Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 02-Aug-2023 | Report No: PIDA36608

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Benin	P180286	Benin Boosting Inclusive Growth and Resilience DPF1 series with Cat DDO (P180286)	
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
WESTERN AND CENTRAL AFRICA	31-Oct-2023	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Republic of Benin	Ministry of Economy and Finance		

Proposed Development Objective(s)

The Project Development Objective is to support the government's efforts to: (i) enhance private sector-led growth, (ii) boost domestic revenue collection, and (iii) strengthen social and climate resilience.

Financing (in US$, Millions)

SUMMARY

Total Financing	230.00

DETAILS

Total World Bank Group Financing	230.00
World Bank Lending	230.00

Decision

The review did authorize the team to appraise and negotiate

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) an International Development Association (IDA) credit of EUR XXX million (US$150 million equivalent) in Shorter Maturity Loan (SML) terms, combining US$97.4 million equivalent in financing from a Scale-Up Window (SUW)-SML,[1] with US$52.6 million equivalent in financing 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 to be fully or partially disbursed in the event of a natural disaster or a public health emergency. The Program Development Objective (PDO) is to support the government's efforts to: (i) enhance private sector-led growth, (ii) boost domestic revenue collection, and (iii) strengthen social and climate resilience.

2. **Overlapping crises emphasize the urgent need to address structural bottlenecks to boost resilience and sustain inclusive growth**. Economic growth was relatively resilient at 3.8 percent in 2020 (down from 7.5 percent in 2019) and rebounded strongly to 7.2 percent in 2021 before decelerating to 6.3 percent in 2022 due to the spillovers from Russia's invasion of Ukraine, which 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 declining household purchasing power and respond to the COVID-19 pandemic and rising security threats in the North. Public debt peaked in 2022 at 54.2 percent of GDP in 2022, up from 41.2 percent in 2021. Tightening of regional policy stance and global financing conditions limits Benin's ability to borrow on international and regional markets. This creates liquidity pressures, at least in the short term, as yields have increased sharply over the past months, and some countries in the sub-region have not able to fully cover their auctions. Moreover, the gradual deterioration of security in the northern region related to worsening of the crisis affecting the Central Sahel and to some extent security concerns in Nigeria, pose risks to existing vulnerabilities such as 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 Performance Learning Review (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)

The Project Development Objective is to support the government's efforts to: (i) enhance private sector-led growth,

[1] In accordance with Benin's current 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. The country has successfully implemented reforms to improve debt transparency and management and fiscal sustainability under the agreed FY23 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.

(ii) boost domestic revenue collection, and (iii) strengthen social and climate resilience. Each of these objectives constitutes a pillar of the program.

Key Results

4. **The proposed measures are expected to significantly enhance private sector-led growth.** The adoption of the new PPP law and implementation of accompanying measures will facilitate private participation in public projects and help attract private investors to implement PPP projects based on a credible, and transparent selection of bidders as well as a prepared pipeline. Reforms related to MSMEs ecosystem are expected to generate economy-wide impacts and improving access to finance. A significant increase in support to MSMEs and access to finance is expected due to implementation of these reforms. As such the share the MSMEs having access to finance through the one-stop shop for MSMEs is expected to increase from a baseline of 0 to in 2022 to 20 percent in 2026. The operationalization of the Commercial Court of Appeals and Specialized Land Court is expected to improve commercial justice. The proposed reforms aim to improve the investment climate by reducing the average time for legal proceedings for business related claims from 160 in 2022 to 100 in 2026. By reducing the time needed for the resolution of commercial disputes, the proposed reforms are set to increase debt recovery, improve the perception of the private sector, enhance Benin's competitiveness in attracting foreign and domestic private investment, and ultimately increase the tax base.

5. **The program will help safeguard domestic revenue by reducing tax expenditure and improving results-based performance.** Efforts to improve the risk management system for customs operations and the results-based management system for customs aim to enhance the transparency and efficiency of the customs administration and improve the performance of customs operations. The proposed reforms are expected to increase tax and customs revenue from 4 percent of GDP in 2022 to 5 percent of GDP in 2026. The removal of unlimited tax advantages granted in SEZs and monitoring the performance of the tax administration on a quarterly basis are expected to improve the integrity of revenue collection. Tax revenues are expected to increase from 8.2 percent of GDP in 2022 to 9.2 percent of GDP in 2026, thanks to reforms supported under the program.

6. **The proposed measures are expected to significantly strengthen social and climate resilience in the medium term.** First, a significant improvement in social resilience is expected due to the implementation of the planned reforms, which will improve access to health services for the most vulnerable; ensure the sustainability of the RSU by clarifying its institutional anchor, mandate, and scope; define clear parameters for the operationalization and interoperability of the RSU; and help Benin transition to an adaptative social protection system. As such, the number of poor and extreme poor benefiting from subsidized health services is expected to increase significantly from 0.6 in 2022 to 15 percent in 2026, resulting in the eventual improvement in social resilience. Significant improvements in maternal, sexual and reproductive health are therefore to be expected, particularly among those who are currently most vulnerable. Second, 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 share of cities adopting an urban masterplan complying with the new law increases from 0 to 25. Third, Reforms to prevent coastal erosion will enhance the effective protection of the coastline. This will be achieved by creating new public structures dedicated to coastal zone management, improving synergy between stakeholders, and enhancing (the stringency of) regulations for the protection and development of the coastal zone. As such, reforms are expected to increase the length of coastlines protected by more than 25 percent, from 30 to 38 kilometers, by 2026. Finally, the adoption of a decree on disaster risk reduction measures and procedures will provide clear guidelines for the declaration of a state of emergency due to a natural catastrophe or health emergencies, while ensuring adequate preparedness, response, and recovery capacities. The share of municipal contingency plans developed or updated in line with the disaster risk reduction framework is expected to increase from 0 in 2022 to 25 percent in 2026.

D. Project Description

7. **The DPO series aims to boost inclusive growth and resilience and improve Beninese' living standards in the long term**. The proposed operation is organized around three reform pillars: (i) enhancing private sector-led growth; (ii) boosting domestic revenue collection; and (iii) strengthening social and climate resilience. The 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' three pillars aim to boost Benin's inclusive growth and resilience are:

- **Pillar 1** – Enhancing private sector-led growth. Reforms aim to strengthen private sector participation through a new public-private partnership (PPP) framework, create an ecosystem for the development of micro-, small, and medium-sized enterprises (MSMEs) with the implementation of the 2020 MSMEs Promotion Act, and improve the investment climate by streamlining dispute resolution and protection of property rights.

- **Pillar 2 –** Boosting domestic revenue collection. Proposed reforms intend to boost domestic revenue collection by streamlining tax incentives granted for the development of Special Economic Zones (SEZs) and strengthening the risk management system for customs revenue collection. These reforms will create fiscal space needed for public investment, ensure debt sustainability, invest in the people, and sustainably provide much-needed public goods and services.

- **Pillar 3** – Strengthening social and climate resilience. Reforms aim to lay the foundation for increased social and climate resilience, notably by providing subsidized health services to the poor and extreme poor as identified in the Unique Social Registry (*Registre Social Unique*, RSU), laying the foundations for adaptive social protection, and strengthened DRM with the identification of all people residing in areas vulnerable to climatic shocks (particularly floods), reducing the vulnerability of urban settlements against climatic risks, and protecting the coastline against coastal erosion.

E. Implementation

Institutional and Implementation Arrangements

8. **Monitoring and evaluation arrangements are led by the Ministry of Economy and Finance**. The MEF is the main government counterpart for monitoring program implementation. Its Monitoring Unit for Economic and Financial Programs (Cellule de Suivi des Programmes Economiques et Financiers) conducts a systematic review of the performance indicators and targets set out in sector program budgets, with inputs from sector ministries. The donor community and 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, individual sector reviews, a joint donor-government review mission, and the preparation of a new aide memoire later this year. The World Bank is fully involved in this process.

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

Poverty and Social Impacts

9. **The PAs under pillars 1 and 2, 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. MSMEs 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. An improved investment climate through the operationalized Specialized Land Court is expected to have an indirect positive impact on poverty and positive impact on investment, exports, and jobs, although results will likely vary widely across settings (PA #3). Rationalizing tax expenditures (PA #4) and setting up rules to ensure the transparency of outstanding customs recoveries and data-driven ex-post controls (PA #5) are not expected to affect poverty directly, but they could contribute to increased tax compliance and revenue due to reduced transaction costs and corruption opportunities.

10. **Reforms under Pillar 3 designed to strengthen social and climate resilience are expected to have a positive, although indirect, impact on poverty, mainly by reducing the vulnerability of low-income households and enhancing their resilience**. Increasing health coverage (PA #6) could lead to a reduction in out of pocket (OOP) health expenditure, inducing a decrease in poverty (since out-of-pocket health expenditure induces poverty) and improved health outcomes. While PA #7 is not expected to have a direct impact on poverty, it will have indirect welfare benefits by reducing vulnerability to climate shocks. The new urban planning code (Loi sur l'urbanisme), promoted by PA #8, 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 reduce the exposure of human settlements and assets to natural hazards, thereby reducing the potential damages and losses following a disaster. 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. Lastly, by increasing resilience to disasters in Benin, promoted by PA#10, the GoB will strengthen its ability to manage the adverse impacts of disasters. This is expected to have a positive impact on the GoB's effort to eliminate extreme poverty and boost shared prosperity by ultimately reducing the disaster risks for the poor.

Environmental, Forests, and Other Natural Resource Aspects

11. **Several reforms supported by the proposed operation are expected to have long-term positive environmental effects.** Reforms are not expected to have any significant negative effect on the environment, forests, and other natural resources. By supporting the adoption of a new urban planning law and mitigating the impact of climate change on coastal erosion, establishing a DRM framework, and strengthening adaptive social protection, the program ultimately improves the capacity to formulate and implement environmental policies, manage climate and disaster risks, increase resilience to climate risk in urban settlements, and reduce coastal erosion. All PAs supported by the operation are policy-oriented and do not directly finance environmentally impactful investments. The PAs designed to boost domestic revenue collection are environmentally neutral. Policy measures under Pillar 1 can be a source of adverse environmental and social risks. For example, PAs #1–3 could contribute to an expansion of the private sector, increase the demand for electricity, and expand the electricity grids, which could be a source of environmental and social risks. Fortunately, the environmental safeguards mechanism in place will ensure that all development policies and investments follow the country's framework for conducting an Environmental and Social Impact Assessment (ESIA).

12. **Benin has solid and comprehensive national environmental legislation to promote measures supported by this operation that increase sustainability and resilience.** At the institutional level, the MCVTD remains the standard-bearer of environmental management policies and strategies and ensures that planned or ongoing programs and projects are carried out in accordance with current legislative and regulatory provisions. The Beninese Agency for the Environment

(*Agence Beninoise de l'Environnement*, ABE) ensures environment and social considerations are integrated into development, projects, policies, and strategies. ABE oversees the approval of the ESIA, which is a legal requirement set up by Law N° 98-30 and a necessary condition to obtain the approval to implement as well as monitor and evaluate development projects. The Ministry of the Living Environment and Sustainable Development is responsible for issuing Environmental Compliance Certificates for various projects, with the support of ABE. To carry out environmental assessments, ABE engages, involves, and shares the results with all relevant stakeholders, in particular the environmental agencies created in sectoral ministries, national and departmental technical directorates, non-governmental organizations, and municipalities. Decentralized local authorities, and in particular the communes, are involved in the process of implementing and validating the ESIA, as guaranteed by Article 3 of the Framework Act on the environment. Moreover, inter-communal eco-development councils assess and mitigate potential environmental and social impacts to ensure the efficient management of shared natural resources.

G. Risks and Mitigation

13. **The overall risk level associated with this operation is moderate**. After considering mitigation factors, all risks are judged to be moderate or low, except institutional capacity for implementation and sustainability risks, which are assessed as substantial. Sectoral and technical design risks are low, as the reforms supported by the DPO series reflect government priorities and are closely aligned with sectoral strategies. Moreover, environmental and social risks are low due to the positive impacts of reforms, especially under Pillar 3, and the existing institutional framework, which is reinforced by ongoing World Bank projects and technical assistance. Political risks are also low, as parliamentary elections held in January 2023 went smoothly and allowed the main opposition party to return to the National Assembly after four years of absence, reflecting Benin's status as a stable democracy. Macroeconomic risks are assessed as moderate. Benin's economy demonstrated resilience in 2020–22, tapping into hard-won fiscal space created by fiscal consolidation efforts between 2016 and 2019, which has allowed Benin to pursue a countercyclical expansionary fiscal policy in response to overlapping crises. In the medium term, real growth is expected to remain above the regional average of around 6 percent—equivalent to 3.1 percent per capita—supporting revenue-based fiscal consolidation and continued access to external financing.

14. **Risks related to institutional capacity for implementation and sustainability are assessed as substantial.** Despite attempts during the past years, efforts to strengthen social and climate resilience remain a relatively new reform agenda for the GoB. Improving urban planning and development, mitigating the impact of climate change on coastal erosion, expanding the RSU to flood-risk areas, and establishing a DRR framework would require strong cross-sectoral engagement and coordination capacity. This inter-institutional and multi sectoral approach is being internalized by all key stakeholders, with the Ministry of Finance leading this effort. The ANPS will focus on social protection reforms, the National Unit for Coastal Protection and Management will focus on reforms aimed at mitigating the impact of climate change on coastal erosion, the General Directorate for Urban Development within the MCVTD will lead the engagement on urban planning and development, and the ANPC on disaster risk reduction reforms Potential sustainability risks related to the country's institutional capacity and coordination will be mitigated by technical assistance grants, ongoing IPFs (WACA, BRIC, and the Benin Social Safety Nets Program), and the engagement of other donors (notably the French Development Agency, United Nations Populations Fund, United Nations Children's Fund, and the European Union).

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APPROVAL

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