



Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 18-Apr-2023 | Report No: PIDC36138



BASIC INFORMATION

A. Basic Project Data

Country Benin	Project ID P180286	Project Name Benin Boosting Inclusive Growth and Resilience DPF1 series with Cat DDO (P180286)	Parent Project ID (if any)
Region WESTERN AND CENTRAL AFRICA	Estimated Board Date Oct 31, 2023	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 Project Development Objective is to support the Government's efforts to boost structural transformation, inclusive growth and resilience to shocks

Financing (in US\$, Millions)

SUMMARY

Total Financing	230.00
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DETAILS

Total World Bank Group Financing	230.00
World Bank Lending	230.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. The proposed Development Policy Operation (DPO) with a Catastrophe Deferred Drawdown Option (Cat DDO) aims to boost Benin's inclusive growth and resilience in a context of overlapping crises. It is the first of two single-tranche DPOs in a programmatic series. It combines (i) International Development Association (IDA) credit amounts to EUR XXX million (US\$150 million equivalent) in Shorter Maturity Loan (SML) terms, combining US\$97.4 million



equivalent financing from Scale-Up Window (SUW)-SML,¹ with US\$52.6 million equivalent from the SML portion of Benin's IDA country allocation, and (ii) an IDA Credit of EUR XXX million (US\$ 80 million equivalent) Cat DDO available for full or partial disbursement in the event of a natural catastrophe or sanitary crisis. The Program Development Objective (PDO) is to support the government's efforts to boost (i) structural transformation, (ii) inclusive growth, and (iii) the country's resilience to shocks.

2. Overlapping crises emphasize the urgent need to address structural bottlenecks to boost resilience and sustain inclusive growth. Economic growth was relatively resilient 2020 at 3.8 percent (from 7.5 percent in 2019) and rebounded strongly in 2021 (7.2 percent) before decelerating at 6.3 percent in 2022 with the spillovers from the Russia's invasion of Ukraine, which have widened fiscal vulnerabilities and macroeconomic imbalances. In 2022, the fiscal deficit was above the regional convergence criteria for a third consecutive year as expenses increased to cushion the impact of the declining purchasing power and invest in capital to respond the COVID-19 pandemic and rising security threats in the North. Public debt peaked in 2022 at 54.2 percent of GDP in 2022 from 41.2 in 2021. Tightening of regional policy stance and global financing conditions limit Benin's ability to borrow on international and regional markets. This create liquidity pressures at least in the short time as yields have increased sharply over the past months and more recently some countries in the sub-region were not able to fully cover their auctions. Moreover, the gradual deterioration in security conditions in the northern region in connection with the expansion of the crisis affecting the Central Sahel and to some extent Nigeria pose risks to existing vulnerabilities such poverty, spatial disparities, and low quality of service delivery, underlining the importance of concessional IDA resources for budget support, while strengthening social resilience and creating better economic opportunities and employment. For Benin to sustain its growth performance and improve living conditions, the authorities will need to pursue bold and transformational reforms to rebuild fiscal space, facilitate job-creating investment by the private sector, and strengthen social and climate resilience.

Relationship to CPF

3. DPF operations are an important instrument in the World Bank Group's (WBG) ongoing policy dialogue with Benin and its development partners. The WBG CPF for FY2019–2023 (Report No. 123031-BJ) reflects the priorities identified by the Systematic Country Diagnostic (Report No. 114822-BJ) and confirmed in the 2022 PLR (Report No. 170821-BJ). According to the CPF's guiding principles, DPF operations support the government to: (a) leverage its own resources to reach its priority development targets; (b) crowd in international and domestic private sector financing; and (c) use innovative financing models. Selected pillars supported by the DPF series are aligned with CPF priorities, including macroeconomic and fiscal stability (CPF #3), environment for private sector investment (CPF #4), social protection systems (CPF #6), and resilience to climate-related threats (CPF #8). They are also aligned with the Next Generation Africa Climate Business Plan supporting SDG 7. The proposed operation also complements the SDFP's PPAs on fiscal sustainability by making customs revenue collection more efficient.

C. Proposed Development Objective(s)

4. The Project Development Objective is to support the Government's efforts to boost structural transformation, inclusive growth and resilience to shocks. The reform program is based on two pillars: (i) enhancing fiscal

¹ In accordance with current Republic of Benin per capita income and IDA20 lending criteria, the credits will be financed under the single currency IDA SML credit terms (i.e., 12 years' amortization with a grace period of 6 years). As a gap country, Benin is eligible to receive SUW-SML financing. Benin is on track in implementing reforms to improve debt transparency and management and fiscal sustainability by having implemented the agreed Performance and Policy Actions in line with the SDFP and the proposed operation is aligned with one or more pillars of the Global Crisis Response Framework. The single currency amount (EUR 146.5 million) will be converted to the final SDR amount for commitment authority and country allocation management purposes on the day of project approval.



resilience and private sector-led growth; and (ii) strengthening social and climate resilience.

Key Results

5. The proposed measures are expected to significantly enhance fiscal resilience and private sector-led growth. The adoption of the new PPP law and implementation of accompanying measures will facilitate investment through PPPs and help attract private investors to implement PPP projects based on a credible and well-prepared pipeline. Investment projects for which PPP tender process have been initiated under the new law is expected to increase from 0 in 2022 to 3 percent in 2025. The restructuring of FONAGA is expected to improve the quality of services to entrepreneurs, increase access to finance and markets for MSMEs, and reduce the fragmentation of entrepreneurship support programs. The supervision of FONAGA by an independent financial authority would also improve its governance and could increase the take-up of guarantees. As a result, the share of MSMEs having access to bank loan or credit is expected to rise from 16 to 25 percent. Furthermore, the development of SEZs is expected to improve investment climate and increase economic activity in the country, leading to job creation and boost export revenue. Most of the fiscal impacts are expected to occur via increased direct taxes. Finally, the operationalization of the Commercial Court of Appeal and Special Court of Appeal for land-related cases is expected to improve the business environment, leading to additional customs and direct tax revenue.

6. The proposed measures are expected to significantly strengthen social and climate resilience in the medium term. First, the establishment of the RSU's legal framework should ensure its sustainability, clarify its institutional anchor, mandate, and scope, and define clear parameters for its operationalization and use to provide subsidized health care for the poor and most vulnerable. As such, the number of households in the RSU benefitting from subsidized basic health services. Second, the operationalization of the One Health platform is expected to improve the effectiveness of the operational framework for surveilling, preventing, and controlling priority diseases through a multidisciplinary and multisectoral approach. This is expected to reduce the incidence of cholera from 4.4 to at least 0.4 per 100,000. Third, the adoption of a climate-sensitive urban planning code is expected to regulate spatial planning and land use management while increasing resilience to urban risk in Benin. By establishing new urban regulations that consider hazard risks, policy measures related to the new urban planning code are expected to reduce the share of urban settlements affected by disasters and climate-related shocks as the Number of district capitals adopting an urban and city masterplan complying with the new decrees increase from 0 to 5. Fourth, policy measures to prevent coastal erosion will increase the share of the vulnerable coastline protected by infrastructure from 38 to 55 kilometers. Together, the proposed measures are likely to lay the foundation for more inclusive and sustained growth. Fifth, the adoption of a disaster risk reduction Act will provide clear institutional arrangements and mandates for working in a systemic way, coordinating actions of public and private stakeholders across all government levels (vertically) and sectors (horizontally) and defining comprehensive approach for DRM with efforts on preventing the creation of new risks. While ensuring adequate preparedness, response and recovery capacities, the new Act will contribute to reducing disaster risks, as well as enhancing the country's disaster resilience and financing capacity.

D. Concept Description

7. The DPO series aims to boost inclusive growth and resilience and improve Beninese' living standards in the long term. The areas supported by the program are high priorities in Benin's strategic development plans and the PAG 2021–26, the latter of which emphasizes the need to: (i) strengthen democracy and the rule of law and good governance (PAG Pillar 1); (ii) continue the structural transformation of the economy (PAG Pillar 2) by consolidating public finance and improving the business climate; and (iii) continue improving people's social wellbeing (PAG Pillar 3) by increasing access to basic social services, enhancing the health system and effective coverage, and strengthening environmental protection and resistance to climate change. The proposed program is also aligned with the GoB's civilian centered approach strategy



to mitigate security risks in the North. Identified based on strong analytical underpinnings (Annex 5), the DPO series' two pillars are:

- **Pillar 1. *Enhancing fiscal resilience and private sector-led growth*** by: (i) revising the PPP law to clarify the scope of application of PPPs, the general principles for competitive and transparent selection of bidders, increase oversight by technical structures, rationalize deadlines, and including environmental guidelines. This reform will bring the PPP framework up to date with international best practice while integrating the WAEMU PPP directive adopted in September 2022; (ii) improving access to financing for MSMEs through the restructuring of FONAGA to extend its functions to MSMEs, make it a one-stop shop for access to finance for MSMEs, and increase the credibility of guarantees granted by enabling supervision by an independent financial authority; (iii) reducing red tape by simplifying administrative formalities and procedures in special economic zones. (iv) supporting the implementation of clear and transparent collection procedures for outstanding customs debt and support the streamlining of tax incentives granted for the development of SEZs. Reforms supported under Pillar 1 will help create better economic opportunities and employment, especially for youth.
- **Pillar 2. *Strengthening social and climate resilience*** by: (i) supporting the adoption of the RSU's regulatory framework and extending it to all people residing in areas vulnerable to climatic shocks (particularly floods); (ii) operationalizing the 'One Health' platform to strengthen prevention, prediction, detection, and response to global health threats such as the COVID-19 pandemic and cholera; (iii) supporting the revision of the urban planning code to establish the legal framework to organize the use of space and land and consider climate resilience when developing urban areas; (iv) supporting the adoption of the implementing decree for implementing the master plan for coastal development, which is essential to ensure the containment of coastal erosion, and (v) supporting an integrated natural disaster risk management. By building social and climate resilience, reforms supported under Pillar 2 will help strengthen the social contract.

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

Poverty and Social Impacts

8. The PAs under the first pillar, seeking to enhance fiscal resilience and private sector-led growth, are not expected to have a direct impact on household welfare. Promoting best practices in PPP management (PA #1) is expected to have a positive but indirect impact on poverty by expanding access to infrastructure, enhancing institutional capacity, allocating public resources more efficiently, and attracting private savings in long-term investments (Deep et al. 2019). Promoting entrepreneurship and MSMEs development (PA #2) is expected to have an indirect positive effect on poverty and a potential direct impact on the quality of employment and gender equality. SMEs are essential for economic growth, fostering entrepreneurship, but MSMEs in Benin face barriers to access finance, limiting their contribution to job creation and economic transformation. The literature on improving access to credit for MSMEs shows that some programs focused on providing financing to MSMEs could positively impact these firms, increasing employment and having an indirect positive impact on welfare, but results vary. SEZs are a catalytic policy tool that Benin can effectively leverage to promote sustainable growth in the agro-industrial sector and increase value added. Development of SEZs, as well as improved investment climate through the operationalized Specialized Land Court, are expected to have an indirect positive impact on poverty and positive impact investment, exports, and jobs, although results vary widely across settings (PA #3). Rationalizing tax expenditures (PA #4) and setting up rules to ensure the transparency of outstanding customs recoveries (PA #5) are not expected to affect poverty directly, but they could contribute to increased tax compliance due to reduced transaction costs.



9. **Reforms under Pillar 2 designed to strengthen social and climate resilience are expected to have a positive, although indirect, impact on poverty, mainly by reducing the vulnerability of lower-income households and enhancing their resilience.** PA #1 aims to ensure a sustainable, adaptive, and climate-sensitive social protection system for more efficient, rapid, and focused assistance during climate-related or economic shocks. While PA #6 is not expected to have a direct impact on poverty, it will have indirect welfare benefits by reducing vulnerability. In addition, PA #7 contributes to poverty reduction by mitigating the economic burden associated with cholera and other diseases, such as lost productivity, health system costs, and out-of-pocket costs. The Result Indicator associated with PA #7 seeks to reduce the incidence of cholera in Benin. The new urban planning code (Loi sur l'urbanisme) and the disaster risk reduction bill act, promoted by PA #8 and #10, should help reduce the negative economic impact of natural disasters on the poor in the long run. Urban planning instruments that incorporate disaster and climate risk considerations are expected to make urban settlement more resilient to climate shocks. The framework supported by PA #9 has the potential to diminish the impact of coastal erosion in rapidly urbanizing areas that are attracting poor people from other regions, resulting in a positive, albeit indirect, impact on welfare.

Environmental, Forests, and Other Natural Resource Aspects

10. **Several reforms and policy actions supported by the proposed operation are expected to have a positive impact on the country's environment, forests, and other natural resources in the medium term.** All measures supported by the operation are policy-oriented and do not directly finance environmentally impactful investments. Nevertheless, several PAs will likely have a positive impact on Benin's environment. For example, PAs designed to improve urban planning and development and mitigate the impact of climate change on coastal erosion will ultimately improve the capacity to formulate and implement environmental policies and manage climate and disaster risks, as well as increase resilience to climate risk in urban settlements and reduce coastal erosion. Similarly, the operationalization of the 'One Health' platform and the adoption of new climate and gender-sensitive guidelines for the environmental and social impact evaluation of policies, projects, and investments are expected to have a positive impact on the environment through strengthened multi-sectoral (agriculture, livestock and fisheries, MCVDD, and health) coordination and prevention of diseases and upgraded climate and gender-sensitive ESIA guidelines. The RSU's legal framework and the signing of a memorandum of understanding to expand the RSU to include flood risk areas are expected to improve environmental, climate, and disaster risk management.



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APPROVAL

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