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

November 24, 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

Cotonou, November 24, 2008

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

Dear Mr. Strauss-Kahn:

1. The attached memorandum on economic and financial policies assesses the progress made during the first half of 2008 and the measures planned for the rest of the year and for 2009, in implementing the macroeconomic policies and structural reforms covered by the program supported by the International Monetary Fund (IMF) under the Poverty Reduction and Growth Facility (PRGF).
2. All of the quantitative performance criteria and benchmarks for end-June 2008 have been met, except the criterion regarding domestic financing of the government and the continuous criterion on nonconcessional borrowing. The government has taken steps to ensure fiscal control and the sequestration of appropriations for nonpriority spending in order to observe the criterion at end-December 2008. Despite the appropriation sequestration measures taken as of the second half of June, the slippage noted was caused by the settlement, early in the year, of the Treasury's outstanding payments, accumulated at end- 2007. Regarding the loan contracted with the BIDC, the grant element of which was slightly below the 35 percent threshold, the government initiated discussions with the BIDC and other partners to obtain more favorable conditions. In light of these remedial measures, the government requests waivers for the nonobservance of these criteria and disbursement of the amount earmarked for the fifth review of the arrangement under the PRGF. The government wishes to continue receiving financial and technical support from the IMF, including through a possible successor arrangement, after the current arrangement expires in June 2009.
3. The government feels certain that the measures and policies described in this memorandum are adequate to achieve the objectives of the program. It is determined to take any further measures that may prove necessary for this purpose. The government will consult with the IMF, either at its own initiative or whenever the Managing Director of the IMF requests such consultation, before adopting any additional measures or changing any of the measures discussed in this memorandum.
4. The government will provide the IMF with any information it may request for the purposes of monitoring the program and for achieving its objectives.

5. The government authorizes the IMF to publish this letter and the attached memorandum, as well as the documents related to the fifth review of the arrangement supported by the PRGF.

Yours sincerely,

/s/

Soulé Mana Lawani

**BENIN****Memorandum on Economic and Financial Policies for 2008–09****I. Introduction**

1. **The economic recovery is gaining ground.** Despite the persistence of the food and energy crisis and the delay in implementing the structural reforms, the growth rate of real GDP is expected to reach 5.1 percent in 2008, compared with 4.6 percent in 2007. The vitality of business in the port, the continued buoyancy of the agricultural and services sectors, and sustained demand from the Nigerian market have been the engines of growth. However, that growth still falls short of the government's objectives and of the minimum required for achievement of the Millennium Development Goals.
2. **The rise in food and oil prices has intensified the inflationary pressures and helped erode competitiveness in 2008.** At 1.3 percent in 2007, the average rate of inflation was one of the lowest in the West African Economic and Monetary Union (WAEMU) area; it has, however, accelerated to 12.0 percent, year on year, and 6.1 percent, on average, at end-September 2008, thus largely exceeding the 3 percent threshold prescribed in the WAEMU stability and growth pact. This upsurge in inflation was generated mainly by the prices of foodstuffs (14.3 percent year-on-year) and transport services (3.7 percent). The inflation gap between Benin and its trading partners worsened.
3. **The external current account has declined under the combined effects of the deterioration in the terms of trade and the weakness of exports.** This external current account weakening has been significant. The deficit is estimated at 10.4 percent of GDP for the first half of 2008, compared with 7.4 percent in 2007. This drop can be attributed to the marked increase in imports, especially of food and oil products. However, a rebound of foreign private investment and inflows of additional public capital have increased the financial account surplus and helped limit the contraction of the international reserves. At end-September 2008, the latter represented slightly below 8 months' coverage of imports of goods and services for the following year. The increase in access to IMF resources under the Poverty Reduction and Growth Facility (PRGF), representing 15 percent of the quota approved on June 16, 2008, contributed to this performance.
4. **Fiscal consolidation was pursued in 2008, even if the slippage observed in expenditure during the first half of the year somewhat limited its scope.** The combined effects of continued improvement in the performances of the tax and customs administrations and the rise in prices helped generate a gain in receipts, representing 0.8 percent of GDP, despite the losses resulting from the import duty reductions granted by the government in the first half of 2008 to contain the prices of consumer staples. However, in light of the subsidies granted by the government to the power distribution companies and the accelerated implementation of the public investment program, the expenditure targets for the first half of 2008 were exceeded by a sum equivalent to

2.2 percent of GDP. Rigorous expenditure control as of June 2008 led to the observance of the basic fiscal balance surplus target for end-June 2008; however, the settlement of the Treasury's accounts payable led to a severe deterioration of the overall cash-basis deficit and nonobservance of the criterion on net domestic financing.

5. **Customs performances exceeded the programmed targets.** At end-June 2008 customs revenue totaled CFAF131.8 billion and represented 4.4 percent of GDP during the second half of 2008, up 11.4 percent from 2007. Despite the reduction in duty on consumer staples during the first half of the year, this sound performance can be attributed to the strengthening of tax administration and the magnitude of customs escort products in fiscal revenue. The resilience of customs revenue also results from the mechanical effect of the substantial increase in the value of imports.

6. **Domestic tax receipts also increased at the rate of nominal GDP.** Collection by General Directorate of Taxes and Government Property (DGID) units equaled last year's, totaling CFAF115.8 billion, or 3.9 percent of GDP, in the second half of 2008, a 15.4 percent increase from the previous year. This level of receipts can be explained by the intensification of efforts to improve the tax administration. The streamlining of the portfolios of the Large Taxpayer Unit (DGE) and the Medium-sized Enterprise Tax Centers (CIMEs) is continuing, with the raising of the thresholds of competence of these units; the same is true of their modernization, with the recruitment of new professional staff. The DGE has now turned its focus on the effective monitoring of large enterprises. Accordingly, the management of the business profit tax (BIC) levied on large enterprises, which have now been freed of the system under which part-payments of the tax on industrial and commercial profits (AIB) were levied in customs, has been standardized, and the collection problems related to tax credit management have been gradually overcome. The adequacy of VAT collection results from these efforts, especially the strengthening of control measures for monitoring the tax base and collection activities.

7. **The large increase in public expenditure is a response to the demands imposed by the rise in commodity prices and the need for accelerated infrastructure development.** In the second half of 2008, total expenditure and net lending reached CFAF 294.5 billion, or 9.8 percent of GDP, compared with the projected 9.3 percent of GDP. Current expenditure was marked by major overruns in the use of transfer appropriations. This resulted primarily from government support to the energy sector, which was in a severe crisis, and to the education sector. The wage bill target was overrun because of the early payment of diplomats' wages, contingency payments of compensation to civil servants of certain categories, and more recruitment than planned of government employees. Self-financed capital expenditure was also higher than programmed because of the accelerated implementation of infrastructure projects.

8. **The overall budget deficit (on a cash basis, excluding grants) widened significantly, reaching, at end-June 2008, CFAF 99.9 billion, or 3.3 percent of GDP.** In the first half of the year, this deficit was partly financed by disbursements of budgetary assistance. This comprised CFAF 17.9 billion from the 2007 World Bank PRSC IV program, CFAF 2.9 billion from France, and CFAF 1.7 billion from Denmark. The remainder was covered by a drawdown from the government's deposits with the banking

system. In June 2008, the issuance of CFAF 40.1 billion in Treasury bills on the regional market facilitated reconstitution of the government's deposits. The government also issued commercial paper to settle the outstanding balance of the wage debt to its employees.

9. **The monetary survey was characterized by a sharp increase in the money supply, resulting essentially from the rapid expansion of credit to the private sector.** The money supply grew by 19.9 percent, during the first half of 2008, following an increase of 7.5 percent in credit to the private sector and a rise in drawdowns from government deposits. Meanwhile, the quality of bank loans deteriorated slightly, on average, and the financial condition of microfinance institutions weakened. The Central Bank of West African States (BCEAO) maintained the reserve ratio at 15 percent, which was the highest level in the WAEMU area. The BCEAO has also increased on August 14, 2008 its main intervention rate, the repo rate, by 0.5 percent to bring it from 4.25 percent to 4.75 percent. The discount rate has been raised to 6.75 percent, compared with the previous rate of 4.75 percent.

10. **All of the quantitative performance criteria and benchmarks for end-June 2008 were met, except for that on domestic financing.** The government deems this slippage temporary and has therefore taken all the necessary steps to ensure observance of this criterion at end-December 2008. The wage bill exceeded the quantitative benchmark by CFAF 1.5 billion. The structural benchmarks on auditing the IT management of public expenditure and the strategy for reforming the pension system will be observed by the new deadlines agreed upon in the context of the program at end-December 2008.

11. **The government changed its policy as of July 2008 to apply “market-based pricing” to consumer staples.** The measures taken at end-2007 to limit the impact of the food and energy crisis, especially the reduction of customs duty on essential foodstuffs, were discontinued, and the prices of most consumer staples were liberalized. In particular, fuel prices reflect those obtained on the international market, with only the cross-subsidy for kerosene remaining in the price structure. The prices of maize, 25 percent broken rice, and cement remain subject to approval to protect the most vulnerable segments of society in the absence of a social safety net system.

12. **The government has accelerated implementation of structural reforms.** In particular, it has formed a new company to take over SONAPRA's manufacturing operations. The government has sold 33.5 percent of the capital of SONAPRA to a strategic private operator. It is retaining 33.5 percent of the equity and is placing the remaining shares for distribution to the public on the regional financial market (17.8 percent), to cotton producers, and to local governments. The government is required to relinquish its nominee role on the remaining shares twelve months after the new company is formed. Should it fail to do so, the private company can exercise its preemptive right to the shares for distribution to the public (17.8 percent). Although the government holds a blocking minority to safeguard proper functioning of the cotton sector, comprehensive arrangements have been made to give operational independence to the strategic partner. The government is currently drafting the final version of the overall

cotton sector strategy, with the participation of all players in the sector and the full involvement of the development partners. It has also relinquished its holdings (41.6 percent), as well as those of the BOAD (10 percent) and SONACOP (2.8 percent), in Continental Bank-Benin. The government has also recruited a consortium of consultants to help it privatize Bénin Télécom SA and the SCO cement factory in the upcoming months.

### **III. Economic and Financial Policies for the Rest of 2008 and in 2009**

#### **A. Macroeconomic Framework**

13. **The government is determined to strengthen the macroeconomic framework and accelerate structural reforms to place the economy on a path of strong and sustainable growth.** Despite the shock generated by the food and energy crisis, it is expected that growth will continue accelerating and inflation will be reduced to below the 3 percent threshold prescribed in the WAEMU stability and growth pact, over the medium term. The economic outlook therefore remains positive, with the real GDP growth rate projected to be 5.1 percent in 2008 and 5.7 percent in 2009. Inflation is expected to decline from 8.8 percent in 2008 to 6.5 percent in 2009, before once again falling within the limits of the WAEMU convergence criterion in 2010. This performance is a result of the reduction of inflationary pressures related to the international food and energy prices, and of government policy hinged upon macroeconomic stability. The external current account deficit is projected to reach 10.4 percent in 2008 and 8.8 percent in 2009, as a result of an improvement in terms of trade.

14. **The government remains attached to the policy of “market-based pricing.”** At the same time, it will take steps to improve the supply of products on the local market. The government has also requested technical and financial support from the development partners to formulate and implement programs to promote expansion of the production and domestic supply of consumer goods, in particular foodstuffs, and social safety nets in favor of the poor.

#### **B. Fiscal Policy**

15. **The government is aware of the need to contain public expenditure for the rest of 2008, with a view to preserving macroeconomic stability.** It has taken measures to sequester appropriations for nonpriority expenditure and reduced the rate of operating expenditure commitments. These measures are expected to lead to a slightly higher basic primary balance than planned.

16. **In 2009, fiscal policy is aimed at safeguarding the past gains of macroeconomic stability while supporting the development of economic and social infrastructure.** Total public revenue and expenditure are respectively expected to reach 19.8 percent of GDP and 24.0 percent of GDP. It is anticipated that the basic fiscal balance will remain in surplus at CFAF 18.9 billion, or 0.6 percent of GDP, thus meeting the WAEMU objective. The overall fiscal balance deficit (on a payment order basis and excluding grants) should be contained at a level equivalent to CFAF 136.6 billion, or

4.1 percent of GDP. Accordingly, infrastructure and poverty reduction expenditure will continue increasing without jeopardizing fiscal consolidation. The deficit will be financed by the budgetary assistance expected from the European Union (EU), the World Bank, the African Development Bank, and France, the Netherlands, Denmark, and other bilateral partners. Domestically-financed public capital expenditure is expected to continue rising, from 3.8 percent of GDP in 2008 to 4.5 percent in 2009, or about 2 percentage points of GDP over the average for the past two years.

17. **Total revenue is expected to total CFAF 656.7 billion, or 19.8 percent of GDP.** It is anticipated that revenue will improve in line with the increase in the value of imports. It is also expected to benefit from the measures taken to broaden the domestic and foreign trade tax bases, namely: (i) gradually expanding use of the single tax identification number (IFU), (ii) strengthening the tax and customs control structures, (iii) continuing to modernize the CIMEs, (iv) building the DGE's capacity to monitor the VAT returns of the enterprises it supervises, and (v) introducing the use of the ASYCUDA++ computer tool by 12 more customs positions.

18. **For the revenue-collecting departments to be strengthened, their modernization must be pursued, especially through in-depth development of their respective IT systems.** To successfully introduce the IFU, the government will have an audit performed of the DGID's IT system and establish an IT blueprint in the first quarter of 2009. At the DGDDI, the installation of ASYCUDA++ will be expanded to include 12 more customs positions. In the two administrations, computerization will include the communications system.

19. **Total expenditure and net lending could reach CFAF 793.2 billion in 2009, corresponding to a 13.6 percent rise.** This upward surge, coming after the 19.5 percent increase expected in 2008, meets the demands to strengthen the economic and social infrastructure. It is anticipated that the wage bill will total CFAF 190.2 billion, or 5.7 percent of GDP, in response to the human resource needs of the key sectors of education, health, agriculture, and the revenue-collecting agencies, as well as to build capacity for programming, preparation, execution, and monitoring of the budget. Overall, capital expenditure is expected to continue increasing, to reach CFAF 291.5 billion, or about 8.8 percent of GDP.

### C. Money and Credit

20. **The monetary policy conducted by the BCEAO will remain consistent with the objectives of price stability and of keeping the WAEMU area's international reserves adequate.** Broad money is expected to increase by 12.0 percent in 2009, reflecting growth of 15.4 percent in the net domestic assets, compared with the money supply at the beginning of the period, which will in turn be driven by 15.3 percent growth in credit to the private sector. Foreign assets could dip slightly.

21. **The main instrument of intervention of the BCEAO remains its interest rate policy (the repo rate and the discount rate).** The regulations on the reserve requirements will continue to be used to strengthen the effectiveness of the interest rate



policy. The BCEAO will pursue its careful monitoring of developments in the monetary survey, in particular the expansion of credit to the economy, the international reserves, and inflation.

22. **The various bank inspection missions performed by the Banking Commission have highlighted the need for a number of remedial measures.** Improvements are expected, in particular, in the areas of corporate governance, information systems, risk management, loan declassification, and the tracking of latent loan losses. The authorities intend to strengthen banking supervision to improve compliance with the prudential ratios. They will also make efforts to strengthen enforcement of the regulatory framework in the microfinance sector.

#### **D. Balance of Payments and External Debt**

23. **The external current account deficit, excluding grants, is expected to narrow to 8.8 percent of GDP in 2009, compared with 10.4 percent of GDP in 2008.** This development results primarily from the drop in oil product and food prices. Imports of intermediate and capital goods are expected to rise because of increasing demand for public investment. A reduction in external financial flows could lead to a contraction in the financial account surplus and a deficit in the overall balance that would be financed by a drawing on the BCEAO reserves, deemed sufficient to cover 7.2 months' imports for the next year.

24. **The government reaffirms its policy of prudent indebtedness to safeguard debt sustainability.** It will continue seeking to finance its needs through grants or highly concessional loans. It will ensure the proper use of loans contracted, including borrowings on the WAEMU financial market, in the context of financing actions in support of growth and improving access by the people to core social services. Resources raised on the regional financial market are nonconcessional, and their excessive increase could amplify the risk of an unsustainable debt position. Accordingly, domestic indebtedness will be limited on the basis of the annual debt sustainability analysis.

#### **E. Structural Policies**

25. **Improving fiscal management remains a priority.** The audit of the IT systems used in public expenditure management (SIGFIP, ASTER, and WMONEY), ordered by the government and carried out with EU support, is ongoing, and its recommendations will serve to prepare a medium-term strategy for strengthening fiscal management. A key component of this strategy relates to more reliable expenditure monitoring. In the same context, the government has also made progress in preparing its strategy to improve the financial position of the National Retirement Fund of Benin. Appropriate arrangements have been made to complete the strategy by year-end.

26. **With the involvement of all players in the cotton sector and development partners, the government has started preparing an overall cotton sector reform strategy.** The government has decided to turn the focus of SONAPRA back to its agricultural promotion role. The role of the state will thus now be limited to providing

training for farmers, especially through outreach activities, research, and experimentation to maintain and develop the quality of seeds and to prepare an adequate regulatory framework. The government will ensure compliance with the regulations by all concerned. The government intends to put in place all the necessary incentives to encourage a greater national value added in cotton sector. The reform will be formulated with this in mind.

27. **The reform of the energy sector is continuing with World Bank support.** It involves revamping the national power company (SBEE) and improving the quality of the service provided, which is key to ensuring the overall competitiveness of the economy.

28. **The production and transport of electric power are the subject of a national strategy for developing the sector.** This strategy is being formulated in cooperation with the commission established at the WAEMU level to find lasting solutions to the energy crisis.

29. **Improving telephone services in Benin is a priority for the government.** The telecommunications network in Benin, especially the GSM mobile telephony, has become much denser. The government has hired an advisory firm to help it privatize Bénin Télécom SA. Preparations are under way to open up its capital, and the government will soon make the decision to launch a call for expressions of interest in this regard.

30. **The government is pursuing its program to develop the port infrastructure so as to increase the competitiveness of the Cotonou autonomous port.** In the context of the reforms of the Cotonou port, the government, with the help of MCA-Bénin, has recruited a port expert, who is participating in the day-to-day management of the port to help modernize its working methods, in particular the one-stop shop in the Cotonou port including the start-up of the single invoicing slip (BFU). To increase the fluidity of foreign trade and improve the collection of entry fees and other charges, the government has also launched the construction of a dry port in Parakou and improved the offloading areas, thus helping to reduce clogging at the Cotonou port.

#### **F. Poverty Reduction and Growth Strategy Paper (PRGSP)**

31. **The government has prepared the 2007 annual report on implementation of the PRGS (2007–09).** This annual report has been reviewed on September 29, 2008 with all development and technical partners. The government is committed to taking into account the comments provided during this review for a better implementation of such strategy.

#### **G. Monitoring of Program Implementation**

32. **Monitoring of the program will be based on the quarterly quantitative and structural performance criteria and benchmarks** (Tables 1 and 2). The authorities will provide the IMF with any information necessary for monitoring the program, in accordance with the attached Technical Memorandum of Understanding. During the program period, the authorities will not establish or strengthen any restrictions on payments or transfers for

international current transactions without consulting the IMF; nor will they introduce or modify any multiple currency practice, or enter into any bilateral payment arrangement that is inconsistent with Article VIII of the IMF Articles of Agreement, or introduce any restrictions on imports for reasons related to the balance of payments.

**33. The sixth review of the PRGF arrangement will be conducted by end-June 2009.**

**Table 1. Benin: Quantitative Performance Criteria and Indicative Targets for the Period December 2007–June 2009**  
(In billions of CFA francs)

	End-March 2008 indicative targets		End-June 2008 performance criteria			End-September 2008 indicative targets	End-December 2008 performance criteria	End-March 2009 indicative targets	End-June 2009 indicative targets
	Prog.	Est.	Prog.	Adj. Prog.	Est.	Prog.	Prog.	Prog.	Prog.
	<b>A. Quantitative Performance Criteria and Indicative Targets 1/</b>								
Net domestic financing of the government 2/ 3/	-32.1	21.5	14.9	15.6	44.0	14.4	-12.3	-3.0	-12.8
Basic primary balance (excluding grants)	41.5	36.6	36.5	35.8	38.0	28.7	14.7	42.8	41.6
Accumulation of domestic payments arrears 4/	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Memorandum Item: Budgetary assistance	1.1	4.7	23.2	22.5	22.5	23.2	56.2	2.5	11.0
<b>B. Continuous quantitative performance criteria</b>									
Accumulation of external payments arrears	0.0	0.0	0.0	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	0.0	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	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>C. Indicative Targets (Cumulative from December 31, 2005)</b>									
Total revenue	132.1	142.7	261.0	261.0	285.7	389.7	530.1	162.4	324.6
Wage bill	36.0	36.6	77.4	77.4	79.1	119.8	171.7	40.6	87.6

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 2007–09

Measures	Date	Status
<b>Structural benchmarks</b>		
Audit of public finance information management systems (SIGFIP, ASTER and WMONEY).	End-December 2007	Delayed; reset to end-December 2008
Completion of a strategy for reform of the civil service pension fund (FNRB).	End-December 2007	Delayed; reset to end-December 2008
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	Completed
Completion of the new cotton sector reform strategy.	End-December 2008	In progress
Extension of ASYCUDA ++ to twelve (12) additional posts (regional customs units/offices).	End-March 2009	
Adoption of a strategic information system at the DGID <sup>1</sup> , after an audit in order to operationalize the single taxpayer identification function	End-March 2009	

<sup>1</sup>Direction générale des impôts et des domaines

**BENIN—TECHNICAL MEMORANDUM OF UNDERSTANDING**

November 24, 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 understood to mean the central administration of the Republic of Benin and does not include local governments, the central bank, or any other public entity with autonomous legal personality not included in the government flow of funds table (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), as amended by Executive Board Decision No. [1]2274-(00/85) (24/08/2000)), debt is understood to mean a direct, i.e., 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 point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, i.e., advances of money to the obligor by the lender made 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, i.e., contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, i.e., arrangements under which property is provided which 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 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 agreement excluding those payments that cover the operation, repair or maintenance of the property.

Under the 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 on which the contract was 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 of more than 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 maturities longer than 15 years, the grant element will be calculated based on the 10-year average of CIRRs reported by the OECD. For shorter maturities, the rate to be used will be the six-month average of CIRRs.

## 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, defined below; and (ii) net nonbank financing of the government, including the proceeds of the sale of government assets, net of the cost of the structural reforms to which said proceeds are allocated, including Treasury bills issued in CFA francs on the WAEMU regional financial market.

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

6. Net bank credit to the government and the net amount of obligations and Treasury bills issued in CFA francs on the WAEMU regional financial market are calculated by the BCEAO, while nonbank financing is calculated by the Benin Treasury, the figures of which are deemed valid within the framework of the program.

7. The ceiling on net domestic financing of the government will be adjusted if disbursements of external budgetary assistance (excluding IMF financing and assistance under the Highly Indebted Poor Countries (HIPC) Initiative), net of debt service obligations

(excluding repayment obligations to the IMF) and arrears payments, exceed or fall short of program forecasts. If disbursements exceed the programmed amounts, the ceiling will be lowered by the amount of budgetary assistance received in excess of the programmed amount, except if the excess is allocated to the settlement of domestic arrears. Conversely, if at the end of a quarter disbursements fall short of the amount programmed for that quarter, the ceiling will be raised by the amount of the shortfall, up to a maximum (on a non-cumulative basis), of CFAF 10 billion at end-September 2008, and CFAF 18 billion at end-December 2008. For 2009, the ceiling will be CFAF 2.5 billion at end-March 2009 and CFAF 11 billion at end-June 2009. The amount of budgetary assistance provided is calculated as of end-December 2008. Budgetary assistance is defined as grants, loans, and debt relief operations (excluding project-related loans and grants, IMF resources, and debt relief under the HIPC and Multilateral Debt Relief Initiatives).

### **Performance benchmarks and criteria**

8. The ceiling on net domestic financing of the government in the second half of 2008 is set as follows: CFAF 44.0 billion for end-June, CFAF 14.4 billion at end-September, and CFAF 12.3 billion at end-December. For 2009, the ceiling is set as follows: CFAF -3.0 billion at end-March and CFAF -12.8 billion at end-June. The ceiling is a benchmark for end-September 2008, end-March 2009, and end-June 2009, and a performance criterion for end-December 2008.

### **Reporting deadline**

9. Detailed data on domestic financing of the government, including a detailed survey of the accounting positions of other public enterprises with the banking system, will be forwarded on a monthly basis, within four weeks of the end of the month. The definitive data will be provided four additional weeks after reporting of the provisional data.

## **B. Narrow Primary Fiscal Balance**

### **Definition**

10. The narrow primary fiscal balance is defined as being equal to the difference between total fiscal revenue (tax and nontax) and fiscal expenditure, minus the payments of interest on debt and capital expenditure financed by foreign grants and net lending.

### **Performance criterion**

11. The ceiling on the basic fiscal balance (excluding grants), for the second half of 2008, is a surplus amount that may not be lower than CFAF 28.7 billion at end-September 2008, and CFAF 14.7 billion at end-December 2008. For 2009, this ceiling is: (i) 42.8 billion at end-March and (ii) CFAF 41.6 billion at end-June. It is a benchmark for end-September 2008, end-March 2009, and end-June 2009, and a performance criterion for end-December 2008.



**Reporting deadline**

12. Provisional data on the narrow primary fiscal balance, including data produced by the automated fiscal management system (SIGFIP), will be forwarded on a monthly basis, within four weeks of the end of the month. The definitive data will be provided four additional weeks after reporting of the provisional data.

**C. Accumulation of New Arrears in Domestic Payments of Public Debt****Definition**

13. Arrears in domestic payments on public debt are defined as the stock of government debt to residents that is repayable at the end of a 90-day period, unless otherwise indicated, but not paid, and any government financial obligations, confirmed as such by the government (including all government debt). The National Amortization Fund (CAA, a public debt management agency) and the Treasury record and update the accumulation of arrears in domestic payments on public debt, as well as their settlement.

**Performance criteria**

14. The government undertakes not to accumulate any new arrears in domestic payments on public debt. As regards obligations other than public debt, the government undertakes not to accumulate further arrears for periods of more than six months. The non-accumulation of arrears in domestic payments will be continuously monitored throughout the program.

**Reporting deadline**

15. Data on the balance, accumulation, and repayment of arrears in domestic payments of public debt will be forwarded on a monthly basis, within eight weeks of the end of the month.

**D. Non-accumulation of Arrears in Public External Payments****Definition**

16. Arrears in public external payments are defined as the sum of payments due, and not paid, to nonresidents on government debt and on external debt guaranteed by the government. The definition of debt provided in paragraph 3 applies here.

**Performance criterion**

17. In the context of the program, the government undertakes not to accumulate arrears in external payments, with the exception of arrears relating to debt that is the subject of renegotiation or rescheduling. The performance criterion on the non-accumulation of external payments arrears will be continuously monitored throughout the program.

**E. Ceiling on Nonconcessional External Debt Maturing in a Year or More or Newly Contracted or Guaranteed by the Government**

**Definition**

18. This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Borrowing (Executive Board Decision 6230-(79/140), as amended by Executive Board Decision 12274-(00/85) (24/08/2000)), but also to liabilities contracted or guaranteed (including lease-purchase contracts) for which no funds have been received. External debt excludes obligations and Treasury bills issued in CFA francs on the WAEMU regional market.

19. The concept of government used for this performance criterion includes government as defined in paragraph 2, administrative public enterprises (EPAs), scientific and technical public enterprises, professional public enterprises, and local governments.

**Performance criterion**

20. No nonconcessional external borrowing will be contracted or guaranteed during the 2008-09 program.

**Reporting deadline**

21. Information on any borrowing (terms and creditors) contracted or guaranteed by the government will be reported each month, within four weeks of 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 not covered by this performance criterion.

**Performance criterion**

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

25. At December 31, 2007, Benin had no short-term external debt.

### **III. QUANTITATIVE BENCHMARKS**

#### **A. Floor for Government Revenue**

##### **Definition**

26. Total government revenue is defined as that shown in the TOFE.

##### **Benchmarks**

27. The benchmarks for total government revenue for the second half of 2008 are set at CFAF 389.7 billion for end-September, and CFAF 530.1 billion for end-December (cumulative since end-December 2007). For 2009, the benchmarks for total government revenue are set at CFAF 162.4 billion for end-March and CFAF 324.6 billion for end-June (cumulative since end-December 2008).

##### **Reporting deadline**

28. The government will forward a monthly report on tax revenue to Fund staff, in the context of the TOFE, by the end of the month following that to which the report applies.

#### **B. Ceiling on the Wage Bill**

##### **Definition**

29. The wage bill includes all public expenditure on wages, bonuses, and other benefits or allowances granted to civil servants, the military, and other security forces, as well as expenditure on special contracts and other permanent or temporary employment with the government. The wage bill therefore excludes wages paid under externally funded projects and transfers to the communal level for the payment of teachers' wages.

##### **Benchmarks**

30. The quantitative benchmarks are defined as the sums accumulated after end-December 2007 for the criteria set in 2008, and after end-December 2008 for the criteria set in 2009. For the second half of 2008, the quarterly ceilings on the civil service wage bill are set at CFAF 119.8 billion at end-September, and CFAF 171.1 billion at end-December. For 2009, these quarterly ceilings are set at CFAF 40.6 billion at end-March and CFAF 87.6 billion at end-June (MEFP, Table 1).

## Reporting deadline

31. The government will forward monthly wage bill data to Fund staff, in the context of the TOFE.

### IV. STRUCTURAL PERFORMANCE CRITERIA

32. The following measures will serve as structural benchmarks (MEFP, Table 2):

- Audit of the automated fiscal management systems (SIGFIP, ASTER, and WMONEY);
- Completion of a strategy to reform the civil service pension fund (FNRB);
- Completion of a strategy to improve fiscal management;
- Completion of the new cotton sector reform strategy;
- Extension of ASYCUDA++ to twelve (12) additional posts (regional customs units/offices); and
- Adoption of a strategic information system at the DGID, after an audit, in order to operationalize the single tax identification function.

### V. ADDITIONAL INFORMATION FOR PROGRAM MONITORING

#### A. Government Finance

33. The government will provide the Fund with:

- Detailed monthly revenue and expenditure estimates, including for social expenditure, the settlement of arrears, and financed expenditure under the HIPC Initiative;
- Comprehensive monthly data on domestic financing of the budget (bank and nonbank), including the obligations held by the nonbank private sector. These data will be forwarded every month, within four weeks of the end of the month; and
- Quarterly data on implementation of the public investment program, including details of financing sources. These data will be forwarded on a quarterly basis, within four weeks of the end of the quarter.

### **B. Monetary Sector**

34. The government will provide the Fund monthly, within eight weeks of the end of the month, with:

- A consolidated balance sheet of the monetary institutions and, where necessary, the balance sheets of certain individual banks;
- A monetary survey;
- Deposit and lending rates; and
- The customary banking supervision indicators for bank and nonbank financial institutions and, where necessary, the same indicators for certain individual institutions.

### **C. External Sector**

35. The government will provide the Fund, within 12 weeks of the end of each quarter, with:

- Import and export prices and volumes; and
- Other balance of payments data, including services, private transfers, official transfers, and capital transactions.

### **D. Real Sector**

36. The government will provide Fund staff with:

- Disaggregated monthly consumer price indices, on a monthly basis, within two weeks of the end of the month; and
- Any revision of the national accounts, within eight weeks of the revision date.

### **E. Structural Reforms and other Data**

37. The government will provide the Fund with:

- All decisions, orders, laws, decrees, ordinances, and circulars relating to the economy of Benin, within 10 days of their entry into effect; and

All studies or research papers relating to the economy of Benin, within two weeks of their publication.