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

May 30, 2008

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 Cotonou, May 30, 2008
MINISTRY OF ECONOMY AND FINANCE

THE MINISTER

To:

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

Dear Sir:

1. A Fund staff mission visited Cotonou, Benin, during March 3-17, 2008 to conduct discussions under the fourth review of the reform program supported by the arrangement under the Poverty Reduction and Growth Facility (PRGF). The mission also engaged in consultations under Article IV of the IMF's Articles of Agreement for 2008. Upon completion of the mission's discussions with the government, it was determined that all the quantitative performance criteria and benchmarks set for end-September and end-December 2007 had been observed. With respect to structural reforms, two of the four structural benchmarks under the program—namely, the audit of IT systems for public expenditure management and preparation of the reform strategy for national pension fund—were not met. However, the government has taken appropriate steps to ensure the successful completion of these measures before year end.

2. The mission noted that the rebound in growth observed since 2006 gathered momentum in 2007, with real GDP growth reaching 4.6 percent, as against 3.8 percent in 2006. This was driven by the service sector, in particular transport and communications, and commerce, reflecting a substantial upturn in activity at the Port of Cotonou. Growth has also been enhanced by relatively favorable performance in agriculture—including cotton production—although activity in the cotton sector has been weaker than anticipated. The government intends to build upon and consolidate the results achieved to date. Accordingly, it is committed to pursuing implementation of its structural reform program to improve economic competitiveness and put the economy on a path of strong and sustainable growth with the aim of addressing the challenges of poverty reduction more effectively.

3. On December 8, 2007, the Government introduced fiscal measures to address rising food and oil prices. The tax cuts and subsidies entail some revenue loss and include limited transfers to public utilities to contain anticipated energy cost increases. Beyond contributions from other donors, the government is requesting additional resources from the Fund (0.2 percent of GDP) to cover the resulting balance of payments financing needs.

4. The government wishes to continue benefiting from IMF technical and financial assistance under the PRGF-supported program, and is therefore requesting the conclusion of the fourth review and disbursement of related financial assistance from the Fund. It consents to the publication of both the staff report and the memorandum on economic and financial policies pertaining to the discussions under the fourth review of the program.

Very truly yours,

/s/
Soulé Mana Lawani

Memorandum on Economic and Financial Policies for 2007/08

I. Introduction

1. **The economic recovery that started in 2006 continued and was consolidated in 2007**. However, real GDP growth remained below initial projections and under the minimum required for achieving the Millennium Development Goals (MDGs). Based on the available data, economic growth in 2007 is estimated at 4.6 percent, compared with 3.8 percent in 2006. This resulted from picked up activity in the trade, transportation, and agriculture sectors. The energy crisis dampened the economic expansion, especially in the secondary sector.

2. **In 2007, domestic price increases decelerated further, contributing to the stabilization of the real effective exchange rate**. Despite strong pressure in the latter months of the year, moderate food price increases during most of the period—as a result of a good agricultural season, but also reflecting in part the impact (probably limited) of price control measures introduced in November—helped lower average inflation to 1.3 percent, compared with 3.8 percent in 2006. Thus, the inflation differential between Benin and its trading partners improved further, helping to stabilize the real effective exchange rate despite the nominal appreciation of the CFA franc against the dollar.

3. **The overall external position strengthened, driven by improvements in the financial accounts of the balance of payments**. The deterioration in the external current account was more pronounced than expected, with the deficit (excluding official grants) reaching 6.9 percent of GDP, from 6.4 in 2006. Imports increased sharply, especially those of petroleum products in a context of much higher world prices and increased use of generators by households and businesses faced with limited electricity supply from the National Electricity Company (SBEE). On the other hand, the financial account of the balance of payments improved as a result of higher official capital flows in the form of concessional loans, but also sustained by rising foreign assets for commercial banks; the latter reflecting, inter alia, higher off-budget donor support. Consequently, the overall balance of payments recorded a surplus of 3.2 percent of GDP, which helped maintain official reserves at a level equivalent to some 15 months of imports.

4. **In 2007, continued fiscal consolidation in a context of limited absorption capacity led to a further strengthening of the basic fiscal balance.** More efforts were made to enhance domestic revenue collection, while spending was broadly contained within program limits despite overruns in various transfer items. Total revenue increased to the equivalent to 20.6 percent of GDP, compared with 16.8 percent in 2006 and 19 percent of GDP under the program. At the same time, total basic outlays were limited to 17.6 percent of GDP (compared with a targeted 18 percent under the program), reflecting lower-than-programmed capital expenditure—as the authorities facing inadequate capacity in project

design, implementation, and monitoring, remained confronted with difficulties (institutional and administrative) in the management of the investment budget. Consequently, the surplus on the basic fiscal balance increased to the equivalent of 3 percent of GDP (0.4 percent in 2006), compared with a target of 1 percent under the program.

5. **Customs revenue performance exceeded program objectives.** Receipts totaled CFAF 250.1 billion or 9.4 percent of GDP, compared with 8.4 percent in 2006. The improvement was attributable to a strengthening of governance, intensification of anti-fraud activities at land borders, and improved valuation of imports. Customs administration also endeavored to simplify imports clearance procedures and formalities, and enhanced the monitoring of exemptions. The improved customs revenue performance was also underpinned by a substantial increase in the value of imports.

6. **Domestic direct and indirect tax revenue also rose considerably, reaching CFAF 197 billion or 7.4 percent of GDP, from 6.9 percent in 2006**. This was, however, 0.2-percentage point below target; but reflecting continued efforts to improve tax administration, with a focus on the Large Taxpayer Unit (DGE) and the Medium-Sized Enterprise Tax Centers (CIMEs). These units' activities are now squarely centered on monitoring the fiscal obligations of the largest businesses, representing over 80 percent of the tax base. On the other hand, as part of the effort to standardize management of the tax on industrial and commercial profits (BIC), big enterprises under DGE purview are no longer subject to the tax withholding system under which advance payments on profit taxes (AIB) were collected at customs. This is helping reduce the large tax credits accumulated in the last years, gradually easing related tax management and collection problems. The relatively high VAT yield resulted from intensified controls in monitoring the tax base and securing collection.

7. **In 2007, nontax revenue exceeded by far the program target and significantly contributed to the increase in government receipts**. The gains stemmed mostly from one-off license fees from mobile telephone companies, in an amount totaling CFAF 61 billion (2.3 percent of GDP).

8. **Government expenditure was broadly within program limits**, reaching CFAF 585.3 billion or 22 percent of GDP, compared with a projected 22.6 percent under the program. Current spending was marked by sizable overruns in various transfer items, reflecting government support to the microfinance and crisis-afflicted energy sectors. Other current outlays, including the wage bill, were contained within program limits. Domestically financed capital expenditure was one percentage point of GDP below target, corresponding to an implementation rate of 69 percent (57 percent in 2006).

9. **The overall fiscal deficit (commitment basis, excluding grants) was reduced to 1.4 percent of GDP (compared with the programmed 3.7 percent of GDP), settling at**

CFAF 69.4 billion. The bulk of budgetary support, in the form of program assistance, was granted by: (i) the World Bank: CFAF 15.3 billion; (ii) the European Union: CFAF 11.7 billion; (iii) the African Development Bank: CFAF 11 billion; and (iv) The Netherlands: CFAF 6.6 billion.

10. **Monetary developments were dominated by a sharp increase in money supply, resulting from a buildup of external reserves and a rapid expansion of credit to the economy.** Net credit to the government further declined, with a considerable increase in Treasury deposits reflecting the improvement of the budgetary situation and expansion of government's overall resources envelope. By and large, developments in the monetary sector were in line with those in both the real sector and balance of payments. The central bank maintained the required reserve ratio at 15 percent.

II. Program Implementation

11. **All quantitative performance criteria and benchmarks for end-December 2007 were observed.** In the structural area, only two of four benchmarks were observed. In particular, although the single taxpayer identification number system was introduced and the study on the effectiveness of customs was completed, the audit of public expenditure management information systems and the reform strategy for the civil service pension fund are still pending.

III. Economic and Financial Policies in 2008

A. Macroeconomic Framework

12. **The government is determined to consolidate the economic recovery under way and to put the economy on a path of strong and sustainable growth**. To that end, it will take steps to anchor recent gains in macroeconomic stabilization, strengthen economic and social infrastructure, and expedite the structural reform agenda. In the circumstances, the medium-term economic outlook remains positive, with real GDP growth projected at 5.3 percent in 2008, and inflation contained within the limits of the WAEMU convergence criterion. Domestically financed public capital outlays would amount to 3.5 percent of GDP in 2008, one percentage-point above the average for the past two years.

13. **The government remains committed to market-based price policies.** In light of current price increases for key commodities such as rice, wheat, cement, and petroleum products, the government introduced selected price control measures in the last quarter of 2007. In particular, it suspended or reduced customs duty rates for concerned products; and made subsidy transfers to the state-owned electricity (SBEE) and petroleum distribution (SONACOP) companies in a bid to keep in check increases in retail energy product prices. The government intends to lift these measures as soon as possible. To encourage domestic

production and supply of essential goods, in particular for food products, the government is committed to ensuring that food prices do reflect production costs over the medium to long term. Consequently, going forward, should current price pressures persist, the government intends to make use of consumption subsidies to targeted social groups instead. To that effect, it will establish social safety nets with technical assistance from development partners, as needed.

14. **Serious risks weigh on the economy in 2008**. In the short run, the risks relate mostly to the impact of an appreciating Euro-pegged CFA franc, rising prices of petroleum and other key consumer products, and heightened wage demands from trade unions. Over the medium term, delays in implementing structural reforms in the cotton, electricity, and telecommunications sectors would also affect macroeconomic developments. These risks are, however, offset, at least in part, by the positive effects of trade with the oil-based Nigerian economy.

B. Fiscal Policy

15. **In 2008, fiscal policy is aimed at preserving recent gains in macroeconomic stabilization, helping to improve absorption capacity, and supporting the economic recovery.** To that end, total government revenue and expenditure would reach 18.4 percent of GDP and 22.8 percent of GDP, respectively. The surplus on the basic fiscal balance would be equivalent to ½ percent of GDP, meeting the WAEMU target with some margin. It is anticipated that the overall fiscal deficit (commitment basis and excluding grants) would be contained at a level equivalent to 4.4 percent of GDP. Fiscal consolidation would thus be pursued, and spending on infrastructure and poverty reduction programs would further increase, as absorption capacity is enhanced.

16. **Government revenue is expected to total CFAF 530.1 billion or 18.4 percent of GDP, taking account of 1 percent of GDP in losses from fiscal measures to address rising food and oil prices.**[1] In addition to the impact of increased import volumes on customs revenue, the performance is attributable to several recently introduced measures to broaden the tax base, including: (i) establishment of a single taxpayer identification number system, (ii) strengthening of tax and customs control administration units, (iii) expansion of CIMEs, (iv) enhanced monitoring of VAT returns at the Large Taxpayer Unit, (v) more rigorous post-customs clearance monitoring of exemptions, and (vi) extension of ASYCUDA++ to several provincial customs posts.

[1] Elimination of customs tariffs and/or reduction of customs fees for imports of key food items and for petroleum products.

17. **Spending is projected at CFAF 656.8 billion in 2008, corresponding to an increase of 12.2 percent.** This would help meet the annual cost of the economic and social infrastructure rehabilitation program that started in 2007; it also takes account the wage increase granted to public sector teachers. Overall, the wage bill would increase to the equivalent of 5.7 percent of GDP to meet the urgent personnel needs of the key sectors of education and health, agriculture, and the revenue agencies. In the medium term, the government plans to maintain the wage bill at levels consistent with the ceiling under the program, and to contain wage outlays at 5.5 percent of GDP. Capital expenditure is projected to total CFAF 230.3 billion or about 8 percent of GDP. The government will continue settling the outstanding wage debt to civil servants, including through securitization as needed.

18. **The overall fiscal deficit (cash basis, excluding grants) is projected at 5.1 percent of GDP.** It is to be financed mainly with budgetary support from the European Union and other bilateral and multilateral partners, including the World Bank, the African Development Bank.

19. **The government continues ongoing efforts to preserve fiscal discipline and improve public expenditure management**. To enhance the quality of spending, the government remains committed to ensuring the strict observance of established expenditure execution procedures, and would resort to exceptional spending channels only sparingly. In particular, the use of Treasury payment orders (*ordres de paiement Trésor*) will continue to be limited to a strict minimum. The government is also taking steps to enhance its capacity to absorb mobilized resources. To this end, it is increasing the personnel and material means at the disposal of key spending ministries, with a special emphasis on units responsible for managing the investment budget. In this vein, the programming and forecasting directorates of the line ministries will be reinforced, and efforts are under way to improve the effectiveness of the National Procurement Regulatory Committee (CNRMP) and the National Public Procurement Directorate (DNMP), as well as the performance of procurement units (CPMPs) in the technical ministries.

C. Money and Credit

20. **Monetary policy conducted at the regional level by the BCEAO will continue to seek preservation of price stability, a strengthening of the zone's external position, and maintenance of international reserves at an adequate level.** Broad money is expected to grow by 8.3 percent in 2008, in line with the increase in nominal GDP, with net foreign assets and credit to the private sector increasing by 2.1 percent and 6.7 percent of beginning-of-period money supply, respectively. Continuing a recent trend, net bank credit to the government is projected to decline slightly, as public finance improves further, facilitating an expansion of credit to the private sector.

21. **In setting the required reserve ratio, the authorities will continue to take account of developments on the inflation and short-term credit fronts**. Given that credit growth and inflation are expected to be relatively moderate in 2008, a lowering of the required reserve ratio from the current high of 15 percent could be envisaged, especially in the absence of risks of capital flight, and assuming no significant deterioration in the quality of commercial bank portfolio.

22. **Despite a surge in activity during 2006–07, the banking sector remains vulnerable**. Deposits increased by nearly 30 percent in 2007 and bank credit rose by 26 percent. However, three of the country's twelve banks accounted for more than 60 percent of bank deposits in 2006-07; and four institutions bore 80 percent of non-performing loans (NPLs) in 2007. These increased by 8 percent in 2007, accounting for 9 percent of total bank loans. In the circumstances, the low level of bank capitalization has limited commercial banks' ability to observe certain prudential ratios. In December 2007, eight of Benin's twelve banks did not observe the minimum capital adequacy requirement, compared with six (out of twelve) in December 2006; but the decision to raise the required minimum capital is expected to correct this weakness in 2008. None of the twelve banks observed the portfolio structure ratio. Concerned about this situation, the government is carefully monitoring implementation of the decision to adjust the minimum capital requirement; it is also closely working with the National Assembly to ensure an early ratification of the regional agreement enhancing the supervisory powers of the WAEMU Banking Commission.

23. **Recent bank supervision missions by the Banking Commission have highlighted a number of remedial measures to address key weaknesses in the banking system.** Improvements are especially needed in the areas of corporate governance, information systems, risk management, downgrading of loans, and loss accounting.

D. Balance of Payments and External Debt

24. **In 2008, the external current account deficit, excluding grants, is expected to widen to 7.5 percent of GDP, from 6.9 percent in 2007**. For the most part, this would reflect the impact of higher oil and food prices, notwithstanding the relatively good performance of cotton exports, and a revival of net re-exports, the upshot of reforms under way at the port of Cotonou. Imports of intermediate and capital goods would also somewhat go up in the face of higher public investment demand and stronger private sector activity in several areas. As a result of private financial flows related to these developments, but also reflecting anticipated program and project grants and loans, the balance of payments is expected to show a slight surplus in 2008, which would permit Benin to contribute to programmed build-up in BCEAO reserves.

25. **The government remains committed to pursuing a prudent debt policy, which is key to ensuring preservation of external debt sustainability**. It intends to put the proceeds of loans contracted to good use, in support of its growth objectives and with a view to enhancing availability of basic social services in the country.

E. Structural Policies

Public expenditure management

26. **The government is making determined efforts to improve public expenditure management.** After being granted debt relief under both the HIPC Initiative and MDRI, Benin is making increasing gains in domestic revenue mobilization. The government is determined to ensure adequate use of the fiscal space thus created. To this end, it intends to expedite efforts to modernize public expenditure management systems, with a view to enhancing their effectiveness.

27. **Improving budget management remains a priority**. The actions envisaged in this area include, in particular, the preparation of an audit of the automated public expenditure management systems (SIGFIP, ASTER, and WMONEY). The audit was initially scheduled to be completed before end-December 2007 (a structural benchmark in the program), a deadline missed because of delays in mobilizing needed external financing. With support from the European Union now secured, the government has issued an invitation to bid for the recruitment of a consultant of international repute that is to carry out the audit by end-December 2008 (reset structural benchmark). Implementation of recommendations would make monitoring of expenditure execution more reliable. In the same context, the government is determined to expedite preparation of two delayed strategies to : (i) address the deteriorating financial situation of the civil service pension fund, an end-December 2007 structural benchmark; and (ii) improve public expenditure management—a structural benchmark for end March 2008. The two strategies are now to be finalized by end-December 2008 (reset structural benchmarks). Steps have been taken to ensure that Budget and Treasury officials assume more fully responsibility for monitoring implementation of these program benchmarks.

28. **The government has initiated actions to improve management of the investment budget.** It is determined to ensure that capital outlays do Benin's growth objectives and, to that end, is working to address capacity constraints that have prevented implementation of more ambitious public investment programs. This is key to the success of the government's economic and social infrastructure rehabilitation program. In this context, the human and material resources at the disposal of public investment management units, including in the area of procurement, are being increased. At the same time, the government is endeavoring to enhance its project design, implementation, and monitoring capacity; and has taken steps to further strengthen the monitoring of investment projects in the technical ministries. In this

context, bi-monthly project execution reports are to be submitted to the Council of Ministers and posted on the website of the Office of the President of the Republic.

Reforms of the cotton, energy, and telecommunications sectors

29. **The government is preparing a comprehensive strategy for reform of the cotton sector.** Despite government willingness to secure enhanced private sector involvement in cotton ginning activities, state disengagement from SONAPRA was not achieved in 2007, owing in part to limited private sector interest. Drawing the lessons, the government has initiated preparations for an in-depth strategy that should reassert the government's plan to disengage from industrial and commercial activities, and more generally make reform recommendations likely to help enhance the efficiency and competitiveness of the cotton sector.

30. **The new cotton sector reform strategy is expected to be completed by end-December 2008**. The government intends to develop its strategic pillars in the second quarter of 2008, and to conduct participatory consultations with key stakeholder groups in the third quarter of the year with a view to securing broad-based ownership of proposed efficiency-enhancing reforms. Following adoption of the reform package at end-December 2008, agreed reform measures would be implemented over a 2-3 year period.

31. **Reform of the energy sector will continue.** It is critical for nurturing competitiveness. The initial deadline for effecting state divestiture by January 2009 had not fully taken into account the actual operating conditions at the national electric power company (SBEE). Recent investigations have uncovered numerous administrative, financial, accounting, technical, and commercial irregularities in company management. As result, restructuring had become essential for ensuring successful state divestiture; and implementation of a two-year SBEE restructuring program has been under way since January 2008.

32. **The government plans to conduct an overall assessment of the SBEE restructuring program in December 2009 with a view to defining content and timing of state divestiture**. Special emphasis is to be placed on capacity building needs to provide the company with competent technical and managerial staff. The government is counting on support from the Bretton Woods institutions in carrying out agreed reforms for the sector.

33. **Power production and transport will be the subject of a national strategy to be developed in the coming months**. The production and distributing of electric power require heavy investments. The sector will be the subject of a national strategy that is to be developed taking account of the findings of ongoing work by a subregional committee tasked by the WAEMU heads of state with finding solutions to the region's severe energy crisis.

34. **Opening up the equity capital of the national telecommunications company (Bénin Télécoms SA) is a government priority**. The telecommunications sector has been reorganized, in particular with respect to the GSM mobile telephone system. A transitional regulatory authority has been set up and is effectively exercising its oversight prerogatives, especially in the area of international communications. As regards Bénin Télécoms SA, implementation of a restructuring program endorsed in December 2006 by the company's main creditors and approved by the government, is under way. It is to be completed in January 2009. A strategy note on state disengagement is being prepared, and is expected to be submitted to government approval in the second quarter of 2008. In view of extensive preparatory work following government adoption of the strategy, the call for bids from potential private sector investors could be issued in the second half of 2009.

Port sector reform

35. **With support from MCA-Benin, the government is continuing implementation of measures to enhance the competitiveness of the Autonomous Port of Cotonou.** Key strategic areas of port reform include measures to enhance private sector involvement in management, and to improve customs effectiveness in mobilizing revenue and facilitating trade. The government completed on March 20, 2008, a review of bids pertaining to the recruitment of a port expert that is to help modernize port operations. As anticipated under the program, the expert is to become operational by end-June 2008. Also, the government has completed a study on the efficiency of Benin's customs operations. The study stresses the need for a one-stop shop at the port, which the government intends to set up, complete with a consolidated electronic billing system (BFU), by end-September 2008. These actions would help increase the fluidity of foreign trade and improve customs revenue collection.

F. Growth and Poverty Reduction Strategy Paper (GPRSP)

36. **The government has started preparations for the 2007 annual progress report (APR) on the implementation of the 2007–09 PRSP**. The report's terms of reference have been drawn up, and the government is making every effort to take account of the relevant comments from development partners. It intends to have the APR finalized by end-June 2008.

IV. Monitoring of Program Implementation

37. **Program monitoring will be effected on the basis of quarterly quantitative and structural performance criteria and benchmarks** (Tables 1 and 2). The authorities will report the data necessary for program monitoring to the IMF, in accordance with relevant requirements under the Technical Memorandum of Understanding (TMU). Over the program period, the authorities will neither introduce restrictions on payments and transfers on current international transactions, nor tighten any such restrictions, without first consulting the Fund; introduce or modify multiple currency practices; conclude bilateral payments agreements not

compatible with the provisions of Article VIII of the IMF's Articles of Agreement; or introduce restrictions on imports for balance of payments purposes.

38. **The fifth and sixth reviews under the PRGF arrangement will take place by end-November 2008 and end-April 2009, respectively.**

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

	End-September 2007 Indicative targets		End-December 2007 Performance Criteria			End-March 2008 Indicative targets	End-June 2008 Performance Criteria	End-September 2008 Indicative targets	End-December 2008 Performance Criteria
	Program	Rev. proj.	Program	Est.	Status	Est.	Rev. proj.	Rev. proj.	Rev. proj.
A. Quantitative Performance Criteria and Indicative Targets 1/									
Net domestic financing of the government 2/ 3/	5.0	-72.5	-38.8	-126.0	met	21.5	14.9	14.4	-12.3
Primary fiscal balance (excluding grants)	10.7	90.9	26.0	81.1	met	36.6	36.5	28.7	14.7
Accumulation of domestic payments arrears 4/	0.0	0.0	0.0	0.0	met	0.0	0.0	0.0	0.0
Memorandum Item: Budgetary assistance	20.3	0.0	0.0	0.0		0.0	0.0	0.0	0.0
B. Continuous quantitative performance criteria									
Accumulation of external payments arrears	0.0	0.0	0.0	0.0	met	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	0.0	0.0	met	0.0	0.0	0.0	0.0
Nonconcesional external contracted or guaranteed with maturities of one year or more	0.0	0.0	0.0	0.0	met	0.0	0.0	0.0	0.0
C. Indicative Targets (Cumulative from December 31, 2005)									
Total revenue	323.1	371.7	504.9	548.0	met	142.7	261.0	389.7	530.1
Wage bill	110.3	99.8	148.3	143.1	met	36.6	77.4	114.8	164.6

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.

Table 2. Benin: Structural Benchmarks for 2007–08

Measures	Date	Status
Structural benchmarks		
Completion of a study (and related action plan) updating the customs reform agenda.	End-September 2007	Completed at end-December 2007
Audit of public finance information management systems (SIGFIP, ASTER and WMONEY).	End-December 2007	Delayed; reset to end-December 2008
Implementation of a single taxpayer identification number.	End-December 2007	Completed
Completion of a strategy for reform of the civil service pension fund (FNRB).	End-December 2007	Delayed; reset to end-December 2008
Extension of ASYCUDA ++ to the computer systems of five regional customs units/offices.	End-March 2008	Completed
Completion of a strategy to improve public finance management.	End-March 2008	Delayed; reset to end-December 2008
Recruitment of a port expert at the "Port Autonome de Cotonou."	End-June 2008	Recrutment in progress
Completion of the new cotton sector reform strategy.	End-December 2008	

BENIN: TECHNICAL MEMORANDUM OF UNDERSTANDING
May 2008

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 2008, CFAF 10 billion at end-September 2008, and CFAF 18 billion at end-December 2008. The amount of external budgetary assistance provided is calculated from end-March 2008 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 21.5 billion at end-March 2008, CFAF 13.8 billion at end-June 2008, CFAF 9.3 billion at end-September 2008, and CFAF -12.3 billion at end-December 2008. The ceiling is an indicative target at end-March 2008 and end-September 2008, and a performance criterion as at end-June 2008 and end-December 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 (i) CFAF 36.6 billion at end-March 2008, (ii) CFAF 33.5 billion at end-June 2008, (iii) CFAF 35 billion at end-September 2008, and CFAF 15.4 billion at end-December 2008. The ceiling is an indicative target at end-March 2008 and end-September 2008, and a performance criterion as at end-June 2008 and end-December 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.

III. 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 142.7 billion at end-March 2008, CFAF 266.8 billion at end-June 2008, CFAF 396.0 billion at end-September 2008, and CFAF 530.7 billion at end-December 2008 (cumulative since end-December 2007).

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 36.6 billion at end-March 2008, CFAF 76.0 billion at end-June 2008, CFAF 114.8 billion at end-September 2008, and CFAF 164.6 billion at end-December 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 (MEFP, Table 2):

- Audit of public finance information management systems (SIGFIP, ASTER and WMONEY);

- 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;
- Recruitment of port expert at the "Port Autonome de Cotonou;"

- 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

37. 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.