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Benin: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

December 19, 2007

The following item is a Letter of Intent of the government of Benin, which describes the policies that Benin intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Benin, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

LETTER OF INTENT

Republic of Benin
Ministry of Economy and Finance

Cotonou, December 19, 2007

The Minister

To

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, DC 20431

Dear Mr. Strauss-Kahn:

1. In 2007, implementation of Benin's reform program supported by the arrangement under the Poverty Reduction and Growth Facility (PRGF) was mixed. Discussions on the third program review were held with Fund staff in September 2007; these found that all quantitative performance criteria and benchmarks for the period under review had been met. In contrast, implementation of the structural reform agenda was uneven. In particular, the end-June performance criterion on the establishment of a privately controlled cotton ginning company to take over the ginning factories of the state-owned SONAPRA was not observed, due to irregularities in the bidding process and lack of interest from private investors. Also, the study on the effectiveness of customs (a structural benchmark) was not completed by the program deadline of end-September 2007.

2. The government remains committed to the thrust of its structural reform agenda, including a much needed overhaul of the cotton sector. In consultation with all stakeholders and with technical assistance from the World Bank, we plan to develop a broader cotton sector reform strategy in 2008, and to ensure its early implementation in consultation with all stakeholders in the cotton sector and with technical assistance from the World Bank. Beyond disengaging from cotton ginning activities, we intend to address existing economic and institutional constraints in a comprehensive effort to substantially enhance the competitiveness of our country's cotton production and marketing operations. Also, with technical and financial support from the US Millennium Challenge Corporation, steps have been taken to secure finalization of the study on the effectiveness of customs by end-December 2007. In the light of the corrective measures spelled out above, the government is requesting a waiver for nonobservance of the structural performance criterion on the establishment of a privately controlled cotton-ginning company, and completion of the third program review and disbursement of the related PRGF resources.

3. The economic recovery started in 2006 should continue this year, with real GDP growth reaching 4.2 percent, led by the agricultural sector, in particular cotton production, and also based on sustained activity in the trade and transport sectors, with the latter benefiting from improvements in trade flows with Nigeria and from ongoing efforts to enhance the competitiveness of the port of Cotonou. To accelerate growth and enhance the effectiveness of the poverty reduction strategy, the government intends to maintain a prudent macroeconomic policy stance, and to speed up implementation of its structural reform program. The government wishes to continue to benefit from IMF technical and financial assistance under the PRGF-supported program approved on August 5, 2005 and would like to request an extension of the PRGF arrangement until August 4, 2009, to allow for the full disbursement of the resources committed to Benin under the arrangement.
4. The Government will consult with the Fund on the adoption of these measures, and in advance of any revision to the policies contained in the Memorandum of Economic and Financial Policies, in accordance with the Fund's policies on such consultation.
5. The Government consents to the publication of both the staff report and memorandum on economic and financial policies pertaining to the discussions under the third program review.

Truly yours,

/s/

Soulé Mana Lawani

BENIN

Memorandum of Economic and Financial Policies for 2007/08

I. INTRODUCTION

1. **The government is determined to give a fresh impetus to economic growth.** In recent years, Benin's economic performance has fallen short of expectations, on account of low levels of cotton production and the recent acute energy crisis. The effect of these exogenous shocks has been exacerbated by delays in the implementation of structural reforms. However, with the support of the new presidential majority at the National Assembly, the government now intends to achieve a more sustained implementation of economic reforms, which are a prerequisite for sustained recovery and growth acceleration. The government's efforts are supported by the IMF under the PRGF arrangement approved in August 2005.

2. **This MEFP assesses program implementation in 2007 and spells out the steps to be taken to fulfill program objectives in 2008.**

II. RECENT ECONOMIC DEVELOPMENTS AND PROGRAM PERFORMANCE

Recent economic developments and short-term outlook

3. **The recent downtrend in economic growth was reversed in 2006.** The economy recorded a growth rate of 3.8 percent in 2006, compared to 2.9 percent in 2005. However, the recovery was less vigorous than anticipated, and cotton production failed to attain the initially projected level due to delays in the distribution of inputs and persistent institutional constraints in the sector. The increase in production of foodstuffs in the sub-region, after the 2005 food crisis, helped to curb inflation, which was contained at 3.8 percent, thereby helping to stabilize the real effective exchange rate in spite of the nominal appreciation of the CFA France relative to the dollar. The external current account deficit has stabilized around 7 percent of GDP, as the high level of the trade deficit was offset by an improvement in the unrequited transfers balance.

4. **The economic revival should continue in 2007 with a real GDP growth of 4.2 percent,** compared with an initial projection of 4.5 percent. The downward revision of growth projection reflects the combined effects of the energy crisis, particularly at the beginning of the year, and cotton production levels in 2006 that were rising, but fell short of initial projections. These developments have slowed down the rate of activity in cotton ginning and cooking oil production. Economic growth is benefiting from a modest increase in food output, and some recovery in other branches of services, particularly in the port, transport, and telecommunications sectors, with the latter receiving a significant share of

bank credit. The easing of the energy crisis in the last quarter of the year, thanks to improved rainfall and hydroelectric power production in the sub-region, has also allowed for a slightly faster recovery of economic activity. Inflation—standing at 1.8 percent (year on year) at end-July—is now firmly under control and is expected to be kept within the limits of the WAEMU convergence criterion of 3 percent, because of prudent monetary policy and good harvest of foodstuffs. The external position should stabilize overall, with a modest recovery in cotton exports, while the current account deficit should turn out at 6.7 percent of GDP.

5. In response to social demand and in order to expedite the implementation of infrastructure projects in a number of priority areas, the government has adopted a supplementary budget for 2007. The supplementary budget (*collectif budgétaire*) has led to an increase in poverty-reducing expenditures, covered by substantial revenue in excess of program targets, permitting a primary budget surplus equivalent to 1 percent of GDP.

6. In 2007, government revenue is expected to reach the equivalent of 19 percent of GDP, compared to 17.2 percent of GDP in the initial program. At end-June 2007, Government revenue reached CFAF 235.5 billion (8.8 percent of GDP), exceeding the program target by CFAF 31.3 billion (1.2 percent of GDP); also end-September revenue was projected at CFAF 347.7 billion (13.1 percent of GDP), 7.3 percent above the initial program objective. The good performance of customs revenues reflects an uptick in trade in foodstuffs and vehicles, the improvement in internal governance following substantial shifts in personnel, and more efficient utilization of IT tools. The mobilization of customs revenue also reflects the more rigorous adoption of measures to combat customs evasion at the country's land borders; intensify efforts to improve the monitoring of import valuations; simplify procedures and formalities for clearance of merchandise through customs; and keep more effective track of exemptions.

7. The increase in domestic taxes is attributable to efforts to improve tax administration. The good performance of VAT collection reflects strengthened tax supervision measures and the implementation of a system of refunds for exporters. The elimination of the AIB (*acompte d'impôts sur les bénéfices*) or profit tax withholding at customs border areas in favor of the 100 largest enterprises has lessened abuses in the management of tax credits and enhanced the yield of the tax on industrial and commercial profits (BIC). At the same time, with the continued restructuring of the portfolio of the Large Taxpayer Unit (DGE) and the Medium-Sized Enterprise Tax Centers (CIMEs), the floor turnover for taxpayers included in the portfolio of these entities has been raised, and capacity to raise revenue has thus been strengthened. Above and beyond the positive fallout from the efforts to streamline the performance of the revenue-collecting agencies (*régies financières*), the gain in domestic resources reflects the fact that CFAF 30 billion in additional nontax receipts was collected following the increase from CFAF 5 billion to 30 billion in the cost of the operating license for mobile telephone companies.

8. **Drawing from strong revenue performance, the supplementary budget posts some increases in certain spending categories above initial program objectives, in the health and education, agriculture and infrastructure sectors.** Total expenditure is expected reach 22.5 percent of GDP (21.7 percent under the initial program) in 2007, with current expenditures increasing to 14.1 percent of GDP, compared with 13.5 percent of GDP under the initial program. Salary payments are projected at CFAF 148.3 billion (5.6 percent of GDP), reflecting the government's prudent wage policy. The domestically financed investment budget is projected at CFAF 110.2 billion (4.1 percent of GDP), close to the initial program target, in spite of a low rate of execution (0.6 percent of GDP) in the first half of the year. It includes inter alia funding allocated to a number of investment projects that had previously been suspended due to insufficient resources, including the construction of several hundred classrooms. This budget also allows for the launching of a number of major operations such as the construction of housing, roads, and several other economic and social infrastructure projects. Following an audit, identified domestic payments arrears amounting to CFAF 33 billion have been cleared; and the government is spending the equivalent of CFAF 15 billion in repayment of its debt to civil servants.

9. **The government is continuing its efforts to strengthen public saving in 2007.** The relatively low level of expenditure execution in the first half of the year, especially in the capital budget, points to severe constraints in absorption capacity. While these constraints are being gradually overcome, the government has invested unutilized funds in high-yield term deposits with the banking system in order to ensure that they are put to most effective use in the context of the budgets for 2008 and subsequent years. Thus, the narrowly defined primary balance (commitment basis) is expected to turn into a surplus equivalent to 1 percent of GDP, compared with a balanced position under the initial program, and the overall budget deficit (commitment basis excluding grants) would be brought down to 3.7 percent of GDP (compared to 4.5 percent of GDP under the initial program). The financing gap should be limited to CFAF 46.4 billion (i.e., 1.7 percent of GDP), to be financed as follows: (i) World Bank; CFAF 19.2 billion; (ii) EU: CFAF 5.3 billion; (iii) African Development Bank: CFAF 12 billion; and (iv) bilateral partners: CFAF 9.9 billion. The 2007 budget is fully financed.

10. **Developments in monetary aggregates during the twelve months ending June 30, 2007 were marked by an increase in money supply and an upturn in credit to the economy and in net foreign assets of the banking system.** The net claims of the banking system on the government declined, as good revenue performance and slow expenditure execution resulted in a sizable increase in government deposits with the banking system. With these developments continuing into the second half of the year, money supply and credit to the economy are expected to increase by about 8 percent and 22 percent in 2007, respectively, both above the increase in the nominal GDP growth rate.

Program implementation

11. **All quantitative performance criteria and benchmarks for end-June 2007 were observed.** However, the sale (scheduled for end-November 2007) of the ginning units of SONAPRA to a private ginning company was not completed, and the study assessing Benin's customs system, initially scheduled to be completed at end-September 2007, has yet to be finalized because of delays in enlisting needed technical expertise. The study is now expected to be completed by end-December 2007.

III. ECONOMIC AND FINANCIAL POLICIES IN 2008

A. Macroeconomic Framework

12. **In spite of a challenging energy situation and the vagaries of the climate, the government is determined to expedite its efforts to accelerate growth.** In this respect, the authorities put macroeconomic stability and the strengthening of social and economic infrastructures at the forefront of their economic policy, and the government is committed to speeding up implementation of its structural reform agenda. The economic program focuses on achieving real GDP growth of 5.4 percent in 2008, with inflation kept within the limits of the relevant WAEMU convergence criterion, facilitated by a prudent monetary policy and continuing progress on fiscal consolidation.

13. **The medium-term outlook for the economy faces risks.** The government is mindful of the major challenges ahead, including the intermittent power cuts which could undermine activity in the secondary sector, or even the tertiary sector. Persistent institutional distortions that impede the optimal functioning of the cotton sector; rising world oil prices; and low absorption capacity impose further constraints on economic recovery efforts. To mitigate their adverse effects on the economy, we have taken action in the sectors concerned. In the energy sector, the government has granted tax incentives to businesses for the acquisition of autonomous electricity generation units, and is planning to help SBEE, the electric power utility, acquire additional capacity to generate 80 MGW of electric power. In the cotton sector, the government has cancelled bids issued in August to secure state disengagement from cotton ginning activities because of irregularities in the bidding process and lack of interest from private investors. Nevertheless, the government remains committed to completing this key reform in the context of a broader cotton sector strategy to be completed in 2008.

B. Budget Policy

14. **In 2008, budget policy will further protect expenditure aimed at reducing poverty and supporting growth, while strengthening medium-term fiscal**

sustainability. For this purpose, the government intends to maintain the primary budget surplus at its 2007 level (1 percent of GDP), and to contain the overall budget deficit (commitment basis, excluding grants) to the equivalent of 4 percent of GDP. Total revenue is expected to reach 18.5 percent of GDP, while total expenditures would be contained at the equivalent of 22.5 percent of GDP.

15. **At CFAF 532.7 billion (18.5 percent of GDP), government revenue would increase by 5.5 percent.** After correcting for the effect on 2007 revenue resulting from the initial down payment of license fees by mobile telephone companies, the improvement in revenue is expected to derive from further resource mobilization efforts by the General Directorate of Taxes and Government Property (DGID) and the General Directorate of Customs (DGDI). In particular, these comprise: (i) broadening of the tax base by stepping up the registration of medium-scale enterprises; (ii) ensuring the effective implementation of the new single taxpayer identification number system; (iii) enhancing the computer capacity of the tax centers for medium-scale enterprises (CIMES); (iv) strengthening efforts to combat customs evasion through more rigorous post-clearance monitoring of merchandise covered by exemptions; (v) upgrading the effectiveness of customs IT tools through the extension of ASYCUDA++; and (vi) establishing new customs posts and delocalizing certain posts to ensure greater efficiency.

16. **Expenditures are projected to rise by 7.8 percent to CFAF 649.8 billion in 2008.** The increase is consistent with government efforts to strengthen social and economic infrastructure. In this broad framework, the wage bill is expected to reach CFAF 159.4 billion (5.5 percent of GDP), reflecting the authorities' prudent policy—notwithstanding limited personnel recruitment in the key sectors of education and health, agriculture, and revenue-collecting agencies (*régies financières*).

17. **Efforts to improve expenditure management will be continued.** In particular, the government is endeavoring to gradually overcome bottlenecks in the area of capital expenditure management by strengthening management capacity and operational resources of the National Commission for the Regulation of Government Procurement (CNRMP), the National Directorate of Government Procurement (DNMP), and the government procurement units (CPMP) working in conjunction with the contracting authorities. The government also plans to establish a Large Project Preparation and Monitoring Committee which will, inter alia, handle the selection of key infrastructure projects and monitor their implementation, including by preparing the necessary feasibility studies and identifying sources of financing in keeping with public debt sustainability requirements. As a result of all these improvements, domestically funded capital expenditures is to reach CFAF 114.1 billion, or about 4 percent of GDP. Nonetheless, in the event of lower-than-anticipated revenue mobilization, the government intends to adjust the amount of expenditure in line with the established objective for the primary budget balance, while safeguarding budget allocations

for poverty-reducing expenditure. The government will continue efforts to clear government debt to civil servants in the amount of CFAF 15 billion (0.5 percent of GDP).

18. **To finance the overall budget deficit (excluding grants, cash basis) estimated at 4.5 percent of GDP**, the government will rely, inter alia, on external donor support, including CFAF 130.1 billion (4.5 percent of GDP) in the form of project grants and loans. Budgetary assistance expected from the EU, the World Bank, and other bilateral and multilateral partners, including the African Development Bank, in an amount equivalent to CFAF 42.6 billion (1.5 percent of GDP) ensures that the 2008 budget is fully financed.¹

C. Monetary Policy

19. **Monetary policy will continue to be conducted at the regional level by the BCEAO.** It will support the external position of the zone by maintaining international reserves at sufficient levels and keeping inflation at a rate compatible with the CFA franc peg to the Euro. Broad money is expected to increase by 8.4 percent in 2008, i.e., a rate of growth equal to that of nominal GDP growth. While net bank credit to the government will continue to decline, credit to the economy should grow by 13.4 percent approximately.

D. Balance of Payments and External Debt

20. **The overall balance on the external accounts is expected to deteriorate slightly and to attain 0.7 percent of GDP in 2008.** These reflects, inter alia, an upturn in imports, including imports of petroleum products in a context of quickening economic growth and high prices for petroleum products, in addition to a more moderate recovery of exports. The external current account deficit, exclusive of grants, is nonetheless expected to narrow slightly, moving to 6.1 percent of GDP in 2008 as against 6.7 percent of GDP in 2007, supported by a relatively higher net current transfers.

21. **The external position should remain viable in the medium-term, in the wake of the rise in exports of cotton, miscellaneous agricultural and fishery products, as well as more rapid growth in services, including tourism.** International reserves should represent about 12 months of imports through the year 2010. Taking into account debt relief under the HIPC and MDRI Initiatives and the recent cancellation of Chinese and Russian debts, and assuming average new external liabilities in the amount of 2 percent of GDP per annum over the coming years, the stock of external debt—estimated at 12 percent of GDP at end-2007—is expected to stay below 15 percent of GDP in the medium term. The government

¹ The government will ensure that public bonds contracted on the WAEMU financial market meet the financing needs of projects that have undergone prior feasibility studies, so as to ensure that they make an optimal contribution to strengthening the economy's growth potential.

will continue to pursue a cautious borrowing policy, and will refrain from directly contracting or guaranteeing loans on nonconcessional terms.

IV. STRUCTURAL POLICIES

22. **The authorities are endeavoring to further strengthen public financial management.** With this aim in view, upon completion of the audit of the SIGFIP, ASTER, and WMONEY computer systems at end-December, steps will be taken to ensure an early implementation of the audit's recommendations, seeking a more accurate monitoring of expenditures and payment procedures. The government also intends to complete preparation of a strategy for reforming the Benin National Pension Fund (*Fonds National de Retraite du Benin—FNRB*) before end-December 2007 and end-March 2008, respectively, and implementing promptly the relevant recommendations.

23. **Following the failed attempt to disengage from cotton ginning activities, the government intends to broaden its cotton sector reform strategy.** A thorough review of the sector has been initiated, including reassessment of prevailing economic and institutional distortions, and a more comprehensive reform strategy will be completed in 2008. Beyond state disengagement from cotton ginning activities, the updated strategy will seek to, inter alia, renew and strengthen the sector's institutional framework that lapsed in early 2006. Key provisions under the framework include mechanisms for setting up producer prices, and awarding contracts for fertilizers and other inputs importation and distribution. In preparing the strategy, the government intends to involve all stakeholders, with technical assistance from World Bank staff and representatives of other development partners.

24. **Government disengagement from SBEE and from Benin Télécoms SA is expected to be effected at the dates agreed to at the time of the second review under the PRGF program.** Consequently, calls for expression of interest in the privatization of the two firms will be issued by end-January 2009.

25. **Reforms of the port sector.** With support from MCA-Benin, the government will continue to work to strengthen the competitiveness of the Port of Cotonou. In particular, the government is committed to involving the private sector in the management of port facilities and improving the economic and fiscal role played by DGDDI, the customs directorate. In this context, the government has launched calls for expressions of interest aimed at the recruitment—by end-June 2008—of a port expert to participate in the day-to-day management of the port, with a view to modernizing its working methods. Furthermore, the government is carefully monitoring the preparation of the ongoing study assessing the efficiency of the country's customs system. This study, initially scheduled for end-September, is now expected to be completed by end-December 2007. With the

implementation of the study's recommendations beginning in 2008, in particular the effective implementation of the Virtual One-Stop Shop and the Consolidated Electronic Billing System (*Bordereau de Facturation Unique (BFU)*), the port's competitiveness will be enhanced, ensuring that foreign trade can flow freely while strengthening the collection of taxes and other trade duties.

V. MONITORING OF PROGRAM IMPLEMENTATION

26. **To monitor progress in program implementation, (i) quantitative performance criteria and indicative targets are being set for end-December 2007, and end-March 2008, respectively; and (ii) structural targets are being set for end-December 2007, end-March, end-June, and end-December 2008** (Tables 1 and 2). Quantitative performance criteria for end-June 2008 are to be set at the time of the 4th review (Table 1, footnote 5). The government will also report to the IMF the statistical data and information indicated in the attached TMU, on a monthly basis, as well as any information which the government deems necessary or that IMF staff may request for purposes of monitoring program implementation. During the program period, the government will not introduce restrictions on payments and transfers on current international transactions, or tighten any such restrictions, without first consulting the Fund; introduce or modify multiple currency practices; conclude bilateral payments agreements not compatible with Article VIII of the IMF's Articles of Agreement; or introduce or intensify restrictions on imports for balance of payments purposes.
27. **The next program review will be conducted by end-June 2008.**

Table 1. Benin: Quantitative Performance Criteria and Indicative Targets for the Period March 2007–June 2008
(In billions of CFA francs)

	End-March 2007 Indicative targets			End-June 2007 Performance Criteria			End-September 2007 Indicative targets		End-December 2007 Performance Criteria		End-March 2008 Indicative targets	End-June 2008 Performance Criteria 5/
	Program	Est.	Status	Program	Est.	Status	CR No. 07/213	Rev. proj.	CR No. 07/213	Rev. proj.	Projection	Projection
A. Quantitative Performance Criteria and Indicative Targets 1/												
Net domestic financing of the government 2/ 3/	-8.4	-50.3	met	-1.6	-34.2	met	5.0	-41.4	-4.1	-38.8	-32.1	-35.4
Primary fiscal balance (excluding grants)	-7.8	60.9	met	12.9	69.4	met	10.7	36.6	-0.5	26.0	41.5	49.2
Accumulation of domestic payments arrears 4/	0.0	0.0	met	0.0	0.0	met	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Item: Budgetary assistance	0.0	0.0	met	4.5	0.0		20.3	34.0	44.8	0.0	1.1	1.6
B. Continuous quantitative performance criteria												
Accumulation of external payments arrears	0.0	0.0	met	0.0	0.0	met	0.0	0.0	0.0	0.0	0.0	0.0
External debt contracted or guaranteed by government with maturities of 0-1 year	0.0	0.0	met	0.0	0.0	met	0.0	0.0	0.0	0.0	0.0	0.0
Nonconcesional external contracted or guaranteed with maturities of one year or more	0.0	0.0	met	0.0	0.0	met	0.0	0.0	0.0	0.0	0.0	0.0
C. Indicative Targets (Cumulative from December 31, 2005)												
Total revenue	97.3	118.9	met	204.2	235.5	met	323.1	347.7	459.7	504.9	132.1	261.3
Wage bill	36.3	30.6	met	66.0	66.0	met	110.3	112.7	145.1	148.3	36.0	76.0

1/ The targets and performance criteria are cumulative as from end-December of previous year.

2/ The ceiling on domestic financing will be adjusted pro tanto if the amount of disbursed budgetary assistance falls short of the program forecast up to a limit of CFA francs 10 and 18 billions at end-September and end-December 2006, respectively.

3/ If external budgetary assistance exceeds the amount projected in excess of more than CFAF 3 billion, the ceiling will be adjusted downward by the excess disbursement beyond CFAF 3 billion, unless it is used to absorb domestic arrears.

4/ This performance criterion is monitored on a continuous basis.

5/ To be set at the fourth PRGF review.

Table 2. Benin: Prior Actions, Structural Performance Criteria, and Benchmarks for 2007–08

Measures	Date	Status
Structural performance criteria		
Establishment of a privately controlled ginning company to purchase and operate the ginning plants of SONAPRA.	End-June 2007	Call for bids was unsuccessful; authorities to develop a new cotton sector strategy in 2008
Structural benchmarks		
Completion of a study (and related action plan) updating the customs reform agenda.	End-September 2007	In progress; to be completed by end-December
Audit of public finance information management systems (SIGFIP, ASTER and WMONEY).	End-December 2007	In progress
Implementation of a single taxpayer identification number.	End-December 2007	In progress
Completion of a strategy for reform of the civil service pension fund (FNRB).	End-December 2007	In progress
Extension of ASYCUDA ++ to the computer systems of five regional customs units/offices.	End-March 2008	In progress
Completion of a strategy to improve public finance management.	End-March 2008	In progress
Involve external expertise in "Port Autonome de Cotonou" management.	End-June 2008	Recruitment in progress
Completion of the new cotton sector reform strategy.	End-December 2008	

ATTACHMENT II—BENIN: TECHNICAL MEMORANDUM OF UNDERSTANDING

December 19, 2007

1. This technical memorandum of understanding defines the quantitative and structural performance criteria and benchmarks for the program supported by the Poverty Reduction and Growth Facility (PRGF). It also sets out the frequency and deadlines for data reporting to the staff of the International Monetary Fund (IMF) for program-monitoring purposes.

I. DEFINITIONS

2. Unless otherwise indicated, the government is defined as the central government of the Republic of Benin and does not include local authorities, the central bank, or any other public entity with autonomous legal personality that is not included in the table of government financial operations (TOFE).

3. The definitions of “debt” and “concessional borrowing” for the purposes of this memorandum of understanding are as follows:

(a). As set out in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing (Executive Board Decision No. 6230-(79/140), amended by Executive Board Decision No. 12274-(00/85) (8/24/00), debt is understood to mean a current, that is, not contingent, liability created under a contractual agreement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services at some future points in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to the obligor by the lender on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers’ credits, that is, contracts where the supplier permits the obligor to defer payment until some time after the date on which the goods are delivered or services are provided; and (iii) leases, that is, arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time, that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of this guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the arrangement, excluding those payments that cover the operation, repair, or maintenance of the property. Under this definition of debt set out above, arrears, penalties, and judicially awarded damages arising from failure to make

payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

(b). **A loan is considered concessional** if, on the date the contract is signed, the ratio of the present value of the loan, based on the reference interest rates, to the nominal value of the loan is less than 65 percent (i.e., a grant element exceeding 35 percent). The reference interest rates used in this assessment are the commercial interest reference rates (CIRRs) established by the Organization for Economic Cooperation and Development (OECD). For debts with a maturity exceeding 15 years, the ten-year reference interest rate published by the OECD is used to calculate the grant element. For shorter maturities, the six-month market reference rate is used.

II. QUANTITATIVE PERFORMANCE CRITERIA

A. Ceiling on Net Domestic Financing of the Government

Definition

4. Net domestic financing of the government is defined as the sum of (i) net bank credit to the government, as defined below, and (ii) net nonbank financing of the government, including the proceeds from the sale of government assets net of the cost of structural reforms to which these proceeds are earmarked, including government treasury bills issued in CFAF on the regional financial market of the WAEMU.

5. Net Bank credit to the government is defined as the balance between the liabilities and claims of the government vis-à-vis the central bank and commercial banks. The scope of net credit to the government is that used by the Central Bank of West African States (BCEAO) and is consistent with the established Fund practice in this area. It implies a broader definition of government than that specified in paragraph 2. Claims of the government include the CFA franc cash balance, postal checking accounts, subordinated debt (*obligations cautionnées*), and all deposits with the BCEAO and commercial banks of public entities, with the exception of industrial or commercial public entities (EPIC) and public enterprises, which are excluded from the calculation. Government debt to the banking system includes all debt to these same financial institutions.

6. The net bank credit to the government and the net amount of government treasury bills and bonds issued in CFAF in the regional financial market of the WAEMU are calculated by the BCEAO, and nonbank financing is calculated by the Beninese Treasury, whose figures are those deemed valid in the context of the program.

7. The ceiling on the net domestic financing of the government will be adjusted if disbursement of external budgetary assistance (excluding IMF financing and HIPC assistance) net of debt service obligations (excluding IMF repayment obligations) and

payments of arrears, exceed or fall short of program forecasts. In the event of disbursement in larger than programmed amounts, the ceiling will be adjusted downward pro tanto by the excess disbursement, unless they are used to absorb domestic arrears. In contrast, if at the end of each quarter disbursements are less than the programmed amounts, the ceiling will be raised pro tanto by the amount of the shortfalls up to the limit (on a noncumulative basis) of CFAF 4.5 billion at end-June 2007, CFAF 10 billion at end-September 2007, and CFAF 18 billion at end-December 2007. The amount of external budgetary assistance provided is calculated from end-March 2007 onward. Budgetary assistance is defined as grants, loans, and debt relief (excluding project loans and grants, IMF resources, and debt relief under the enhanced Initiative for Heavily Indebted Poor Countries (HIPC Initiative) and the Multilateral Debt Relief Initiative (MDRI)).

Performance criteria and indicators

8. The ceiling on net domestic financing of the government is established as follows: CFAF 5.0 billion at end-September 2007, CFAF -38.8 billion at end December 2007, CFAF -32.1 billion at end-March 2008, and CFAF -35.4 billion at end-June 2008. The ceiling is an indicative target as at end-September 2007 and end-March 2008, and a performance criterion as at end-December 2007 and end-June 2008.

Reporting requirement

9. Detailed data on domestic financing to the government, including a detailed list of the bank account balances of other public entities, will be transmitted on a monthly basis within the four weeks following the end of the month. The definitive data will be provided within an additional four weeks after the provisional data have been reported.

B. Narrow Primary Fiscal Balance

Definition

10. The narrow primary fiscal balance is defined as the difference between total budgetary revenues (tax and nontax) and the budgetary expenses, less interests on the debt and capital expenditure financed by foreign grants and net loans.

Performance criterion

11. The ceiling on the narrow primary fiscal balance is established as follows: a surplus not lower than CFAF 10.7 billion at end-September, a surplus not lower than CFAF 26.0 billion at end-December 2007, a surplus not lower than CFAF 41.5 billion at end March-2008, a surplus not lower than CFAF 49.2 billion at end-June 2008. The ceiling is an indicative target as at end-September 2007 and end-March 2008, and a performance criterion as at end-December 2007 and end-June 2008.

Reporting requirement

12. Provisional data on the narrow primary fiscal balance, including the data generated by the computerized budget management system (SIGFIP), will be transmitted on a monthly basis within the four weeks following the end of the month. The definitive data will be provided within an additional four weeks after the provisional data have been reported.

C. Accumulation of New Domestic Payments Arrears on Government Obligations

Definition

13. Domestic payments arrears on government obligations are defined as outstanding debt owed by the government to residents due following the expiration of a 90-day grace period, unless specified otherwise, but not paid, and any financial obligation of the government verified as such by the government (including any government debt). The Caisse Autonome d'Amortissement (CAA-the government debt management agency) and the Treasury keep and update the inventory of domestic debt arrears on government obligations and maintain records of their payments.

Performance criterion

14. The government undertakes not to accumulate any new domestic payments arrears on government debt. For obligations other than government debt, the government undertakes not to accumulate arrears beyond six months. The non accumulation of domestic payments arrears will be monitored on a continuous basis throughout the program period.

Reporting requirement

15. Data on outstanding balance, accumulation, and repayment of domestic payments arrears on government obligations will be provided monthly within eight weeks following the end of each month.

D. Nonaccumulation of External Public Payments Arrears

Definition

16. External public payments arrears are defined as the sum of payments owed to non residents due and not paid on debt of the government and on external debt guaranteed by the government. The definition of "debt" provided in paragraph 3 applies here.

Performance criterion

17. Under the program, the government will not accumulate external payments arrears, with the exception of arrears arising from debt under renegotiation or being rescheduled. The performance criterion on the nonaccumulation of external public payments arrears will be monitored on a continuous basis throughout the program period.

E. Ceiling on Nonconcessional External Debt with a Maturity of One-Year or More Newly Contracted or Guaranteed by the Government

Definition

18. This performance criterion applies not only to debt as defined in point No. 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing (Executive Board Decision No. 6230-(79/140), amended by Executive Board Decision No. 12274-(00/85) (8/24/00), but also to commitments contracted or guaranteed (including lease-purchase agreements) for which no value has yet been received. The external debt excludes treasury bills and bonds issued in CFAF on the regional financial market of the West African Economic and Monetary Union.

19. The concept of “government” for the purposes of this performance criterion includes government as defined in paragraph 2, public institutions of an administrative nature (EPA), public institutions of a scientific and/or technical nature, public institutions of a professional nature, and local governments.

Performance criterion

20. Nonconcessional external borrowing and guaranteeing will be zero throughout the 2007 program.

Reporting requirement

21. Information on any borrowing (including terms of loans and creditors) contracted or guaranteed by the government shall be transmitted each month within four weeks following the end of the month.

F. Ceiling on Short-Term External Debt Newly Contracted or Guaranteed by the Government

Definition

22. The definitions in paragraphs 18 and 19 also apply to this performance criterion.

23. Short-term external debt is debt with a contractual term of less than one year. Import-related loans and debt-relief operations are excluded from this performance criterion.

Performance criterion

24. In the context of the program, the government will not contract or guarantee short-term nonconcessional external debt.

25. As of December 31, 2006, the government of Benin has no short-term external debt.

II. QUANTITATIVE INDICATORS

A. Floor on Government's Revenues

Definition

26. Government revenues are defined as those that appear in the government's financial operations table (TOFE).

Indicative targets

27. Indicative targets for total government revenues are set as follows: CFAF 323.1 billion at end-September, CFAF 504.9 billion at end-December 2007, CFAF 132.1 billion at end March-2008, CFAF 261.3 billion at end-June 2008. The target is an indicative as at end-September 2007 and end-March 2008, and a performance criterion as at end-December 2007 and end-June 2008 (cumulative since end-December 2006 for criteria set in 2007 and cumulative since end-December 2007 for criteria set in 2008).

Reporting requirement

28. The government shall report its revenues to IMF staff each month in the context of the TOFE and before the end of the following month.

B. Ceiling on the Wage Bill

Definition

29. The wage bill includes all public expenditure on wages, bonuses, and other benefit or allowances granted civil servants employed by the government, the military and other security forces, and includes expenditure with respect to special contracts and other permanent or temporary employment with the government. The wage bill, therefore, excludes the salaries related to projects financed by foreign donors as well as the transfers related to the salaries of the teachers at the level of local municipalities.

Indicative targets

30. The quantitative benchmarks are defined as cumulative amounts after end-December 2006 for criteria set in 2007 and after end-December 2007 for criteria set in 2008. The civil service wage bill quarterly ceilings are CFAF 110.3 billion at end-September 2007, CFAF 148.3 billion at end-December 2007, CFAF 36.0 billion at end March-2008, and CFAF 76.0 billion at end-June 2008 (Staff report, Table 4 and MEFP, Table 1).

Reporting requirement

31. The government shall report the wage bill to IMF staff each month in the context of the TOFE.

IV. STRUCTURAL BENCHMARKS

32. The government will complete the following actions:
- Completion of a study (and related action plan) updating the customs reform agenda;
 - Audit of public finance information management systems (SIGFIP, ASTER and WMONEY) ;
 - Implementation of a single taxpayer identification number ;
 - Completion of a strategy for reform of the civil service pension fund (FNRB) ;
 - Extension of ASYCUDA ++ to the computer systems of five regional customs units/offices ;
 - Completion of a strategy to improve public finance management.
 - Involvement of external expertise in "Port Autonome de Cotonou" management.
 - Completion of a new cotton sector reform strategy.

VII. OTHER DATA REQUIREMENTS FOR PROGRAM MONITORING

C. Public Finance

33. The government will provide to the Fund the following:
- detailed monthly revenue and expenditure estimates, including social expenditures, payments on arrears, and HIPC Initiative-related expenditure;
 - monthly data on domestic financing (bank and nonbank) of the budget (including government bonds held by the nonbank public), which will be transmitted on a monthly basis within four weeks of the end of each month;
 - data on the implementation of the development budget, with detailed information on the sources of financing, which will be transmitted on a quarterly basis within 4 weeks of the end of each quarter.

D. Monetary Sector

34. The government will provide to the Fund the following data on a monthly basis within eight weeks of the end of the month:
- the consolidated balance sheets of deposit money banks, and the individual bank balance sheet, as needed;
 - the monetary survey;

- lending and deposit rates;
- the standard bank supervision indicators for banks, as well as those for nonbank financial institutions and for individual institutions, as needed.

E. External Sector

35. The government will provide to the Fund the following data within 12 weeks of the end of each quarter:

- Export and import price and volume data;
- Other balance of payments data, including data on services, private transfers, official transfers, and capital account transactions.

F. Real Sector

36. The government will provide to the Fund:

- Monthly disaggregated consumer price indices will be transmitted on a monthly basis within two weeks of the end of each month;
- Any revisions to the national accounts data will be transmitted within eight weeks of the date of revision.

G. Structural Reforms and Other Data Requirements

28. The government will provide to the Fund:

- Documentation of all decisions, laws, decrees, orders, and circulars undertaken by the government pertaining to the economy of Benin will be submitted within ten days of publication;
- All studies and research papers related to the economy of Benin will be submitted within two weeks of publication.