
Analytical Underpinnings:		
2009 Country Economic Memorandum 2011 Benin: Sustainable Options for Agricultural Diversification 2014 Poverty and Gender Assessment		
Complementary Bank Operations and TA:		
Agricultural Productivity and Diversification Project West Africa Agricultural Productivity Program (WAAPP) Cotton Sector TA (FY14)		

4.35 **As part of the SCRP III Benin has adopted a new Strategic Program for the Reform of the Agricultural Sector (*Plan Stratégique de Relance du Secteur Agricole – PSRSA*); the approval of the PSRSA was a prior action under the PRSG-7, and its implementation is supported by the current PRSC series.** The strategy, which covers the 2011-2015 period, describes the Government’s plan for accelerating growth and diversification in the agricultural sector. The CEM and the 2011 report on Sustainable Options for Agricultural Diversification were clear in highlighting this need. Furthermore, the Poverty and Gender Assessment was unambiguous in noting that improving agricultural productivity, and not simply increasing agricultural production, was of paramount importance in fostering pro-poor growth. Agricultural diversification and improved delivery of government services is key in this regard and will require strengthened government institutions, including research and extension services. At the strategy’s core is the promotion of value chains through agricultural entrepreneurship and professionalization of small-scale farmers. The indicators and targets related to non-cotton agricultural exports are intended to measure progress in agricultural diversification resulting from the set of actions and triggers supported, recognizing however that external factors such as commodity prices, weather and broader economic conditions will also influence these indicators.

4.36 **Agriculture is a sector that is significantly credit constrained.** The need for credit in the agriculture sector was highlighted by the 2009 CEM. Despite its economic importance only 4 percent of available credit is extended to agriculture-related activities. The creation of an agricultural credit guarantee facility (FNDA) is important in reducing perceived risk among commercial financial institutions lending to the agricultural sector. Such a facility has now been created and the PRSC 10 and 11 will support its effective implementation. The guarantee scheme will be funded by the Government and also by the donor community. The plan is to issue a call for

tenders to the commercial banking and financial community requesting proposals for extending credit to the agricultural sector and proposed terms for participation in a guarantee scheme. The most attractive proposal(s) will then be selected for support and guarantees extended to those selected participating institutions to encourage increased lending to the agriculture sector.

4.37 The creation of a food-safety laboratory as a trigger under PRSC-11 is part of the PSRSA and is critical to agricultural diversification and export promotion. Benin is capable of producing food products for direct export to developed-country and regional markets, particularly cashew nuts, tropical fruit juices, fresh fruit and seafood. Meeting food-safety standards is a key prerequisite. Agricultural diversification was the topic of specific AAA work culminating in the 2011 report on Sustainable Options for Agricultural Diversification, which also included analysis of agricultural export potential. An accredited food safety laboratory is critical to supporting exports and the expansion of high value non-traditional crops in Benin. The indicators and targets related to agricultural exports are included to measure the impact of not only the creation of an accredited lab, but also the other measures in support of agricultural diversification and productivity improvements in non-cotton and non-traditional commodities.

4.38 Cotton is Benin's largest official export, typically representing 25 to 40 percent of annual exports. Production fell from a recent high of 417,000 tons in 2004/05 to just 137,000 tons in 2010/11 and has improved over the past few seasons -- 170,000 tons in 2011/12, 240,000 tons in 2012/13, 307,000 tons in 2013/14 and an expected 350,000 tons in 2014/15. This decline in cotton production was the result of several factors: low world cotton prices in the late 2000s; difficulties in the input supply chain; rising global food prices, which encouraged a shift from cotton to food production; and serious floods in 2010.

4.39 Recent improvements in cotton production have occurred despite significant upheaval in the sector. Following a set of reforms and the sale of the national cotton company's industrial assets in 2008, the structure of the cotton sector had returned to an effective monopoly, albeit a private one, with a consortium of firms owned by the Talon Group controlling a large share of the cotton value chain, from input distribution to processing and export, through arrangements with the Inter-professional Cotton Association (*Association Interprofessionnelle de Coton – AIC*). Following a dispute between the Talon Group and the President, the Government dismantled the AIC and the state assumed responsibility for essentially the entire cotton value chain. Despite initial concerns regarding the Government's capacity to assume these responsibilities, the Government deployed the means at its disposal in procuring and distributing inputs and cotton production has rebounded in recent years.

4.40 The Government has expressed its intention to return to a largely private-sector-led cotton sector, though recognizing an appropriate role for government. Consultations and deliberations have been ongoing, with periodic contributions from the Bank. The authorities are currently considering a zonal concession system, similar to the system used in Burkina Faso. Unfortunately, the over-riding importance of this sector to the national economy, when combined with the pervasive involvement and deep rooted personal interests in the sector by most economic and political actors, results in this being a very difficult sector in which to reach consensus. Reform in such an environment, particularly one leading to significant change from the status quo, becomes an undertaking where political economy issues and concerns become dominant

considerations. Add to this sensitive environment, the highly-charged and ongoing Talon affair and the upcoming legislative and Presidential elections planned for 2015 and 2016 respectively, and substantive and meaningful reform becomes extremely difficult.

4.41 **The Government has created a multi-stakeholder review committee (*comité de réflexion*) to debate and consider appropriate cotton sector reform options.** This committee was created in December 2014 and regroups all major stakeholders, including producers, ginnerers, input suppliers, government institutions and key donors such as the EU and the World Bank. Meaningful stakeholder participation in discussions around cotton sector reform has long been recognized as necessary and this recent development is seen as an important step in moving toward some resolution of the cotton situation. The Bank will participate in this committee and will continue to provide necessary TA and advice as requested by the authorities.

4.42 **An external audit was undertaken of the 2012-2013 cotton campaign, the first campaign under renewed government control.** The audit report highlights several weaknesses and inefficiencies in government management of the campaign and is clear in noting that government control of the value chain is sub-optimal. The report also highlights the fiscal cost to the Government of managing the cotton campaign, which currently approaches 1.0 percent of GDP. As encouraged by the Bank and the broader donor community, and as a prior action supported under PRSC-10, the Government has publicly released/circulated the audit report. Release of the report is seen as means to facilitate and encourage a more informed and increasingly transparent deliberative environment as an interim step toward a longer term solution to the sector's organization. With the audit results highlighting government strengths and weaknesses in managing the cotton campaign, and with the report largely recommending eventual return of the value chain to private sector interests, release and consideration of the report's findings should contribute significantly and importantly to the debate around the industrial organization of the sector.

Port and Customs Reform

PRSC-9 Prior Actions	PRSC-10 Prior Actions	PRSC-11 Triggers
Pillar 2: Strengthening Private-Sector Competitiveness		
PORT AND CUSTOMS REFORM		
The approval of a decree limiting, regulating and consolidating checkpoints on the Cotonou-Ouagadougou and Cotonou-Niamey road corridors.	<i>Signature of the convention migrating the Customs informatics system from SYDONIA++ to SYDONIA World</i> (Prior Action 12) <i>Promulgation of the new Customs Code.</i> (Prior Action 13)	<i>Strengthening the effectiveness of the control of imported merchandise by Customs through the use of mobile terminals with GPS coverage.</i> <i>Develop a central file system on customs offenses and implement a "Simplified Record" computer application whose data, including all litigation, will be used to manage an efficient risk assessment system.</i> <i>Strengthening of the SYDONIA-SEGUB electronic interface to ensure the transmission of declarations include detailed information on all relevant duties and taxes payable.</i>
Port of Cotonou dwell time (days):	Baseline (2012): 27	target (2017): 5
Cost to Export (US\$ per container):	Baseline (2012): 1079	target (2017): 10% reduction in real terms

Cost to Import (US\$ per container): Baseline (2012): 1549 target (2017): 10% reduction in real terms	
Number of roadblocks per corridor (WATH data): Baseline (2012): 8 target (2017): 3	
Changes to prior actions and triggers since original presentation of the series:	
	<p>Signature of the convention migrating the Customs informatics system from SYDONIA++ to SYDONIA World</p> <p>Promulgation of the new Customs Code.</p> <p>(These two prior actions have been added as envisaged though not identified at inception of the series).</p>
	<p>Strengthening the effectiveness of the control of imported merchandise by Customs through the use of mobile terminals with GPS coverage.</p> <p>Develop a central file system on customs offenses and implement a "Simplified Record" computer application whose data, including all litigation, will be used to manage an efficient risk assessment system.</p> <p>Strengthening of the SYDONIA-SEGUB electronic interface to ensure the transmission of declarations include detailed information on all relevant duties and taxes payable.</p> <p>(These three triggers have been added as envisaged though not identified at inception of the series).</p>
Changes to indicators and targets since original presentation of the series:	
No Changes	
Complementary Bank Operations and TA:	
Abidjan-Lagos Trade and Transport Facilitation Project ECOWAS One Stop Border Posts (FY14/15)	Customs Reform TA (FY14) Regional Trade and Competitiveness (Transport) DPO (FY16)

4.39 **Over the past couple of years Benin has made significant improvements in the ease of trading across borders by undertaking a broad range of reforms, from upgrading port infrastructure to reducing customs documentation.** Dwell time at the Port of Cotonou was sharply reduced, falling from nearly 30 days in late 2011/early 2012 to under 10 days currently. The introduction of a ‘single window’ (*guichet unique*), a truck management, call and control system, along with expanded facilities for truck parking and staging, new lighting systems, and a state-of-the-art security system, represent important improvements in port management and operational efficiency. As noted earlier, Benin demonstrated the greatest improvement in the 2014 Doing Business report in the category of trading across borders and the report noted: “Though administrative burdens remain in Benin, the situation for traders has greatly improved: it takes 29% less time to import and 24% less time to export than in 2006. As a result export and import times in Benin are now aligned with those in many neighboring economies. Improvements in Benin have also had effects beyond its borders. Because overseas goods that go to and from Niger transit through the port of Cotonou, Nigerian traders have also seen lower export and import times.”

4.40 **The focus of the reform effort has now clearly shifted to the Customs administration.** The Government has approved a Customs reform program based on three objectives: (i) strengthening the capacity of the customs administration to fulfill its key functions; (ii) enhancing customs efficiency by introducing modern performance tools, supported by additional capacity-building assistance from private operators over a period of 3 years; and (iii) improving customs-revenue collection and management. The strategy focuses on reinforcing the main functions of a

modern customs administration, namely: (i) implementation of a sound risk-management system; (ii) customs-valuation controls on imported goods; (iii) pre-clearance inspection through tools such as scanners and weighbridges; (iv) post-clearance inspection when necessary in place of third-party pre-shipment inspection; and (v) customs-regime controls, including the tracking of goods in transit. The Government is implementing this strategy and has established an institutional framework for reform including both a surveillance committee and a steering committee.

4.41 Passage of the new Customs Code, which replaces the code from 1966, incorporates several innovations that will bring the Beninese Customs administration in line with international standards and practices: namely, the SAFE Framework of Standards of the WCO; the Revised Kyoto Convention; and the Agreement on the Facilitation of WTO trade. The new Code introduces modern practices to further secure and facilitate global trade and brings the existing technical and legal framework in conformance with best practice.

4.42 On 23 October 2014, Cabinet authorized the signing of the Convention on the migration of ASYCUDA++ to ASYCUDA World by the Directorate General of Customs and Excise. This new automated Customs system based on internet technologies, while substantially simplifying communications with private sector partners, will also: improve the performance of customs at various levels through online access to internal and external databases; improve risk management; strengthen the tracking of transactions; improve performance monitoring; and promote better decision making within the Customs Administration. Technical assistance in implementing ASYCUDA World will be provided by UNCTAD.

C. LINKS TO THE CPS AND OTHER BANK OPERATIONS

4.42 PRSCs are a key instrument in the Bank's ongoing policy dialogue with the Government and its development partners. The Country Partnership Strategy (CPS) for FY13-17 (Report No. 75774-BJ), which was discussed by the Board on April 9, 2013, notes 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 CPS explicitly includes PRSCs as a key IDA instrument for supporting Benin's SCRP III and in addressing the Government's request for greater donor harmonization on priority reforms. The proposed PRSC series supports two key areas targeted by the new CPS, namely: (i) strengthening governance and public sector capacity; and (ii) enhancing economic growth and competitiveness. The third CPS priority, access to basic social services, is indirectly supported by the proposed series through its efforts to boost the effectiveness and efficiency of public administration; this will help to improve the delivery of basic public services on which the poor often rely most heavily.

4.43 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); The Abidjan-Lagos Trade and Transport Facilitation Project (US\$75 million for Benin); the Agricultural Diversification Operation (US\$31 million); the Decentralized Community Driven Services Project (US\$76 million); and finally, a Capacity Building/TA project (US\$25 million) focusing on strengthening public investment management is planned to commence in FY15.

4.44 **INSAE is currently developing a second National Statistical Development Strategy.** Support for this process is being sought from the Statistical Capacity Building Trust Fund. Bank assistance is expected to initially focus on updating the national statistical development plan and may be followed by discreet capacity-building activities. In addition the Bank has a full-time poverty economist resident in Cotonou, funded through a trust fund, who is assisting INSAE with their data issues, survey methodology and analytical work.

D. CONSULTATIONS AND COLLABORATION WITH OTHER DEVELOPMENT PARTNERS

4.45 **Donor coordination in Benin is well-developed.** This is particularly true for budget support, though the number of donors providing budget support to Benin is declining. An identification mission was carried out in the context of a joint donor review of Benin's SCRP III. This review, conducted June 20th-28th, 2014, included: (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 proposed series and PRSC-10 specifically, and this consultative process informed its design.

4.46 **Consultations 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 Ministry of Finance, in discussing the supported actions under the PRSC series, frequently convenes meetings of the various ministries involved where progress against various actions and triggers 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 and triggers. This process is undertaken in a very open and transparent manner. In addition, the Bank itself directly engages the broader community in Benin. The supported reform program has been the subject of discussion in numerous meetings with civil society, academia and private sector interests at events such as the release of the Economic Update, dissemination activities around the poverty assessment, workshops on governance issues organized by the Bank and the ANLC, etc.

5. OTHER DESIGN AND APPRAISAL ISSUES

A. POVERTY AND SOCIAL IMPACTS

5.1 **The PRSC series and PRSC-10 specifically are expected to have a positive impact on poverty reduction and equitable growth.** Prior actions 1, 2, and 3 and triggers supporting strengthened public-sector management are expected to enhance the efficiency and effectiveness of public resources, not only by facilitating more robust economic performance and greater diversification, but also by improving efficiency and effectiveness in public financial management. Equitable development is an explicit objective of the SCRP III, and PRSC-10 further advances this goal through actions supported under both of its programmatic axes. Improving access to public

services and the quality of services delivered can only be achieved through improved performance in the relevant ministries, better resource utilization, more effective expenditure identification and tracking, and greater transparency, which will result in a more equitable distribution of resources and services. While direct sectoral interventions and investments have proven effective in Benin, the lack of administrative capacity at the central-government level is a common obstacle limiting the effectiveness of programs in all sectors, as are related issues of good-governance and transparency. Many constraints are shared across ministries and require joint solutions; hence the focus on addressing central PFM and governance issues rather than extending support to reforms in specific sectors.

5.2 Prior actions 4, 5, 6, and 7 and triggers supporting greater transparency and anticorruption efforts should limit rent-seeking and the influence of elite groups, leading to a fairer and more equitable distribution of public services, benefits and contracting opportunities. Benin's economy is largely controlled by groups with strong connections to Government, and political and private-sector interests are often indistinguishable. Actions related to good governance and improved transparency can lead to a more equitable distribution of the benefits of growth. Prior actions 6 and 7, related to an open data initiative, should enhance demand-side policy pressure and lead to more equitable and pro-poor outcomes.

5.3 Prior actions 8 and 9 aimed at improving the business environment will help promote investment, encourage formalization and stimulate growth. Initial results from the 2013 Poverty Assessment note the strong link between unemployment, underemployment and poverty. Gender-specific results and recommendations from the assessment have informed the policy dialogue with the Government. Gender disparities are especially pronounced in the credit market, where improving access to credit has had an important impact on women's economic empowerment. Support for reforms designed to improve the business environment, enhance private-sector competitiveness and build a more diversified and resilient economy will have positive effects on employment creation and poverty reduction. The inclusion of gender disaggregated indicators, for example in labor market statistics, will better inform the policy dialogue process around measures that could have positive impacts on women and will encourage the consideration, adoption and implementation of policies with measurable and positive expected outcomes for women.

5.4 Prior actions 10 and 11 on cotton, agricultural diversification and productivity are important in achieving the Government's stated poverty reduction and equitable growth goals. As noted previously, results from the Poverty Assessment indicate that while agricultural growth has contributed strongly to overall growth, the impact on poverty reduction has been limited. Diversifying production into more valuable crops, focusing more resources on export-oriented crops, and increasing the level of mechanization and the availability of inputs, as envisioned in the PSRSA and supported by this operation, should raise productivity and boost incomes among the large share of the population (and especially the poor population) involved in agriculture.

5.5 The Port of Cotonou and related trade and commerce activities generate a significant share of GDP. Prior Actions 12 and 13 in improving and modernizing Customs performance is key to lowering transactions costs, facilitating trade and commerce and creating jobs and employment opportunities in this important sector.

B. ENVIRONMENTAL ASPECTS

5.6 **The activities supported by the proposed operation are unlikely to have significant negative environmental effects.** All of the actions supported throughout the operation are policy-oriented; they do not support direct investment in environmentally impactful investments or involve policy actions with significant environmental consequences.

5.7 **The prior actions and triggers in the area of PFM are related to budget planning and execution and pose no risk to the environment.** Supported actions in the area of public procurement are also process-related and do not affect environmental regulations, environmental assessment processes or environmental safeguards for public procurement. Action and triggers regarding governance and transparency are similarly unrelated to environmental issues.

5.8 **Prior actions and triggers designed to strengthen economic competitiveness are also largely environmentally neutral.** Supported measures at the port and in trade facilitation are primarily administrative and logistical; they do not involve civil works or other activities that might be expected to have an adverse environmental impact. Indeed, measures to speed the transit of cargo trucks both on inland transport corridors and at the Port of Cotonou may have a moderately positive impact on pollution emissions. In the agricultural sector support of the PSRSA is intended to diversify agriculture away from reliance on cotton, with potentially positive environmental effects as agriculture becomes less mono-culture based and increasingly diversified. The PSRSA strategy, which this operation supports, includes measures to make agriculture more environmentally sustainable and more climate-change resilient.

C. MONITORING AND EVALUATION

5.9 **The Ministry of Economy and Finance will be responsible for overall implementation of the proposed PRSC-10.** The ministry's Monitoring Unit for Economic and Financial Programs (*Cellule de Suivi des Programmes Economiques et Financiers* – CSPEF) will lead the Government's technical team, with additional representatives from sector ministries participating as required.

5.10 **The Government has determined that the monitoring and evaluation of the SCRП III, the PRSC series and other externally financed budget-support operations will be based on performance indicators and targets set out in sector program budgets.** These indicators are consolidated in the results matrix agreed upon by the Government and its budget-support partners and are closely aligned with the SCRП III results matrix. 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 the first PRSP, supports the coordinated action and synergies between stakeholders involved in the monitoring and evaluation of the SCRП III 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 Bank is fully involved in this process, participating in and contributing to every element of it.

5.11 **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 complaint 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".

D. PFM, DISBURSEMENT AND AUDITING ASPECTS

5.12 **The Government's policy framework for budget management is based on the 2005 Country Financial Accountability Assessment update and the 2007, 2012 and 2014 PEFA assessments.** A Public Expenditure Review was undertaken in 2010, followed by a PEFA self-assessment update in 2012 and a full PEFA in 2014. The new LOLF budget framework law was passed in 2013, and the authorities are in the process of adapting to this more rigorous budget regime. The proposed series supports these efforts. 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 Bank, OECD and IDA. The new procurement code was approved by the Council of Ministers in late 2007 and by the National Assembly in early 2009; the passage of regulations to render it effective was included as a prior action in the PRSG-7. Further procurement reforms were included in PRSC-8 and are continued in the current PRSC series.

5.13 **Progress has been made in reducing the delay in the production of the Government's annual accounts** by the Treasury, as well as the budget-audit reports by the Chamber of Accounts. Significant progress was made over the course of 2014 through the recruitment of additional staff and the dissemination of ASTER accounting software. The audit backlogs for 2010, 2011 and 2012 have been cleared by the Chamber of Accounts, which also issued its budget execution report for 2013. These annual audit reports were submitted to the National Assembly on October 7, 2014, simultaneously with the 2015 budget.

5.14 **PRSC-10 builds on the achievements made under previous PRSCs by supporting key reforms in PFM, including measures to strengthen planning, budgeting and procurement processes.** The fiduciary environment has been deemed adequate for the proposed operation. The Government's budget is now being published and is publically available on the Ministry of Finance's website, as are quarterly budget-execution reports.

5.15 **The BCEAO continues to improve its governance structure.** The latest assessment of the BCEAO was completed on December 13, 2013. The assessment found that the bank continued to have a strong control environment and has, with the implementation of the 2010 Institutional Reform of the WAMU, enhanced its governance framework. Specifically, an audit committee was

established to oversee the audit and financial reporting processes, transparency has increased with more timely publication of the audited financial statements, and the BCEAO is committed to IFRS implementation by end-2014. The assessment also identified some limitations in the external audit process and recommended that steps be taken to ensure the adequacy of the mechanism through selection of a second experienced audit firm to conduct joint audits.

5.16 The audit report produced by the *Chambres des Comptes* on financial flows related to donor budget support for 2013 affirmed the amount disbursed by IDA to the country under the previous PRSC operation, but noted that the Supreme Audit Institution still needs to be reinforced in order to fully fulfill its responsibility around jurisdictional controls.

5.17 The proposed operation would consist of a single tranche of SDR 14.2 million (US\$20 million equivalent) to be made available upon effectiveness and disbursed on the basis of a withdrawal application. The Recipient is the Republic of Benin, represented by the Ministry of Economy and Finance. The proposed operation would follow IDA's disbursement procedures for development policy operations and would not be linked to specific purchases. Credit proceeds would be disbursed against satisfactory implementation of the development policy program and maintenance of a satisfactory macroeconomic framework.

5.18 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 will be deposited by IDA into an 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 be December 31, 2015. The deposit accounts may be audited on terms of reference acceptable to IDA should IDA determine that such an audit is necessary.

6. SUMMARY OF RISKS AND RISK MITIGATION

6.1 The overall risk level associated with this operation is moderate. Staff believes that the potential benefits of the proposed operation outweigh the risks involved and warrant IDA's assistance in implementing the critical reforms and policy actions supported by this operation, in coordination with other donors, along with appropriate risk mitigation actions. Climate change and disaster risk screening was considered and determined not to be of fundamental concern within current series. Climate change considerations are gaining increasing prominence in the context of Government policy decisions and will perhaps become more relevant in future budget support 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.

6.2 **Unpredictable political and governance developments pose the most substantial risks.**

As the next legislative and presidential elections approach, consensus around reforms and the ability to advance and implement ambitious reforms may become increasingly problematic. To help mitigate this risk IDA continues to engage with key stakeholders, including the National Assembly and sector ministries, in an effort to build consensus regarding key reforms. These efforts are complemented by the dissemination of AAA and economic and sector work (ESW) as a means to publicize the advantages of priority structural reforms. This leveraging of AAA and ESW will extend to communications and outreach efforts designed to raise awareness among the general public and build popular support for important reforms. AAA and ESW will increasingly focus on analytical work in areas where stronger reform efforts are needed and where the potential impact of reforms is greatest. This is particularly true in the governance area where AAA and TA work will be disseminated among parliamentarians, government officials and civil society. While building consensus in a competitive multiparty democracy is a continuous process, this operation seeks to reduce both present and future political-economy risks through efforts to support improved governance through anticorruption policies, PPP reforms, open data access, strengthened procurement processes and a more enabling business environment. These measures will support greater transparency, increased accountability, the leveling of the economic playing field, and a more equitable distribution of opportunities among Benin's citizens.

6.3 **Macroeconomic risks are considered limited and will be attenuated through specific measures supported by the proposed operation.**

Planned investment operations in the energy and agricultural sectors, efforts to diversify agricultural production and especially actions in the proposed operation aimed at further strengthening PFM in the context of a sound macroeconomic framework all mitigate macroeconomic risks. Recent AAA work on broadening the tax base and measures supported under the operation in both the PFM areas and Customs reform are expected to help increase revenues and reduce revenue volatility. The IMF and World Bank teams, working in close coordination, will continue to monitor the Government's macroeconomic performance. Finally, the overall country dialogue process among Benin's budget-support partners, multilateral institutions and the Government allows for some budget flexibility to address crisis-related expenses within the context of a prudently managed budget that protects priority growth and poverty-reduction programs.

6.4 **Falling global oil prices present diverse risks.** Benin is dependent on economic conditions in neighboring Nigeria and as such, Benin will be affected to some extent as declining oil prices slow growth and economic activity in Nigeria. This is offset to a considerable degree by the fact that Benin is an oil importer and therefore falling prices will have a positive effect. These risks are highlighted in greater detail earlier in the document. On balance the impact of movements in global oil prices is largely considered neutral.

6.5 **Sectoral difficulties have been encountered around governance reforms and in the cotton sector.** These are areas directly supported under this operation that are clearly very sensitive from a political-economy perspective and as a result reform progress has been slower than first anticipated. The operation has been adjusted to reflect the difficulties in these areas and steps taken through AAA/ESW, TA and dissemination activities similar to those described above have lowered the risk to operational results and objectives.

6.4 **Operational design, implementation and sustainability risks arise from capacity constraints and weaknesses in public administration that may hinder the implementation of 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; (ii) the ambiguity of the administrative structure in some ministries, which complicates the implementation of sectoral reform strategies; and (iii) controversies regarding politically sensitive reforms in procurement and public services. To help mitigate these risks the proposed operation focuses on a limited range of policy areas in order to support deeper reform efforts with a focus on practical implementation. In addition, the Bank continues to provide AAA, ESW and TA support in difficult areas such as port and customs procedures, governance reform and tax policy in order to advance Benin’s reform strategy and bolster its efforts to effectively implement priority measures.

Risk Area	Rating
Political and governance	Substantial
Macroeconomic	Low
Sector strategies and policies	Moderate
Technical design of project or program	Moderate
Institutional capacity for implementation and sustainability	Moderate
Fiduciary	Moderate
Environmental and social	Low
Stakeholders	Low
OVERALL	Moderate

Annex 1: Policy and Results Matrix

PRSC-9 Prior Actions	PRSC-10 Prior Actions	PRSC-11 Triggers	Results
PILLAR 1: PROMOTING GOOD GOVERNANCE AND HIGH-QUALITY PUBLIC FINANCIAL MANAGEMENT			
Budget Execution, Transparency and Public Accounting			
	Adoption of the Transparency Code Directive. (Prior action 1)	Public dissemination of budget/public finance information in accordance with Chapter VI of the Transparency Code Directive.	<p>Unallocated percentage of budget: Baseline (2012): 12.4 Target (2017): <5</p> <p>Time required to submit national accounts to the Chamber of Accounts (months): Baseline (2012): 9 Target (2017): <6</p>
	Adoption and publication of the decrees necessary for enactment and implementation of the Guidelines for the General Rules of Public Accounting, Budget Nomenclature (NBE), the TOFE and approval of an arrêté establishing the Public Accounting Plan (PCE). (Prior action 2)	<i>Electronic interconnection of central and decentralized government accounts centers/units to allow improved real-time supervision and oversight of accounts consolidation by the Accountant General.</i>	
Public Procurement			
<p>The preparation and publication of detailed procedural manuals for the public-procurement supervisory bodies.</p> <p>The commencement of annual evaluations of the public procurement system (i.e. annual performance reports).</p> <p>The finalization of the 2008, 2009 and 2010 procurement audits and the publication of results.</p>	Adoption and publication of a decree authorizing the delegation of contract signature to sector ministers in line with the thresholds assigned to ministerial procurement units. (Prior action 3)	<i>Further selected actions to strengthen public procurement processes to be determined, such as potentially: (i) clarifying the role of budget controller Contrôleur financier (CF) so as to avoid interference and duplication in the procurement chain; (ii) placing line ministry procurement units under the supervision of the DNCMP; (iii) staff the DNCMP with procurement agents selected by the ARMP; (iv) operationalize provincial public procurement control units; and/or (v) require the MOD (Agences de Maitrise d'Ouvrage Délégué) to submit for</i>	<p>Average public procurement delay (days):</p> <p>Goods Baseline (2012): 64 Target (2017): <50</p> <p>Services Baseline (2012): 71 Target (2017): <60</p> <p>Public works Baseline (2012): 59 Target (2017): <60</p>

PRSC-9 Prior Actions	PRSC-10 Prior Actions	PRSC-11 Triggers	Results
		<i>prior review of the DNCMP, the procurement procedures they lead.</i>	
Governance			
Appointed and installed the members of the National Anti-Corruption Authority (ANLC).	<p><i>Completed asset declarations for serving Ministers have been received by the ANLC and the ANLC has publicly disclosed the names of all Ministers for whom it is not in possession of an asset declaration. (Prior Action 4)</i></p> <p><i>Adopted a decree specifying financing regulations for the ANLC. (Prior Action 5)</i></p>	<p><i>Completed asset declarations for serving Ministers and members of the National Assembly have been received by the ANLC and the ANLC has publicly disclosed the names of all Ministers and members of the National Assembly for whom it is not in possession of an asset declaration</i></p> <p><i>Establishment of a monitoring, reporting and evaluation system for monitoring efforts against corruption and effectiveness of the anti-corruption legislation.</i></p>	<p>Percentage of Ministers that complete a declaration of assets: Baseline (2012): NA target (2017): 95</p> <p>Percentage of National Assembly Members that complete a declaration of assets: Baseline (2012): NA target (2017): 95</p> <p>Internal and external audits of customs transactions undertaken: Baseline (2012): No Target (2017): Yes</p>
	<p><i>Strengthen and reinforce internal control within the Customs Administration by hiring an additional three inspectors and creating a specialized internal audit unit within the Inspection Générale des Services (IGS). (Prior Action 6)</i></p>	<p><i>Integrate Customs Administration (DGDDI) related audits within the annual audit plans of the Inspection Générale du Finance (IGF) and the Inspection Générale d'État (IGE).</i></p>	
The Minister of Development approves and publishes a timetable for implementation of an open data initiative.	<p><i>As part of NADA, to have made available, on the INSAE website, the micro and meta data from the following surveys and censuses: RGPH3; RGE2; EMICoV; and ETVA. (Prior Action 7)</i></p>	<p><i>Build, populate, test and launch Benin's Open Data site, including updating the NADA page on the INSAE website, and populating the sites with all survey data identified in the inventory.</i></p>	<p>Number of data bases on NADA site: Baseline (2012): 0 Target (2017): 10</p> <p>Number of data bases on Benin's Open Data site: Baseline (2012): 0 Target (2017): 20</p>

PRSC-9 Prior Actions	PRSC-10 Prior Actions	PRSC-11 Triggers	Results
PILLAR 2: STRENGTHENING PRIVATE SECTOR COMPETITIVENESS			
BUSINESS ENABLING ENVIRONMENT			
Adoption of a ministerial order identifying the Registry of Commerce and Credit (<i>Registre du Commerce et du Cr�dit Mobilier – RCCM</i>) at the Court of First Instance, First Class, of Cotonou (<i>Tribunal de Premi�re Instance de Premi�re Classe de Cotonou</i>) as the sole registry for recording all collateral and leasing arrangements.			Credit registry coverage (%): Baseline (2012): 10.9 Target (2017): >20 Number of PPP arrangements/contracts entered into: Baseline (2012): 0 Target (2017): 6 Number of formal registered companies: Baseline (2012): 29,386 Target (2017): 35,000 Percentage of labor force in salaried employment: (Source: INSAE) Baseline (2012): Total: 7.0 Target (2017): 9.0 Female: 3.4 Target (2017): 4.5
Submission to the Supreme Court of a Public-Private Partnership (PPP) bill. Creation of the Agence Beninoise des Grand Travaux (Agency for National Projects).	Submission of a Competition Act to the National Assembly. (Prior Action 8)		
Signing of an agreement between the <i>Centres de Gestion Agr�e</i> and the tax administration.	<i>Included in the 2015 national budget a simplified turnover-based tax regime for small- and micro-sized enterprises. (Prior Action 9)</i>		
Agricultural Diversification and Cotton Reform			
Establishment of an institutional framework for implementation of the PSRSA by having: • Reorganized of the Ministry of Agriculture through the adoption of a decree describing the powers, organization and operation of the Ministry;	<i>Publication/circulation of the audit report undertaken of the 2012-2013 cotton campaign. (Prior Action 10)</i> <i>Approval of decrees nominating the Board members and Director General of the newly created FNDA. (Prior Action 11)</i>	Accreditation of a Central Laboratory for Food Safety according to European Union standards. <i>To have developed an actionable roadmap/strategy for cotton sector reform within the context of the Comit� de R�flexion and to have it validated by the Government.</i>	Number specialized agencies operational under new PSRSA: Baseline (2012): 0 Target (2017): 4 Number of non-cotton agricultural commodities having an inter-professional organization: Baseline 2012: 0 Target (2017) : 4

PRSC-9 Prior Actions	PRSC-10 Prior Actions	PRSC-11 Triggers	Results
<ul style="list-style-type: none"> Adopted a decree describing the powers, organization and operation of CARDERs. 		<p><i>Operationalization (i.e., provision of credit to the agricultural community) of the agricultural credit guarantee facility with commercial banks.</i></p> <p><i>Created the Agency for the Promotion of Agricultural Commodities (ABERPRoFA).</i></p>	<p>Percentage of non-cotton farmers having access to extension services through CARDERs²: Baseline 2012: To Be Determined Target (2017) : To Be Determined</p> <p>Volume of agricultural credit extended under the guarantee: Baseline (2012): 0 Target (2017):CFAF 3bn</p> <p>Percentage of total credit extended to agriculture: Baseline (2012): 4 Target (2017): 6</p> <p>Value of non-cotton agricultural exports: Baseline (2012): CFAF65 bn Target (2017): CFAF120 bn</p>
Port and Customs Reform			
<p>The approval of a decree limiting, regulating and consolidating checkpoints on the Cotonou-Ouagadougou and Cotonou-Niamey road corridors.</p>	<p><i>Signature of the convention migrating the Customs informatics system from SYDONIA++ to SYDONIA World. (Prior Action 12)</i></p> <p><i>Promulgation of the new Customs Code. (Prior Action 13)</i></p>	<p><i>Strengthening the effectiveness of the control of imported merchandise by Customs through the use of mobile terminals with GPS coverage.</i></p> <p><i>Develop a central file system on customs offenses and implement a "Simplified Record" computer application whose data, including all litigation, will be used to manage an efficient risk assessment system.</i></p> <p><i>Strengthening of the SYDONIA-SEGUB electronic interface to ensure the transmission of declarations include detailed information on all relevant duties and taxes payable.</i></p>	<p>Port of Cotonou dwell time (days): Baseline (2012): 27 Target (2017): 5</p> <p>Cost to Export (US\$ per container): Baseline (2012): 1079 Target (2017): 10% reduction in real terms</p> <p>Cost to Import (US\$ per container): Baseline (2012): 1549 Target (2017): 10% reduction in real terms</p> <p>Number of roadblocks per corridor (WATH data): Baseline (2012): 8 Target (2017): 3</p>

² Identification of baseline and target for this indicator is still under discussion and determination and will be clarified prior to PRSC-11 or removed at that time.

Annex 2: Letter of Development Policy

REPUBLIQUE DU BENIN
Fraternité-Justice-Travail

**MINISTERE DE L'ECONOMIE, DES FINANCES ET DES
PROGRAMMES DE DENATIONALISATION**



LETTRE DE POLITIQUE DE DEVELOPPEMENT

Janvier 2015

INTRODUCTION

1. La présente lettre de politique de développement décrit le programme de réformes que le Gouvernement entend mener dans le cadre de sa Stratégie de Croissance pour la Réduction de la Pauvreté (SCRP) sur la période 2014-2016, avec l'appui de la Banque Mondiale à travers les Crédits d'Appui à la Réduction de la Pauvreté (PRSC 10-11).

2. Les principales mesures du programme ambitionnent (i) de soutenir l'efficacité et l'impact des dépenses publiques aux fins de l'amélioration des services publics au profit des populations vulnérables et (ii) de 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.

1 - Contexte et évolution récente de l'économie

4. Dans le cadre de sa politique de lutte contre la pauvreté, le Gouvernement a adopté, en mars 2011, à la suite d'un processus participatif, une nouvelle génération de Stratégie de Croissance pour la Réduction de la Pauvreté (SCRP 2011-2015). Cette stratégie 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. La SCRP 2011-2015 opérationnalise les Orientations Stratégiques de Développement (OSD) du Gouvernement, elles-mêmes, basées sur la vision de long terme décrite dans les « Etudes Nationales de Perspectives à Long Terme (ENPLT), "Bénin-Alafia 2025" ». Pour la mise en œuvre réussie de cette stratégie, le Gouvernement entend poursuivre certaines réformes cruciales retenues au titre du programme associé aux PRSC 10-11. Ces réformes concernent les domaines où des progrès sont nécessaires pour atteindre les objectifs visés par la stratégie. Il s'agit de (i) la gestion des finances publiques et la gouvernance du secteur public et de (ii) la compétitivité du secteur privé et la diversification de l'économie.

6. La croissance de l'économie nationale s'est consolidée en 2013 à un rythme plus élevé que prévu, le taux de croissance du PIB réel s'établissant à 5,6%. Pour 2014, le taux de croissance du PIB réel devrait s'établir à 5,7% selon les services nationaux, contre une prévision de 5,5% pour le FMI. Ce développement est attendu dans un contexte de reflux des tensions inflationnistes. Avec un niveau de -1,2% en novembre 2014, le taux d'inflation devrait s'afficher en dessous de la barre des 3,0% retenue dans le cadre de la surveillance multilatérale au sein de l'UEMOA.

7. Le programme économique et financier conclu avec le FMI a été achevé de manière satisfaisante. Suite à la mission qui a séjourné à Cotonou du 10 au 20 février 2014, le Conseil d'administration du Fonds monétaire international (FMI) a approuvé le 23 mai 2014, la sixième et dernière revue du programme économique et financier du Bénin appuyé par la Facilité élargie de crédit (FEC).

8. Ledit programme FEC étant arrivé à expiration en avril 2014, le Gouvernement du Bénin a engagé les discussions avec le FMI pour la négociation d'un nouveau programme triennal. Pour cela, le Gouvernement compte maintenir la stabilité macroéconomique et accélérer les réformes structurelles nécessaires afin de bâtir une croissance économique plus forte, durable et inclusive.

9. Pour l'année 2015, les prévisions nationales tablent sur un taux de croissance de 6,0%. Cette tendance favorable s'explique entre autres par: (i) la hausse attendue de la production cotonnière qui pourrait atteindre 400.000 tonnes; la poursuite des réformes portuaires; la progression de la production vivrière; etc. Les tensions inflationnistes, en dessous de la barre communautaire de 3,0%, pour leur part, devraient rester modérées en lien avec l'amélioration de la production vivrière et le recul des cours des produits de base, en particulier du pétrole et des produits alimentaires.

2 - Politiques de réformes

10. Les réformes retenues dans le programme associé aux PRSC 10-11 pour lequel le Gouvernement sollicite l'appui de la Banque Mondiale portent sur: (i) la gestion des finances publiques et la gouvernance du secteur public et (ii) la compétitivité du secteur privé et la diversification de l'économie.

Gestion des finances publiques et gouvernance du secteur public

Les réformes prévues pour le PRSC 10

11. Dans la Stratégie de Croissance pour la Réduction de la Pauvreté (SCRP 2011-2015), le Gouvernement a retenu le renforcement de la qualité de la gouvernance comme un axe essentiel de stratégie. Les actions menées ou prévues ont concerné la gestion des finances, le processus des marchés publics, la gouvernance au niveau de l'administration douanière, la mise en œuvre de la loi portant lutte contre la corruption et autres infractions connexes et la gouvernance de l'information statistique.

12. En ce qui concerne la gestion des finances publiques, le Gouvernement entend accorder une priorité à la mise en œuvre des réformes contenues dans le nouveau cadre harmonisé de gestion des finances publiques de l'UEMOA adopté en juin 2009, notamment la transposition et la mise en œuvre des directives. Le nouveau cadre harmonisé des finances publiques de l'UEMOA vise en effet le passage d'une logique de moyens à une logique de résultats; la réforme des modes de gestion; le renforcement de la transparence et le développement de la pluri-annualité.

13. Après l'adoption et la promulgation de la nouvelle Loi Organique relative aux Lois de Finances (LOLF), le 27 septembre 2013, le Gouvernement a poursuivi la prise des actes réglementaires pour la mise en œuvre du nouveau cadre harmonisé des finances publiques. Il s'agit du décret portant transposition de la Directive portant Code de Transparence dans la gestion des finances publiques en République du Bénin, du décret portant règlement général sur la comptabilité publique, du décret portant élaboration du Tableau des Opérations Financières (TOFE), du décret portant Nomenclature du Budget de l'Etat (NBE) ainsi que de l'arrêté relatif au Plan Comptable de l'Etat (PCE).

14. S'agissant du processus de passation des marchés publics, le Gouvernement a adopté le décret portant délégation partielle du pouvoir d'approbation des marchés publics aux Ministres, afin de réduire les délais de passation des marchés publics.

15. En matière de mise en œuvre de la loi portant lutte contre la corruption et autres infractions connexes, tous les Ministres ont procédé à la déclaration complète de leur patrimoine et la copie desdites déclarations a été transmise à l'Autorité Nationale de Lutte contre la Corruption (ANLC). En complément, pour faciliter le fonctionnement de l'ANLC, le Gouvernement a pris le décret portant Règlement financier de l'ANLC le 30 mai 2014. Ceci est de nature à favoriser l'autonomie financière de ladite institution.

16. Par ailleurs, le Gouvernement entend également œuvrer au renforcement de la gouvernance au sein de l'Administration douanière. A cet égard, il a procédé à la dynamisation de l'Inspection Générale des Services (IGS) de la Direction Générale des Douanes et Droits Indirects (DGDDI) par l'affectation de trois inspecteurs dans ladite structure et le renforcement du contrôle interne par la création de service spécialisé pour l'audit interne.

17. Au titre de la gouvernance de l'information statistique, des progrès ont été enregistrés. Ainsi, dans le cadre de NADA, les actions ont porté sur la publication sur le site web de l'Institut National de la Statistique et de l'Analyse Economique (INSAE), des données et métadonnées des enquêtes et recensements à savoir le troisième Recensement Général de la Population et de l'Habitation (RGPH3), le deuxième Recensement Général des Entreprises (RGE2), l'Enquête Modulaire Intégrée sur les Conditions de Vie des ménages (EMICoV) et l'Enquête sur la Transition vers la Vie Active (ETVA).

Les réformes prévues pour le PRSC 11

18. Dans le domaine de la gestion des finances publiques et de la gouvernance du secteur public, les actions proposées pour consolider les progrès attendus de la mise en œuvre des réformes associées au PRSC 10 concernent entre autres: le renforcement de la transparence budgétaire, l'interconnexion des postes comptables, la mise en œuvre de la loi portant lutte contre la corruption et autres infractions connexes, le renforcement du contrôle de la Direction Générale des Douanes et Droits Indirects (DGDDI) et l'ouverture des données statistiques (OPEN DATA).

19. S'agissant du renforcement de la transparence budgétaire, il s'agira d'assurer l'information effective du public conformément au Chapitre VI de la Directive portant Code de Transparence.

20. Pour sa part, l'interconnexion électronique des postes comptables centraux et décentralisés vise une supervision des comptes en temps réel et leur consolidation par le comptable général.

21. En ce qui concerne la mise en œuvre de la loi portant lutte contre la corruption et autres infractions connexes, une attention particulière sera accordée à l'effectivité de la déclaration complète de patrimoine des Ministres et des membres de l'Assemblée Nationale ainsi que la mise en place d'un système d'évaluation de suivi et de reportage pour la traçabilité des efforts de lutte contre la corruption au niveau de l'ANLC.

22. Au plan du renforcement de la gouvernance à la Direction Générale des Douanes et Droits Indirects (DGDDI) les deux actions prioritaires prévues s'articulent autour de: (i) la mise en place

d'une fonction d'audit externe pour la DGDDI et (ii) l'opérationnalisation de l'Inspection Générale des Services (IGS).

23. En matière de gouvernance de l'information statistique, les actions prioritaires en vue consisteront à (i) mettre à jour la page NADA sur le site web de l'INSAE et alimenter effectivement avec toutes les enquêtes répertoriées; construire et alimenter le site OPEN DATA et (iii) tester et lancer officiellement le site OPEN DATA.

24. En complément de ces réformes, il est prévu un approfondissement des réflexions engagées dans le sens du renforcement des missions de contrôle financier et de contrôle des marchés publics. Celles-ci pourraient le cas échéant conduire à une réorganisation du Ministère chargé des Finances par: (i) la revue du rôle du Contrôle Financier (CF) qui ne devra pas intervenir dans la chaîne de passation de marché; (ii) le rattachement des Cellules de Contrôle des marchés Publics à la Direction Nationale de Contrôle des Marchés Publics (DNCMP) à l'image de l'organisation actuelle du CF; (iii) la dotation de la DNCMP de 52 agents retenus par l'Autorité de Régulation des Marchés Publics (ARMP); (iv) la création et l'opérationnalisation des Directions Départementales de contrôle des marchés publics; (v) le suivi des procédures de passation de marchés de maîtrise d'ouvrage déléguée (MOD) par la DNCMP.

Compétitivité du secteur privé et diversification de l'économie

Les réformes prévues pour le PRSC 10

25. Au titre des domaines d'intervention prioritaires de l'axe stratégique « accélération durable de la croissance et de la transformation de l'économie » de la Stratégie de Croissance pour la Réduction de la Pauvreté (SCRP 2011-2015), le Gouvernement a retenu la dynamisation du secteur privé et le développement des entreprises ainsi que la diversification de l'économie.

26. Dans le cadre de la dynamisation du secteur privé, les mesures relatives à l'amélioration du climat des affaires nécessaires pour le développement et la compétitivité des entreprises ont été soutenues par l'élaboration et la soumission à l'Assemblée Nationale d'un Projet de Loi sur la Concurrence. De plus, un régime fiscal simplifié basé sur le chiffre d'affaires applicable aux micros et petites entreprises a été inséré dans la loi de finances 2015.

27. Pour ce qui est de la diversification de l'économie et plus particulièrement dans les domaines de l'agriculture et de la réforme du secteur coton, les principales actions ont porté sur (i) la prise de l'arrêté portant nomination du Directeur Général du Fonds National de Développement Agricole (FNDA), (ii) la prise du décret portant désignation des membres du Conseil d'Administration et nomination du Directeur Général par interim du FNDA et (iii) la publication du rapport d'audit de la campagne cotonnière 2012-2013.

28. Dans le domaine des réformes portuaires et douanières, les principales mesures ont concerné la promulgation du nouveau Code des Douanes en République du Bénin le 12 septembre 2014 et la signature de la convention portant migration du système informatique SYDONIA++ vers SYDONIA World, plus efficace.

Les réformes prévues pour le PRSC 11

29. Pour renforcer les réformes soutenues par le PRSC 10, les actions de réformes prévues au titre du PRSC 11 concerneront l'environnement des affaires, la diversification de l'économie et les réformes portuaires.

30. En matière de diversification de l'économie, les mesures prévues concerneront (i) la création de l'Agence Béninoise de Promotion des Filières Agricoles (ABEPRoFA), (ii) l'accréditation du laboratoire Central de Sécurité Sanitaire des Aliments suivant les normes de l'Union Européenne et (iii) l'opérationnalisation du Fonds National de Développement Agricole (FNDA).

31. Au plan des réformes portuaires, les actions proposées seront orientées vers: (i) le renforcement de l'efficacité du contrôle par l'utilisation de terminaux mobiles par couverture GSM, (ii) la simplification et célérité dans le traitement des dossiers de contentieux à travers la mise en place du procès-verbal simplifié, (iii) la mise en œuvre de l'intranet au sein de la DGDDI, (iv) la migration de SYDONIA++ à SYDONIA World et (v) l'amélioration de l'interface SYDONIA – SEGUB d'une part, au niveau de l'amendement des manifestes, et d'autre part, pour permettre la transmission (en détail par déclaration) des données relatives au paiement des droits et taxes.

32. Le Gouvernement s'engage à mettre en œuvre ces actions de réformes qui faciliteront l'atteinte des résultats de la Stratégie de Croissance pour la Réduction de la Pauvreté ainsi que la réussite du programme associé aux PRSC 10-11. Les actions décrites ci-dessus pourraient, au besoin, être complétées par de nouvelles réformes, en collaboration avec la Banque Mondiale, notamment pour le PRSC 11.

3 - Dispositif de coordination, de suivi de la mise en œuvre des politiques de réformes

33. Le présent programme sera exécuté sous la supervision du Ministère de l'Economie, des Finances et des Programmes de Dénationalisation, à travers la Cellule de Suivi des Programmes Economiques (CSPEF), en collaboration étroite avec les Ministères sectoriels et autres structures concernées par les domaines de concentration du programme. La Banque Mondiale effectuera également 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. 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.



Komi KOUTCHE

(Ministre de l'Economie, des Finances
et des Programmes de Dénationalisation)

Unofficial Translation

Republic of Benin

Fraternity-Justice-Work

Ministry of the Economy and Finance

Letter of Development Policy

January 2015

INTRODUCTION

1. This letter of development policy outlines the reform program that the Government intends to implement under its Growth for Poverty Reduction Strategy (SCRP) for the period 2014-2016, with the support of the World Bank through Poverty Reduction Support Credits (PRSC 9-11) for 2014.
2. The program's key actions seek to (i) enhance the effectiveness and impact of public expenditure with a view to improving public services for the poorest; and (ii) accelerate efforts to foster the conditions for sustained growth in order to significantly reduce poverty.
3. This letter of development policy is organized around the following points: (i) context and recent developments; (ii) reform policy; and (iii) the mechanism for coordinating and monitoring implementation of the reform policies.

1. Context and recent economic developments

4. As part of its policy to reduce poverty, in March 2011, following a participatory process, the Government adopted a new generation Growth for Poverty Reduction Strategy (SCRP 2011-2015), which has the following five priority areas: (i) accelerated sustainable growth and economic transformation; (ii) infrastructure development; (iii) strengthening of human capital; (iv) the promotion of good governance; and (v) balanced and sustainable national development.
5. The SCRP 2011-2015 operationalizes the Government's Strategic Development Guidelines (OSD), which are based on the long-term vision outlined in the "National Long-Term Prospective Studies (ENPLT) - Benin Alafia 2025." To ensure the successful implementation of this strategy, the Government intends to continue implementing critical reforms included under PRSC 9-11. These reforms relate to areas where progress is vital for the achievement of the objectives outlined in the strategy, including: (i) public financial management and public sector governance; and (ii) strengthening private sector competitiveness and economic diversification.
6. The growth of the national economy stabilized in 2013 at a higher pace than expected; the growth rate of real GDP stood at 5.6%. For 2014, real GDP growth is projected at 5.7% according to the national services, against a forecast of 5.5% for the IMF. This is expected in the context of receding inflationary pressures. At 1.2% in November 2014, the inflation rate should remain below the WAEMU threshold of 3.0%.
7. The economic and financial program with the IMF was satisfactorily completed. Following the mission to Cotonou from February 10th to 20th, 2014 the Board of Directors of the International Monetary Fund (IMF) approved the sixth and final review of the economic and financial program supported by the Benin Extended Credit Facility (ECF) on May 23, 2014.
8. Said ECF expired in April 2014 and the Government of Benin has initiated discussions with the IMF to negotiate a new three-year program. Toward this end, the Government intends to maintain macroeconomic stability and accelerate the structural reforms necessary for stronger, more sustainable and more inclusive economic growth.

9. For 2015, national forecasts forecast a growth rate of 6.0%. This positive trend is partly explained by: (i) an expected increase in cotton production that could reach 400,000 tons; continued port reforms; increased food production; etc. Inflationary pressures currently running below the 3.0% community criteria, should remain moderate given improved food production and the decline in global commodity prices, particularly oil and food products.

2. Reform Policies

10. The reforms contained in the PRSC 9-11 program for which the Government is requesting World Bank support relate to: (i) public financial management and public sector governance; and (ii) strengthening private sector competitiveness and economic diversification.

Public financial management and public sector governance

Reforms Implemented under the PRSC 10

11. In the Growth for Poverty Reduction Strategy (SCRIP 2011-2015), the Government has decided to strengthen the quality of governance as a key focus area in the strategy. The actions carried out or planned include public financial management, public procurement processes, governance within the Customs administration, implementation of the anti-corruption law and governance of statistical information.

12. With regard to public financial management, the Government intends to give priority to the implementation of the reforms contained in the new WAEMU harmonized framework for public financial management adopted in June 2009, including implementation of related guidelines. The new harmonized WAEMU framework for public finance focuses on: the transition from a resource-based approach to a results-based approach; a reform of management methods; enhancing transparency; and on the development of pluri-annual budgeting.

13. Following the adoption and promulgation of the new Organic Law on Finance Laws (LOLF) on September 27, 2013, the Government continued taking the regulatory steps necessary for implementation of the new harmonized public finance framework. This includes: the decree enacting the Transparency Code on public finance in Benin; the decree on the general rules of public accounting; the decree on the Table of Financial Operations (TOFE); the decree related to nomenclature of the State Budget (NBE); and the arrêté on the Public Accounting Plan (ECP).

14. In regards to public procurement processes, the Government adopted the decree concerning partial delegation of approval authority for procurement to Ministers, in order to reduce the time required in public procurement processes.

15. In terms of implementation of the anti-corruption law, all Ministers completed their asset declarations and copies of the said declarations have been transmitted to the National Anti-Corruption Authority (ANLC). In addition, to facilitate the operations of the ANLC, the Government approved a decree on May 30, 2014 relating to the financial regulation of the ANLC. This should promote the financial autonomy of the institution.

16. Moreover, the Government also intends to work to strengthen governance within the Customs Administration. In this regard, the Government revitalized the General Inspectorate of Services (IGS) of the Directorate General of Customs and Excise (DGDDI) by assigning three inspectors and strengthened internal control by the creation of a specialized unit for internal audit.

17. Progress has been made in the governance of statistical information. As part of NADA, actions focused on the publication on the National Institute of Statistics and Economic Analysis (INSAE) website of data and metadata related to the following surveys and censuses: the third General Population and Housing Census (RGPH3); the second General Census of Enterprises (RGE2); the Integrated Modular Survey on Household Living Conditions (EMICoV); and the Survey on Transition to Active Life (ETVA).

The reforms planned for PRSC 11

18. In the area of public financial management and public sector governance, the actions proposed to consolidate progress expected from the implementation of the reforms associated with the PRSC 10 include among others: the strengthening of budgetary transparency; electronic interconnection of public accounting units; implementation of the anti-corruption law; strengthening the control of the Directorate General of Customs and Excise (DGDDI); and operationalization of the Open Data Initiative.

19. As regards the strengthening of budget transparency, the Government will ensure effective public information in line with Chapter VI of the Transparency Code.

20. The electronic interconnection of central and decentralized accounting units is intended to improve supervision of real-time accounts and their consolidation by the auditor general.

21. Concerning implementation of the anti-corruption law, particular attention will be paid to ensuring asset declarations are completed by Ministers and members of the National Assembly as well the establishment of a monitoring and evaluation system for evaluating by the ANLC efforts against corruption.

22. In terms of strengthening governance in the Directorate General of Customs and Excise (DGDDI) priority actions are focused on: (i) the establishment of an external audit function for the DGDDI; and (ii) the operationalization of the General Inspectorate of Services (IGS).

23. In terms of governance of statistical information, the priority actions will be to: (i) update the NADA page on the INSAE website and populate it with all available surveys; (ii) build and populate the OPEN DATA website; and (iii) test and officially launch the OPEN DATA website.

24. In addition to these reforms, discussions have been initiated with a view to strengthening financial and public procurement control units. These could, where appropriate, lead to a reorganization of the Ministry of Finance through: (i) reviewing the role of Financial Controller (FC) to avoid intervention in the procurement chain; (ii) placing line ministry procurement units under the supervision of the DNCMP; (iii) staffing the DNCMP with 52 procurement agents as selected by the ARMP; (iv) the creation and operationalization of provincial public procurement

control units; (v) monitoring the public procurement procedures and processes of the MOD (Agences de Maitrise d'Ouvrage Délégué) by the DNCMP.

Private Sector Competitiveness and Economic Diversification

Planned reforms for PRSC 10

25. Under the priority areas of "sustainable accelerated growth and transformation of the economy" of the Growth Strategy for Poverty Reduction (SCRP 2011-2015), the Government is focusing on the revitalization of the private sector and business development and diversification of the economy.

26. As part of private sector revitalization, measures for improving the business climate necessary for the development and competitiveness of enterprises have been supported by the development and submission to the National Assembly of a Competition Act. In addition, a simplified turnover-based tax system applicable to micro and small enterprises was included in the 2015 budget.

27. In terms of diversification of the economy and especially in the areas of agriculture and cotton sector reform, the main actions focused on: (i) the approval of an arrêté appointing the Director General of the National Fund for Agricultural Development (FNDA); (ii) the approval of a decree appointing the Board members an acting CEO of FNDA; and (iii) the publication of the audit report on the 2012-2013 cotton campaign.

28. In the area of port and customs reforms, the main measures concerned the promulgation on September 12, 2014 of the new Customs Code in Benin and the signing of the convention on the migration of ASYCUDA ++ to ASYCUDA World, more effective.

The reforms planned for PRSC 11

29. To reinforce the reforms supported under PRSC 10, reforms envisaged under PRSC 11 concern the business environment, the diversification of the economy and port reforms.

30. In terms of diversification of the economy, the measures concern: (i) creation of the Agency for the Promotion of Agricultural Commodities (ABERPRoFA); (ii) accreditation of a Central Laboratory for Food Safety following European Union standards; and (iii) operationalization of the National Fund for Agricultural Development (FNDA).

31. In terms of port reforms, the proposed actions will focus on: (i) strengthening the effectiveness of control by the use of GPS mobile devices; (ii) simplification and rapid processing of contested Customs cases through the implementation of simplified records; (iii) implementation of an intranet within the DGDDI; (iv) migration of ASYCUDA ++ to ASYCUDA World; and (v) improving the ASYCUDA-SEGUB interface on one hand, at the level of manifest information, and secondly, to enable the transmission (in detail by declaration) of data relating to the payment of duties and taxes.

32. The Government is committed to implementing these reform actions that will facilitate the achievement of results under the Growth for Poverty Reduction Strategy as well as the success of the program associated with the PRSC 10-11. The actions described above could, if necessary, be supplemented by further reforms in collaboration with the World Bank, including under the PRSC 11.

3. The mechanism for coordinating and monitoring implementation of the reform policies

33. The Minister of Economy and Finance will supervise execution of this program through the Economic Program Monitoring Unit (Cellule de Suivi des Programmes Economiques, CSPEF), in close collaboration with line ministries and other entities involved in the program's areas of focus. The World Bank will also conduct program reviews. Regular dialogue will be maintained with the World Bank to ensure monitoring of the implementation of the proposed actions. The Government hereby undertakes to take all the necessary steps to implement the aforementioned measures and actions, and reiterates its request to the World Bank for the related financial support.

Komi Koutche
(Minister of Economy, Finance and Denationalization Programs)

Annex 3: Fund Relations Note

Benin - Assessment Letter for The World Bank January 21, 2015

Recent Economic Developments

1. **The generally positive macroeconomic trends under the ECF-supported program that expired in June 2014 continued in Benin, even though the implementation of the 2014 budget was hampered by declining customs revenues.**

- **Benin achieved the objective of enhancing growth**, closing the earlier gap with the sub-Saharan Africa (SSA) average in per capita GDP growth. Overall growth in 2014 is expected to reach 5½ percent for the third consecutive year. Commerce was a major contributor to growth. With favorable weather and high world prices, cotton production has recovered since 2012 and also contributed to higher growth. Meanwhile, inflation remained low.
- **Weak customs revenues in 2014 were largely offset by expenditure cuts, leading to a fiscal deficit broadly in line with budget projections.** A drop in informal re-exports to Nigeria led to a tax revenue shortfall projected at about ¾ percent of GDP compared to the budget. Despite higher-than-projected subsidies in the government's cotton sector management, tight control of other recurrent spending and lower public investment offset the revenue shortfall, leading to a fiscal deficit of about 3½ percent of GDP in line with budget projections. Benin's debt-to-GDP ratio is projected at about 30 percent—12½ percentage points below the average for non-resource intensive SSA countries in 2014 and consistent with a low risk of debt distress. However, the volatility of customs revenues underlines the need to strengthen domestic revenues.
- **The external position remained sound.** The import of equipment for oil exploration in 2013 as a one-off investment led to a sharp but temporary current account deterioration, which was broadly reversed in 2014. Concessional financing and foreign direct investment have been the main sources of external financing. The real effective exchange rate has remained broadly in line with fundamentals since the last Article IV consultation in 2012,³ but many indicators on economic competitiveness remained weak.
- **The banking sector remained stable overall despite some deterioration in loan quality.** The share of non-performing loans increased in 2013, and the concentrated exposure of six banks to the Talon group, which faces financial problems, has created additional stress. The West African Monetary and Economic Union's (WAEMU) Banking Commission audited the six banks in May 2014 and found little systemic risk. A few banks may require recapitalization by their private shareholders, but the needs are manageable in view of past experiences. Similar to other WAEMU countries, there was significant regulatory forbearance in Benin, with a

³ IMF Country Report No.13/9.

quarter of the banks not in compliance with some prudential norms. One of the two banks under protracted conservatorship was acquired by another bank in 2013.

Outlook and Macroeconomic Policies

2. Going forward, Benin’s challenge is to achieve strong and sustainable growth necessary to significantly reduce poverty. Growth diagnosis shows that infrastructure bottlenecks and weak business environment are the binding constraints. The government presented a plan to address these challenges at a Round Table Conference with donors and private sector representatives in Paris in June 2014, and it includes the following:

- **An ambitious public investment program during 2015–19.** To address the large infrastructure gap, the government presented public investment projects equivalent to about 18 percent of GDP, mainly in energy, transport, and rural infrastructure. The investment path would bring Benin’s public investment level in line with the WAEMU average over the medium term. In order to protect Benin against risks of debt distress, the financing for the scaling up of investment would need to be predominantly concessional. While donor pledges at the Round Table largely met this requirement, it is uncertain what financing amount and terms will materialize. The government also plans to use public-private partnerships (PPPs), although a PPP regulatory framework is not yet in place.
- **A package of structural reforms.** Building on the recent port reform, the government is implementing additional pro-business reforms—such as reducing the cost and time for business registration and for construction permits and establishing a new commercial court to facilitate dispute resolution. Initial reforms in this regard have led to an improved ranking in the World Bank’s Doing Business Indicators from 167th to 151st among 189 economies, but more efforts are needed to improve access to credit and to ease the burden of paying taxes. Enhanced domestic revenue to reduce the dependency on informal re-exports to Nigeria and strengthened Public Financial Management (PFM), including for PPPs, are also key reform objectives.

3. The 2015 budget adopted by parliament reflects government priorities of addressing infrastructure bottlenecks to growth while preserving macroeconomic stability. The widening of the fiscal deficit to about 7¼ percent of GDP in 2015 is driven by an increase in public investment of 3½ percent of GDP, of which about 2 percent will be financed externally, predominantly through grants and loans with a significant concessionality component. The increase in domestic financing of projects by about 1½ percent of GDP partly reflects a carry-over from 2014 when revenue shortfalls required some cuts in investment spending. Domestic financing constraints are expected to ease in 2015 mainly by the projected privatization receipts of about 2 percent of GDP from the telecommunication sector.

4. Risks for the 2015 budget stem from the following factors:

- **Risks from global spillovers.** While efforts to enhance infrastructure and the business environment are expected to sustain the positive growth trend over the medium term, the outlook for 2015 is clouded by the impact of declining oil price on growth and national income

in neighboring Nigeria which is the main destination of Benin's informal re-exports. The impact of declining world cotton prices on growth is minor, but it results in higher subsidies estimated at close to 1 percent of GDP in the 2015 budget. In view of these risks, the budget's GDP growth forecast of 6 percent is rather optimistic, and IMF staff projections are currently based on 5½ percent growth, assuming that the positive demand impact of investment spending will broadly offset negative spillovers on growth.

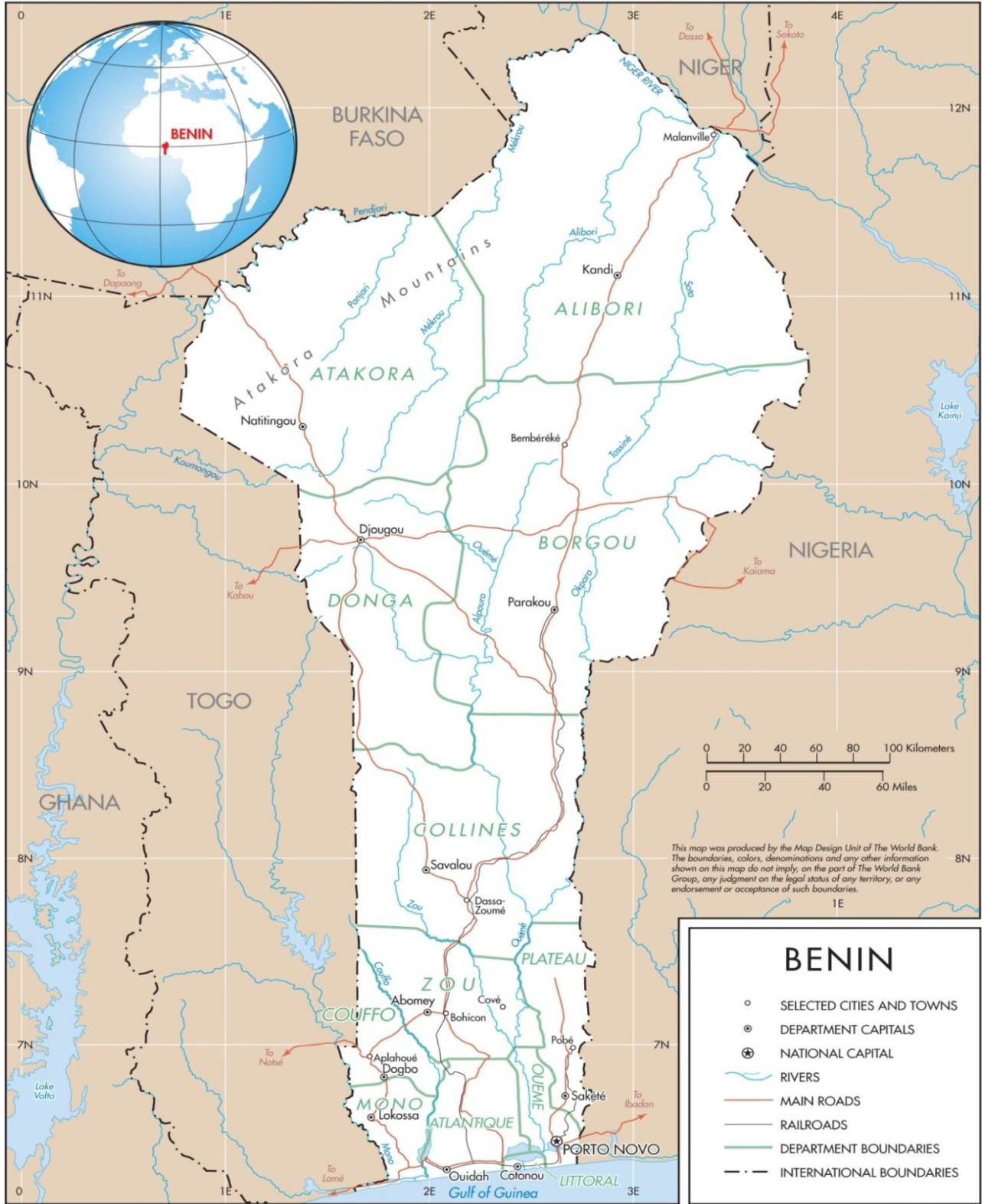
- **Risks from slippages in reform implementation.** Benin does not have a history of pronounced political spending cycles, but given the planned municipal, legislative, and presidential elections in 2015–16, a tense political environment could complicate reform implementation. To reverse the underperformance of tax revenues in 2014, the government is enhancing tax and customs administration, but most reforms are still at an early stage. Privatization proceeds could fall short of expectations, although the government has some buffer in domestic financing to at least partly offset possible shortfalls. The efficient implementation of higher investment spending requires improvements in PFM and project management capacities. Some progress has been made in procurement reform and in strengthening IT systems to improve the spending process. To further improve PFM, the government is working on a comprehensive action plan based on a recent Public Expenditure and Financial Accountability assessment and FAD technical assistance.
- **Financing the scaling up of investment.** The government has made progress in securing external financing that has a significant concessionality component and in preparing state-owned telecom companies for privatization. However, some uncertainties remain, including regarding the financial arrangements for large investments planned for 2016 and beyond, some in the form of PPPs. Implementation of scaling up of investment should be conditional on confirmed access to financing that is largely concessional and limits risks for future budgets.

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5. **After successfully completing an ECF-supported program in June 2014, the government indicated interest in a new program, but program negotiations have been delayed.** During the previous program, macroeconomic stability deepened and growth performance improved. The government has continued to express its interest in a new ECF supported program. The timing of discussions has been delayed by a government reshuffling in August 2014 and by legislative elections planned for April and municipal elections for May 2015. Accordingly, the authorities have requested that the planned mission, to include both program and Article IV discussions, be held no earlier than June 2015. (The Article IV consultations should have been concluded by November 2014 according to the applicable consultation cycle).

Annex 4: Country Map

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