



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 21-May-2019 | Report No: PIDC25861



BASIC INFORMATION

A. Basic Project Data

Country Benin	Project ID P168668	Project Name Benin First Fiscal Management and Structural Transformation Development Policy Operation (P168668)	Parent Project ID (if any)
Region AFRICA	Estimated Board Date Oct 31, 2019	Practice Area (Lead) Macroeconomics, Trade and Investment	Financing Instrument Development Policy Financing
Borrower(s) Republic of Benin	Implementing Agency Ministry of Economy and Finance		

Proposed Development Objective(s)

The program development objectives of this series are to: 1) strengthen fiscal management; 2) improve the financial viability of the power sector; and 3) foster the development of the digital economy.

Financing (in US\$, Millions)

SUMMARY

Total Financing	100.00
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DETAILS

Total World Bank Group Financing	100.00
World Bank Lending	100.00

Decision

The review did authorize the preparation to continue



B. Introduction and Context

Country Context

1. **Benin has been on a positive economic trajectory over the past few years, with a GDP growth estimated at 6.7 percent in 2018.** The Government has achieved this good result by benefiting from a rapid expansion of the agriculture sector, mainly cotton, and of trade related activities that has helped compensated for the short negative impact of the fiscal consolidation on the aggregate demand. Despite these encouraging results, the country remains extremely poor, with a \$1.90 poverty rate of about 49.5 percent in 2015. Building on the positive results of the DPF series recently achieved at the end of 2018, the new series selectively focuses on a sub-set of critical challenges linked to fiscal policy, the energy sector, and the digital economy. These pillars are well aligned with the Government national development strategy as well as with the WBG new approach in the Sub-Saharan African region.

2. **The macroeconomic policy framework provides an adequate basis for the proposed operation.** This assessment is affirmed by favorable medium-term growth prospects underpinned by the recent positive results even risks remain especially on the fiscal side in an increasingly volatile political environment. It is further strengthened by the Government commitment to meet the 2019 West African Economic and Monetary Union (WAEMU) fiscal deficit target; and the participation to the WAEMU and the prudent monetary policy at the union level. The Government macroeconomic and fiscal framework is supported by an International Monetary Fund Extended Credit Facility (ECF). While public debt has risen in recent years, the results of the external debt sustainability analysis continues to show that Benin's debt dynamic is sustainable, with a moderate risk of debt distress.

Relationship to CPF

3. **Development Policy Operations are an important instrument in the World Bank Group's (WBG) ongoing policy dialogue with the Government of Benin and its development partners.** The WBG Country Partnership Framework (CPF) for FY2019-2023 (Report No. 123031-BJ) reflects the priorities identified by the Systematic Country Diagnostic (Report No. 114822-BJ). The guiding principles of the CPF state that the DPOs are to support the government to (a) leverage its own resources for its priority development targets; (b) crowd in international and domestic private sector financing, and (c) use innovative financing models. The focused areas supported by the DPF series are aligned with the SCD and CPF priorities, including macroeconomic and fiscal stability, debt management, electricity provision, and the development of a digital economy. All these areas are viewed as critical for job creation and the delivery of quality social services – the first two pillars of the CFP, and complement other interventions in agriculture, infrastructure, and human capital.

C. Proposed Development Objective(s)

4. **The program development objectives of this series are to: 1) strengthen fiscal management; 2) strengthen the financial viability of the power sector; and 3) foster the development of the digital economy.** While each objective is individually important, their combination will help Benin achieve significant results in the next few years. Better revenue mobilization will help finance the Government's ambitious infrastructure programs in the energy and digital sectors. The development of digital platforms will generate efficiency gains in fiscal management. Reforms in the electricity and ICT sectors will promote private sector development which will in turn favor revenue mobilization through higher growth

Key Results

5. The following outcomes are expected at the end of the series: tax registration and payments will be made through electronic platforms; debt management will include a risk-based system, the electricity sector will reduce its commercial and technical losses, the public sector will pay all its electricity bills, and new digital entrepreneurs and service providers will emerge thanks to the implementation of an appropriate legal and institutional framework.



D. Concept Description

6. **The Government of Benin (GoB) proposes to improve its state of development through its Government Action Program (GAP) 2016–2021.** The PAG starts with the premise that Benin can achieve much higher rates of economic and social well-being through a three-pronged approach: (a) consolidation of democracy, the rule of law, and good governance; (b) structural transformation of the economy; and (c) improvement of social wellbeing. The PAG is premised on the 2030 Agenda for Sustainable Development as well as the Paris Climate Agreement.

7. **This series has been designed to address the challenge of achieving faster and more inclusive growth.** The combination of effective fiscal policy and improved access to energy and digital tools should help improve the delivery of social and infrastructure services to a maximum of households, including in remote areas. It should also lead to an improved business environment, thereby facilitating private investments and greater job creation. All these areas are closely aligned with the World Bank priorities identified in the SCD and the recent CFP (FY 2019-23) and with the GAP.

8. **The reforms supported by the current DPF series contribute directly and indirectly to addressing Benin’s development challenges as identified by the GAP and the CPF.** The measures of the fiscal pillar will improve the design of the taxation system, reinforce tax collection via digital platforms and improve the efficiency of debt management. The measures of the energy pillar are designed to improve the financial and operation risk management of the SBEE (state owned electricity company). The measures of the Digital Economy pillar will contribute to improving the quality and easing access to digital services.

E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

9. **The proposed operation is expected to have a positive impact on poverty reduction through different channels.** Most measures will have an indirect impact. The fiscal pillar supports strengthening fiscal management through increased revenue mobilization and improved debt management. This will increase fiscal space, which could be allocated to finance poverty-reducing public services. A viable electricity sector supported by the second pillar would allow greater access to electricity by the poor in the medium term. However, at this stage, it remains unclear what will be the impact of the new tariffs policy that is being under consideration by the authorities. The third pillar will help lay the foundations of the digital economy that are expected to have positive effects on poverty reduction over the medium term. A well-functioning digital economy can help reduce cross-cutting obstacles in the business environment, especially for small and informal firms.

Environmental Impacts

10. **The reforms and policy actions supported by the proposed operation are not likely to have significant negative impacts on the country’s environment, forests and other natural resources.** All the actions supported by the operation are policy-oriented; they do not directly support environmentally impactful investments or involve policy actions with significant environmental consequences. Prior actions designed to strengthen fiscal management and to develop digital economy are environmentally neutral. Improving technical performance of the electricity SOE, pursuing cost recovery by transparent electricity price setting, and partially using gas as inputs instead of liquid fuel to achieve least cost electricity production are likely to produce climate change mitigation co-benefits since they help promote a more efficient use of energy using an environmentally cleaner technology.



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APPROVAL

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