Benin and the IMF

Press Release:
IMF Executive Board Approves US$109 Million ECF for Benin
June 14, 2010

Country's Policy Intentions Documents

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

May 27, 2010

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

May 27, 2010

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

Dear Mr. Strauss-Kahn:

From 2005 to 2009, we implemented a financial program supported by the IMF that enabled us to make substantial progress toward macroeconomic stability, with moderate inflation and a significant resurgence of economic growth. Under the combined effect of fiscal consolidation, optimal management of the public debt, and debt relief under the HIPC initiative and MDRI, we have rebalanced public finances and undertaken structural forms to enhance competitiveness. Real GDP growth accelerated steadily, reaching 5 percent in 2008.

The fallout from the global economic crisis has posed new challenges. Economic growth slowed considerably in 2009 and projections suggest that it will remain sluggish in 2010 because of the decline in global economic activity, the fall in commodity prices, and the decline in remittances from Beninese expatriates. This decline in growth has strained the government's financial position and is hampering our efforts to accelerate economic growth and reduce poverty in Benin. Stagnation of public revenues in 2009 and increases in spending on wages and investment during the first half of the year to contain the domestic impact of the crisis put pressure on the government Treasury. In the second half of the year, these pressures were eased by fiscal adjustments to control public expenditure and to mobilize additional concessional budgetary assistance from financial and technical partners (including BCEAO financing backed by the IMF's additional SDR allocations in August and September 2009). These efforts made it possible to avoid a new accumulation of domestic arrears. However, the 2009 fiscal year ended with an overall fiscal deficit (on a payment order basis) of 7.3 percent of GDP.

In 2010 and for the medium term, the government will step up its efforts to rebalance public finances, limit the impact of the global economic crisis on growth and on the most vulnerable segments of the population, support the economic recovery, and continue to implement the Poverty Reduction and Growth Strategy to meet the Millennium Development Goals.

The authorities are resolved to implement a macroeconomic and structural reform program that will support the economic recovery in the short term and place the country on the road to stronger sustained growth in the medium term, while preserving macroeconomic stability and debt sustainability. On the macroeconomic policy side, this will mean pursuing a prudent fiscal policy to maintain macroeconomic stability and preserve the fiscal space needed to strengthen the social safety nets and support other priority social spending. Although declining, the financing gaps will remain high (particularly in 2010). They should be covered by additional budgetary assistance from our development partners. The government has already begun to mobilize these funds.

This policy will be accompanied by structural reforms that will improve competitiveness and establish a business environment more favorable to investment. These reforms will be focused on improving fiscal management, strengthening the tax and customs administrations, increasing the role of the private sector in the management of the public utilities, and reforming the civil service to improve its efficiency and reduce recurrent fiscal costs for the government.

The main features of the measures we plan to adopt under the framework of the new program are outlined in the attached Memorandum on Economic and Financial Policies (MEFP). To support its policies, the government asks the Executive Board of the IMF to approve a three-year arrangement under the Extended Credit Facility (ECF), with access equivalent to SDR 74.28 million (120 percent of quota).

The government of Benin will provide the IMF with all information on progress in the implementation of its economic and financial policies. It believes the policies set out in the MEFP will achieve the objectives of the program, and the government of Benin will adopt any other measures needed to achieve the objectives of the program. The government will consult with the IMF before adopting such additional measures or changing any of the measures included in the MEFP, in accordance with IMF policies on such consultations.

The government authorizes the IMF to publish its staff report and the attached Memorandum on Economic and Financial Policies.

Sincerely yours,

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Idriss L. Daouda
Minister of Economy and Finance

Attachments: Memorandum on Economic and Financial Policies
Technical Memorandum of Understanding

ATTACHMENT I

MEMORANDUM ON ECONOMIC AND FINANCIAL POLICIES

1. **During the past decade, the performance of the Beninese economy has been satisfactory, with economic growth becoming more sustained in the past three years.** The country has progressed with fiscal consolidation and has kept consumer prices under control despite the acceleration of inflation in 2008 as international food and fuel prices rose. These encouraging results are attributable mainly to the fiscal space created by the cancellation of external debt under the Heavily Indebted Poor Country (HIPC) Initiative and Multilateral Debt Relief Initiative (MDRI) as well as the implementation of economic and financial policies supported by the International Monetary Fund (IMF) under the PRGF-supported program. However, evaluations of policies implemented indicate that poverty has not been reduced significantly owing to the volatility of economic growth, which has been led mainly by the tertiary sector, while the majority of the population and labor force works in the primary sector.

2. **The Beninese economy began its upturn in 2006**. Growth was led by the improved performance of the tertiary sector—transport and commerce in particular—and agriculture. Nevertheless, the real GDP growth rate remained below the minimum required to achieve the Millennium Development Goals (MDGs), partially owing to the limited contribution of the secondary sector as a result of shortages and high cost of electricity.

3. **However, Benin began to feel the effects of the global economic crisis in 2009.** Preliminary indicators show that GDP growth slowed to 2.7 percent, compared to an initial projection of 6.1 percent and an average of 4.5 percent during the previous three years. Cotton production was affected by lower international prices and the tertiary sector suffered as Nigeria's imports declined. Agriculture, which has benefited from ample food production with the implementation of the Emergency Food Security Program and technical and financial assistance from our development partners, helped to keep economic growth positive in 2009. Transportation and communications also played an important role.

4. **Inflation has decelerated in recent years.** The slowing of price increases observed since 2006 was reversed temporarily in 2008 because of the sharp rise in international prices for food and fuel, but inflation declined in 2009 as international prices came down. The government's efforts to promote food production also contributed to this decline. The inflation rate (year-on-year) dropped from 9.9 percent in December 2008 to -2.9 percent in December 2009, yielding an average inflation rate of 2.2 percent in 2009.

5. **Serious social tensions and the global economic crisis had a negative impact on government finances in 2009.** The basic primary deficit declined to 3.8 percent of GDP and the overall fiscal deficit on a payment order basis fell to 7.3 percent of GDP. Owing to weakening customs revenues, which declined 7 percent from 2008 levels, total revenues remained almost steady in nominal terms as compared to 2008 despite the rise in domestic

tax revenues and nontax revenues. At the same time, expenditure increased by 16 percent in 2009. The wage bill rose 24 percent owing to increased benefits paid to civil servants and hiring in the priority sectors of health and education. Domestically financed investments doubled compared with 2008, partly reflecting the execution of CFAF 113.2 billion of carryovers. This placed a great deal of pressure on the government's cash flow, which was offset by the mobilization of more than CFAF 100 billion in additional resources including: (1) BCEAO financing backed by the SDR allocations of CFAF 32.8 billion; (2) bond refinancing by the BCEAO of CFAF 36.5 billion; (3) a V-Flex grant from the European Union of CFAF 16.4 billion; and (4) an African Development Bank loan of CFAF 7.8 billion.

6. **The government made important decisions in the final months of 2009 to improve the fiscal situation.** As budget execution weakened owing to the fallout of the international economic and financial crisis, the government prepared, adopted, and implemented a fiscal consolidation plan that included: (1) a firm limit on bonuses, allowances, and other benefits paid to civil servants; (2) an acceleration of the process of regularizing exceptional payment orders (*ordres de paiement*) dating back to 2006, 2007, and 2008, and a strict limit on the use of such exceptional procedures; (3) a strengthening of budget monitoring with the involvement of the Treasury committee; (4) an audit of the float; and (5) an emergency action plan to increase tax revenues. In addition, the government decided to: (1) halt capital spending commitments as of September 28, 2009; (2) reduce the end of December 2009 fiscal target for stipends and pensions to CFAF 5.3 billion; (3) reduce other expenditure and transfers by CFAF 24.5 billion; and (4) postpone CFAF 50 billion in capital spending to the 2010 fiscal year. These measures, along with the mobilization of additional budgetary assistance, made it possible to reduce the float by CFAF 27 billion in 2009.

7. **The external current account deficit excluding grants increased.** In fact, it reached 10.8 percent of GDP in 2009 from annual average of 8.8 percent from 2006 to 2008. This evolution of the external situation is essentially linked to: (i) the decline in net services and public and private transfers, which were affected by the international economic crisis; and, to a lesser extent, (ii) the worsening trade balance related to the more pronounced slowdown in cotton and textile exports. In contrast, the financial and capital accounts improved significantly with additional flows of public capital from concessional loans and from allocation of SDRs to deal with the effects of the international economic crisis. In spite of this, the overall balance registered a deficit of 1.6 percent of GDP.

8. **Monetary policy at the regional level responded to the challenges of the crisis.** In particular, on June 12, 2009, the monetary authorities decided to reduce the intervention rate from 4.75 percent to 4.25 percent and to reduce the required reserve ratio for Benin from 15 percent to 9 percent. Foreign assets declined as the global economic crisis affected exports and private transfers. Credit to the private sector increased by 7.5 percent in 2009 owing to rising domestic demand in the second half of the year. The net government position worsened compared to the end of December 2009 as a result of the significant pressure of expenditure on the government Treasury.

9. **Structural reforms, particularly those of public enterprises, have made good progress.** They were implemented steadily and with determination, reflecting the

government's commitment to transforming economic structures in order to ensure the competitiveness of the national economy and to establish the conditions for strong economic growth:

- In the cotton sector, the reforms focused on four principal axes: (i) the definition of a new approach for the comprehensive reform of the cotton sector; (ii) the divestiture of SONAPRA's industrial assets and the creation on October 11, 2008, of the Société pour le Développement du Coton (SODECO), 51 percent of whose capital is now held by a strategic investor since the sale of shares reserved for the public; (iii) the establishment in December 2008 of the Agricultural Input Purchasing Pool (CAI) intended to provide a satisfactory response to the problem of the supply of inputs on which the success of the agricultural policy depends; and (iv) the ongoing development of the institutional framework for agricultural policy.

- The divestiture of the Hôtel Croix du Sud and the Hôtel de la Plage and the withdrawal of the government from the Continental Bank–Bénin were completed in 2007 and 2008. In September 2009, the government called for bids to reform the commercial lumber affiliate, Société du Bois du Bénin. The final decision and the signing of the legal documents for the transaction took place in December 2009, finalizing the transfer to the private sector of 65.0 percent of the industrial assets of the Office National du Bois, and planning its rehabilitation and the development of the wood processing industry.

- With the assistance and advice of the International Finance Corporation (IFC), the outsourcing of construction of the new south container terminal consisting of two accommodation berths, with Millennium Challenge Account financing, was organized and carried out in the September 2009 by competitive bidding. This project was to improve performance of the Autonomous Port of Cotonou.

- In March 2010, the government stake in the Société des Ciments d'Onigbolo (SCO), equivalent to 51 percent of the shares of the company, was sold to a private investor for an amount of CFAF 20 billion, of which CFAF 17.5 billion have already been cashed. The balance, namely CFAF 2.5 billion, will be paid once the modalities to terminate the lease management contract have been finalized by mutual agreement.

- The process of opening the capital of Benin Telecom to private investors is on track. The candidates have been prequalified, and bids were called for in April 2010.

- In addition, the new strategy for the civil service pension fund (Fonds national des retraites du Bénin—FRNB) and the financial audit of the accounts of the electricity company (SBEE) were completed. Based on the financial audit of the SBEE, the government decided in March 2010 to convert part (CFAF 14.02 billion) of the loans on-lent to the SBEE in order to replenish the company's capital; to guarantee its debt service to the West African Asset Management Company (Société Ouest Africaine de Gestion d'Actifs—SOAGA) in the amount of CFAF 15.7 billion, which was rescheduled over seven years with a two-year grace period; and to securitize the

SBEE's debt to the international power utility CEB in the amount of CFAF 25 billion.

- The use of the single tax identification number (TIN) was extended to all importers and exporters and all large enterprises, and the data interconnection between the tax department (DGID) and the customs department (DGDDI) became operational.

- As regards the one-stop window at the customs and the Port of Cotonou, the Council of Ministers selected a computerized port operator management system that will be installed by the end of December 2010 and that should be integrated with a similar system at customs operations to implement the federation of the various participants.

- In addition, the administrative capacity of the revenue agencies has been improved through more efficient use of the IT system. The tax base has been expanded, and efforts to combat fraud have been stepped up, as has the tracking of the value of imports. The government has created a reform management unit (UGR) to improve the fiscal management system at the Ministry of Economy and Finance; the UGR is responsible for tracking the implementation of action plans adopted at the beginning of 2009 and for updating it every year.

- To demonstrate its determination to implement the program, the government has (i) increased, in April 2010, all electricity rates by 10 CFAF per kWh on average, to improve SBEE's financial situation; (ii) launched, in May 2010, a call for bids for the establishment of a one-stop shop for port operations at the Port Autonome de Cotonou (PAC).

- The government will introduce by the end of 2010 the two outstanding reforms from the last PRGF arrangement. They include (i) the elaboration of an IT master plan for the tax department (DGID), which will be adopted after its audit to generalize the TIN; and (ii) the extension of the ASYCUDA++ computer system to 12 additional regional customs offices.

OBJECTIVES OF THE NEW PROGRAM (2010–13)

10. **In the wake of the international economic crisis, Benin faces deteriorating external and fiscal positions, making it imperative to** (i) accelerate the implementation of structural measures and (ii) obtain financial and technical support from the development partners to counteract the adverse effects of the crisis on the economy and to lay the foundations for a lasting economic recovery. In the short term, Benin should maintain macroeconomic stability and mitigate the effects of the crisis on economic growth and on the decline in private investment and migrants' remittances, which benefit the most vulnerable segments of the population. The government intends, therefore, to conduct a countercyclical policy, including introducing social safety net arrangements, while preserving debt sustainability. In the medium term, a more rapid implementation of structural measures should improve the competitiveness of the economy and promote a sustainable economic recovery. These objectives aim to support the growth and poverty reduction strategy currently in the process of being finalized.

Macroeconomic objectives

11. **To consolidate the achievements of previous economic programs, the government has prepared an economic and financial program for 2010–13.** This program will contain the effects of the international economic and financial crisis, which is undermining the economic recovery efforts undertaken since 2006, and will lay the foundation for strong, balanced growth to meet the MDG. The objectives of the financial program are consistent with the new poverty reduction strategy being prepared for 2010–14, which will be a framework for technical and financial support from Benin's development partners.

12. **Aware of the risks presented by the global crisis for the short- and medium-term outlook for the Beninese economy, the government intends to address this challenge through a six-pronged strategy:** (i) implement an economic policy focused on accelerating growth and reducing poverty; (ii) increase competitiveness by improving infrastructure, particularly through the adoption of an integrated framework for the development of the transportation infrastructure, by mobilizing private investment in the management of new port installations and the rehabilitation of the railroads and by opening the one-stop window; (iii) improve the productivity of the agricultural sector to increase incomes in rural areas while ensuring stable prices on urban markets; (iv) step up structural reforms by emphasizing the restructuring of public enterprises; (v) modernize management and expenditure tracking system of the revenue agencies and improve public financial management; and (vi) implement the second-generation reforms (justice, land tenure, and financial services) with the support of Millennium Challenge Account (MCA)-Benin.

13. **The implementation of the program will make it possible to accelerate economic growth.** The objective is to achieve a real GDP growth rate of at least 6 percent in the medium term. This will be achieved under the framework of an inflation rate under 3 percent, in line with the WAEMU convergence criteria. Growth will be led by higher public and private investment and improved productivity as a result of ambitious structural reforms.

14. **Several priority actions have been identified and their implementation should support improvement in the growth rate.** The growth rate for the primary sector should improve owing to: (i) the increased productivity of the cotton sector as the new sectoral management framework is implemented and the central purchasing pool for agricultural inputs starts; (ii) implementation of the diversification strategy through the development of other targeted agricultural sectors; and (iii) improvement of agricultural research by increasing the number of research staff and providing training in new technologies, particularly biotechnology. The secondary sector is expected to achieve a higher level of growth primarily owing to: (i) an increase in construction activities related to major public works projects (the Godomey highway interchange, public housing, rural roads and tracks, infrastructure to combat coastal erosion, and so on); (ii) enhanced processing of food products in response to the expected increase in agricultural output; and (iii) increased activity in the cement sector with the startup of the new cement factory. In contrast, the tertiary sector is expected to continue to feel the effects of the financial crisis in the short

term, although these should be mitigated by continued efforts to modernize the Port of Cotonou through the extension of the breakwater and purchase of a new computer system integrated with the overall port operation system.

Fiscal policy and public financial management

15. **Fiscal consolidation will be continued to create the fiscal space needed to increase priority spending in the social sectors while reducing budget deficits.** Measures will include improving mobilization of domestic revenues and more rigorously managing public expenditure. Total revenues should increase from 19.2 percent of GDP during 2006–08 to 20.8 percent of GDP during 2010–13. Beyond cyclical factors, such as easing the impact of the international financial crisis, tax revenues should show a significant improvement, increasing to 8.7 percent of GDP owing to continued efforts to expand the tax base, strengthen the tax and customs administrations, and combat fraud. Meanwhile, customs revenues will stay at an average of around 10 percent of GDP during 2010–2013 as a result of improvements in the customs administration that will offset downward pressure from the implementation of the Economic Partnership Agreements with the European Union (which will result in lower duties on European products) and from the transition to the regional tax regime (that will entail a loss of revenue from the elimination of customs barriers and the liberalization of intracommunity trade with other WAEMU countries).

16. **To improve tax and customs revenue collection, during the next three years we plan to accelerate tax reforms, strengthen capacity and synergy between the tax and customs administrations, and intensify efforts to combat fraud and corruption.** The report of the Task Force on Tax and Development will be used to this purpose. In particular, there are plans to: (i) implement the personal taxation reform; (ii) expand the tax base; (iii) tax informal activities; (iv) enhance the dialogue between the customs and tax administrations and the private sector; (v) strengthen the capacities of the tax and customs administrations (training, purchase of adequate equipment, and so forth); (vi) implement an appropriate tax regime for small savers, microcredit, and microenterprises; (vii) broadly and fully implement the single tax identification number (TIN); (viii) install joint (customs–tax department) teams to combat commercial fraud; (ix) enhance the capacity of customs inspectors in financial and accounting investigations and audits; (x) fully computerize the customs and tax units, establish an interface between the customs and taxation computer systems, and systematically use reliable interconnections between units in the two administrations; (xi) improve audit targeting of controls; and (xii) strengthen controls over transit trade. An action plan will be adopted to implement all of these reforms, which will be guided by units to be installed in each agency. The UGR will be responsible for monitoring the implementation of these reforms.

17. **Expenditures will be targeted to support growth and poverty reduction.** Total expenditure is expected to represent 25.9 percent of GDP on average during the period 2010–13, an increase of 4 points from 2006–08. This increase will take place in a context of improved public financial management, enhanced capacity to absorb resources, and improved quality of expenditure. An overall civil service reform strategy will be adopted, beginning with a review of the civil service remuneration policy to promote the establishment of an administration focused on development that works in the general interest

and in service of the private sector. In contrast, capital spending will increase by 3 percentage points of GDP during 2010–13 compared with 2006–08. The increase will be a result of the implementation of infrastructure programs and projects that should revitalize the growth pillars identified in "Benin 2025, Agenda for an Emerging Economy".

18. **The authorities also believe it is essential to advance the budget preparation process to improve the effectiveness and transparency of public financial management.** The authorities will continue to reform the organic law on the budget to create results-oriented management in line with WAEMU directives on the subject. The authorities intend to take advantage of technical assistance from the IMF's Fiscal Affairs Department and to get assistance from other technical and financial partners. Moreover, starting with the 2011 budget law, the draft budgets presented to the National Assembly will be consistent with the program agreed to with IMF staff.

19. **Capacity-building for those involved in the expenditure process will involve implementation of the following reforms:** (i) effectively implementing the public procurement code; (ii) implementing an integrated public procurement management system (SIGMAP); (iii) strengthening public procurement procedures, particularly by limiting the use of single tendering; (iv) adjusting the government budget and accounting classification in line with performance-based management, (v) extending performance-based management to all sectors of public administration through the design of program budgets, and (vi) improving budget execution procedures. Achievement of these objectives will also be linked to improvements in expenditure absorption capacity and a sustained level of investment, particularly in infrastructure. Participants should prepare and apply the budget appropriations utilization plan and the public procurement plan. Moreover, a harmonized data and tracking/evaluation system for the public investment program (SHISEPIP) will be created to monitor the rate of absorption of the capital spending.

20. **The government's public debt management strategy is based on a consistent, comprehensive vision of its debt policy.** This strategy recommends the implementation of timely measures to limit public debt to proportions compatible with the country's capacity to honor its commitments and fully finance its development. The government will ensure that financing will be grants or highly concessional external loans (with a grant element of at least 35 percent), and it intends not to exceed an amount consistent with debt sustainability.

Structural reforms

21. **The government is aware that competitiveness is an essential component of sustainable growth and is determined to implement structural reforms that will enable it to handle the challenges facing it in the medium term.** These reforms are part of the strategy for implementing the vision contained in the "Benin 2025 Agenda," and they will serve as the foundation for improving the overall and sectoral competitiveness of the economy. Reforms of public enterprises thus will open these companies to private-sector investment or improve their financial viability and productivity so they contribute more to the competitiveness of the economy. The government will therefore undertake various reform efforts, particularly in the key sectors of telecommunications, energy, transportation, and the civil service pension scheme.

22. **In the energy sector, the government in 2007 opted, following the ongoing financial restructuring of the SBEE, to establish an asset management company on one side, and a distribution company on the other side. The latter is being analyzed in depth and its capital will be opened to the private sector, following the review of the regulatory framework for the sector.** Studies on this regulatory framework have already begun with AFD financing and the results should enable us to adopt the new framework by June 2011. This framework should lead to private sector investment in the production and distribution of electricity and should also guarantee transparency in the electricity price-setting mechanism with the establishment of a regulatory authority. The government also plans to improve the SBEE's financial position to reduce subsidies, which are a strain on the government budget.

23. **In the telecommunications sector, the government plans to sell the majority of its shares to a strategic partner by the third quarter of 2010.** The 2009 audited financial statements of Benin Telecom are, therefore, being prepared and should be ready by June 2010. Along with the financial statements for 2005–08, which are already available, they will give investors an accurate picture of the financial position of the company. Sale of the shares to a strategic partner should be completed during the third quarter of 2010. The government, in coordination with the staff of the International Monetary Fund, will decide on the use of the proceeds of the sale and the CFAF 20 billion from the sale of SCO.

24. **In the transportation and port services sector, the government also intends to continue its privatization policy.** The contract for managing the new container terminal financed by Millennium Challenge Account funds was awarded to an international company. Also, Benin and Niger have reached an agreement on outsourcing the management of the OCBN.

25. **The government is continuing its reform of the civil service pension fund (FNRB).** To contain the fiscal impact of the FNRB deficit, it is essential that the pension fund become more viable. An actuarial audit completed in September 2009 identified several options for reform. Based on the recommendations of this audit, the government is preparing a draft law to implement a new strategy that will reduce the actuarial deficit of the FNRB. The draft law should be studied by the National Standing Commission on Dialogue and Collective Negotiations between the Government and Union Federations and Groups by the end of December 2010. The government will review the draft by June 2011 at the latest and submit it to the National Assembly by December 2011.

26. **The government will seek to improve Benin's business environment and raise Benin to the average level of the emerging countries by 2013.** Achieving this objective will require a reform effort and a significant commitment on the part of the authorities. The government has therefore established a steering committee for this purpose headed by the minister of state for development. The government adopted the report of this "Doing Business" steering committee in June 2009 and decided to promote improvements in the business environment in the short, medium and long terms by: (i) simplifying procedures and reducing the cost and time required to set up a business and obtain construction permits; (ii) improving shareholders' protection against abuse by strengthening their procedural rights; (iii) easing burdensome tax procedures and simplifying the payment of taxes by

reducing the number of returns to be filed and proposing a staggered payment option for enterprises; (iv) simplifying customs clearance procedures by making the one-stop window operational; and (v) improving the management of commercial disputes by training judges in the use of simplified procedures that promote negotiated solutions.

27. **To ensure shared prosperity, the microfinance policy will be further enhanced via the microcredit program for the very poor**. In addition, the national program for entrepreneurship and youth employment will be strengthened, and an agricultural partnership project will be established with the help of the United Nations Development Program (UNDP) and the Songhai Centre. The resources allocated to these programs will be expanded to cover a larger number of beneficiaries. As well, the financed projects will focus on creation of high-performance small- and medium-sized enterprises that are part of the pillars of growth identified in the "Benin 2025 Agenda."

THIRD-GENERATION GROWTH AND POVERTY REDUCTION STRATEGY (2010–14)

28. **The Growth and Poverty Reduction Strategy (GPRSP) expired at the end of 2009 and the government has begun to prepare a new strategy.** The new strategy will focus on local and sectoral strategies and development issues that have not been dealt with in depth. These issues include the employment of young people and women, the opening up of agricultural production zones, the promotion of rural economic growth, the enhancement of the legal capacity of the poor and social protection and solidarity. Similarly, organization of the rural world and agricultural diversification, demographic changes, trade issues relating to the ACP-EU Economic Partnership Agreements, and issues regarding climate change should be examined. The new strategy should be more integrated and consolidate all sectoral strategies and should be better adapted to all levels of Beninese society. It will also include an action plan to develop a tracking system for social and priority expenditures. The government will submit the final version of the strategy to the technical and financial partners in July 2010.

MACROECONOMIC POLICY IN 2010

Macroeconomic framework

29. **In 2010 economic policy will focus on measures to counteract the international economic and financial crisis.** Growth should reach 3.2 percent in 2010 compared with 2.7 percent in 2009, sustained by continued reforms of the agricultural sector, a revitalization of the construction sector, improved output in the cement sector with the startup of the new cement factory, and continued modernization of the Port of Cotonou. Inflation should stay below the community standard of 3 percent, owing in particular to the availability of food products and easing of prices for imported commodities. The external current account excluding grants should show a deficit of 9.7 percent of GDP.

Fiscal policy

30. **Total revenue should increase by 18.4 percent in 2010 to CFAF 681.9 billion or 20.6 percent of GDP.** Tax revenues are expected to rise by 14.5 percent to

CFAF 275.8 billion, owing to expansion of the tax base, implementation of the urban land registry, expanded controls by the audit and assessment units, training of audit officials to use the computerized accounting system, computerization of the new tax centers for medium-sized enterprises, taxation of informal activities, application of ordinary law to domestically financed procurement contracts, and adoption of a favorable tax regime for small savers, microcredit, and the informal sector. Customs revenue is expected to increase by 15.8 percent to CFAF 299.7 billion in 2010 owing to the resumption of re-exports to Nigeria. Nonetheless, several reforms are expected in 2010, such as the opening of four new customs posts on the Nigerian border, further expansion of ASYCUDA++ to 12 new customs offices, simplification of customs clearance procedures, and enhancement of measures to combat corruption and fraud. In particular, the government intends to issue personal identification numbers to all taxpayers and to end the systematic use of nonspecific numbers by the end of December 2010. A 41.0 percent increase in nontax revenues to CFAF 106.3 billion is also expected, owing to the sale of 3G GSM licenses and improvements in collections by the Treasury Administration.

31. **The government will continue to limit recourse to exceptional budget execution procedures (*ordres de paiement*) to a strict minimum in 2010.** Punitive measures, therefore, will be applied to recipients of unauthorized *ordres de paiement* (mandatory repayment by recipients and/or denied access to SIGFIP for the ministries or institutions involved).

32. **Total expenditure should stand at CFAF 876 billion, an increase of approximately 9 percent in 2010.** The wage bill is expected to increase by 7.7 percent, as a result of the increase in the wage scale and grade drift for civil servants. Public investment should stand at CFAF 320.9 billion in 2010, an increase of approximately 6.1 percent from 2009, based on continuation of infrastructure construction projects and implementation of the agricultural mechanization program.

33. **The wage bill will be limited to CFAF 243.2 billion in 2010.** In its decisions of August 5, 2009, and October 7, 2009, the government decided not to grant new bonuses, allowances, or other benefits to civil servants until the study of their remuneration system was completed. The government stood by these commitments, although it had to agree to adjust the salaries of employees in the higher education sector, whose remuneration was not competitive enough to ensure that a disagreement on the salary adjustment timetable would not result in a lost year for the university. This adjustment will take effect in October 2010. Similarly, after several weeks of strikes, the government had to grant other categories of teachers an increase in housing allowances, effective in October 2010, and a 25 percent increase in base salary from January 2011. The total budgetary impact of these measures is estimated at CFAF 3.4 billion in 2010 and approximately CFAF 20 billion per year during 2011–13. However, the government will take the necessary measures to keep the wage bill to the aforementioned target of CFAF 243.2 billion in 2010. In this framework, the government has established a committee of representatives of the government, labor unions, and social partners to act as a single negotiating framework for salary demands. This should facilitate a transparent national dialogue, leading to multiyear salary agreements that take account of the government's financial capacity and its economic and social policy priorities.

34. **The overall deficit on a payment order basis, which stands at 7.3 percent of GDP in 2009, is expected to remain high in 2010 at 5.9 percent of GDP.** As a result, the government will seek additional financial assistance from the international community in 2010 to cover the financing gap. Should the additional financing not materialize, the government will cut the equivalent amount in nonpriority spending.

External sector and monetary policy

35. **The monetary policy conducted by the BCEAO will remain consistent with the objective of price stability.** The broad money growth rate, therefore, is forecast at approximately 5.4 percent, reflecting an increase in credit to the economy and a rise in net foreign assets. The BCEAO's key intervention instrument will be its interest rate policy, which will depend on the impact of the economic crisis on the economies of the zone. The BCEAO will continue to closely monitor inflationary trends and the official exchange reserves.

36. **Inspection missions to the banks by the WAMU Banking Commission will continue to monitor the financial system.** These missions will make it possible to avoid crises by identifying potential vulnerabilities. The government has asked for a Financial Stability Assessment Program (FSAP) mission in 2010 and is committed to implementing any resulting recommendations. The authorities intend to enhance banking supervision to improve compliance with the prudential ratios and will also try to strengthen the application of the regulatory framework to the microfinance sector.

Structural reforms

37. **Structural reforms will be accelerated to create conditions favorable to economic recovery.** The reforms will include, in particular the:

- Adoption by the Council of Ministers of all implementing decrees for the Public Procurement Code by the end of September 30, 2010 (structural benchmark);

- Submission to the National Assembly of legislation introducing the personal income tax by the end of October 31, 2010 (structural benchmark);

- Extension of the ASYCUDA++ computer system to 12 additional regional customs offices by the end of December 31, 2010 (structural benchmark);

- Adoption of an IT master plan for the tax department (DGID) (after its audit to generalize the TIN); development of a complete and integrated information system at the DGID; modernization of the information system of the customs department (DGDDI) and its extension to all units by the end of December 31, 2010 (structural benchmark);

- Generalization of the TIN to all taxpayers and to all the units of the tax and customs administration by the end of December 31, 2010 (structural benchmark);

- Generalization of the systematic use of the TIN by the DGDDI and the adoption of a deadline for the abolition of the use of nonspecific numbers at the level of ASYCUDA++ (0000000000000 and 299999999949) by the end of December 31, 2010 (structural benchmark);

- Adoption by decision of the Council of Ministers by the end of June 30, 2011 of a comprehensive strategy to reform the civil service (structural benchmark);

- Implementation of the integration and federation of all the agents at customs and at the Autonomous Port of Cotonou in the one-stop shop by the end of June 30, 2011 (structural benchmark);

- Adoption by decision of the Council of Ministers by the end of June 30, 2011 of a regulatory framework governing the energy sector that will formally sanction the opening of electricity distribution to private investors and the establishment of a regulatory authority and of a system that will guarantee transparency in the electricity price-setting mechanism (structural benchmark);

- The presentation to the National Assembly of a draft law governing pensions (based on the final report of the actuarial audit of the FNRB) by the end of December 31, 2011 (structural benchmark).

Program Monitoring

38. **Program monitoring will be based on prior actions, performance criteria, and structural and quantitative benchmarks** (Tables 1 and 2). The definitions of these actions, criteria, and benchmarks are contained in the attached Technical Memorandum of Understanding (TMU). The authorities will report the data necessary for program monitoring to the IMF, in accordance with the TMU. During the program period, the authorities will not: introduce restrictions on the making of payments and transfers for current international transactions or intensify any such restrictions without first consulting the Fund; introduce or modify multicurrency practices; conclude bilateral payments agreements not compatible with Article VIII of the IMF's Articles of Agreement; nor introduce restrictions on imports for balance of payments purposes. The program will be subject to semiannual reviews; the first review will be completed by December 31, 2010, and the second review by June 30, 2011.

Table 1. Benin: Quantitative Performance Criteria and Indicative Targets for the Period March–December 2011
(In billions of CFA francs)

	March 31, 2010 Prel.	June 30, 2010 performance criteria Prog.	September 30, 2010 indicative targets Prog.	December 31, 2010 performance criteria Prog.
A. Quantitative Performance Criteria and Indicative Targets [1]				
(Cumulative amount since the beginning of January 2010) [1]				
Net domestic financing of the government [2 3]	49.5	-37.0	-25.4	-15.3
Basic primary balance (excluding grants)	-6.2	37.8	1.9	-10.5
Memorandum Item: Budgetary Assistance	0.0	10.0	20.9	38.3
B. Continuous Quantitative Performance criteria				
Accumulation of external payments arrears	0.0	0.0	0.0	0.0
External nonconcessional debt contracted or guaranteed by government with maturities of 0–1 year [4]	0.0	0.0	0.0	0.0
External nonconcessional debt contracted or guaranteed by government with maturities of more than one year [4]	0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears	0.0	0.0	0.0	0.0
C. Indicative Targets				
Total revenue (cumulative amount since the beginningt of January 2010)	127.5	315.5	494.6	681.9
Payment orders issues outside the expenditure chain [5]	2.0	4.6	7.5	10.6

[1] The targets and performance criteria are cumulative from the beginning of calendar 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

[3] If external budgetary assistance exceeds the amount projected in excess of more than CFAF 5 billion, the ceiling will be adjusted downward by the excess disbursement beyond CFAF 5 billion, unless it is used to absorb domestic arrears.

[4] Debt is considered non-concessional if the difference between the present value (PV) of the debt and its nominal value, as percentage of the nominal value of the debt, is lower than 35 percent.

[5] Stock of payment orders issued since the beginning of January 2010 and not yet regularized at each test date.

Table 2. Benin: Prior Actions and Structural Benchmarks for 2010–11

Measures	Date	Rationale
The launch of an offer for the implementation by end-December 2010 of a one-stop window for port operations at Port of Cotonou.	Prior Action	The authorities aim to contain the decline in revenue by enhancing tax and customs administration.
The increase by 10 CFAF/kWh on average of all electricity tariffs	Prior Action	The authorities aim to improve the financial situation of the electricity company (SBEE) and reduce government subsidies.
The adoption by the Council of Ministers of all implementing decrees of the Public Procurement Code.	September 30, 2010	The authorities want to create fiscal space for poverty-reduction expenditure and public infrastructure by improving the efficiency of public expenditure.
The submission to the National Assembly of legislation introducing the personal income tax.	October 31, 2010	The authorities aim to contain the decline in revenue by widening the tax base and reducing tax rates, and by improving the rationality of the tax system.
The extension of the ASYCUDA++ information system to twelve (12) additional regional customs offices.	December 31, 2010	The authorities aim to improve the collection of customs revenue to expand the fiscal space for infrastructure investment and measures to reduce poverty.
The adoption of an IT master plan for the tax department (DGID) (after its audit to generalize the TIN); the development of a complete and integrated information system at the DGID; the modernization of the information system of the customs department (DGDDI) and its extension to all units.	December 31, 2010	The authorities aim to contain the decline in revenue by improving the performance of the tax and customs administration.
The generalization of the TIN to all taxpayers and all the units of the tax and customs administration.	December 31, 2010	The authorities aim to contain the decline in revenue by improving the performance of the tax and customs administration.
The generalization of the systematic use of the TIN by the DGDDI and the adoption of a deadline for the abolition of the use of nonspecific identification numbers at the level of ASYCUDA++ (0000000000000 and 299999999949).	December 31, 2010	The authorities aim to contain the decline in revenue by improving the performance of the tax and customs administration.
The adoption by decision of the Council of Ministers of a comprehensive strategy to reform the civil service.	June 30, 2011	The authorities aim to limit the expansion of the wage bill and to maintain fiscal space for infrastructure investment and measures to reduce poverty.
The implementation of the integration and federation of all the agents at customs and at the Port Autonome de Cotonou in the one-stop window.	June 30, 2011	The authorities aim to contain the decline in revenue by improving the performance of the tax and customs administration.
The adoption by decision of the Council of Ministers of a regulatory framework governing the energy sector that will formally sanction the opening of electricity distribution to private investors, and the establishment of a regulatory authority and of a system that will guarantee transparency in the electricity price-setting mechanism.	June 30, 2011	The authorities aim to maintain the financial viability of the electricity company (SBEE).
The presentation to the National Assembly of a draft law governing pensions based on the final report on the actuarial audit of FNRB.	December 31, 2011	The authorities aim to contain the impact of FRNB's deficit on public finances by strengthening its financial viability.

ATTACHMENT II

TECHNICAL MEMORANDUM OF UNDERSTANDING

May 27, 2010

1. This technical memorandum of understanding defines the prior actions, quantitative performance criteria and benchmarks, and structural benchmarks for the Republic of Benin's program supported by the Extended Credit Facility (ECF). 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, "government" is understood to mean the central administration of the Republic of Benin and does not include any political subdivisions (such as local governments), the central bank, or any other public or government-owned 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 set out in point 9 of Executive Board Decision No. 6230-(79/140), as subsequently amended, including by Executive Board Decision No. 14416-(09/91), effective December 1, 2009:

(a) Debt is understood to mean a direct, that is, not contingent, liability, created under a contractual agreement through the provision of value in the form of assets (including currency) or services, 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, that is, 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, that is, contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided;

(iii) leases, that is, 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; and

(iv) Treasury bills and bonds issued in CFA francs on the West African Economic and Monetary Union (WAEMU) regional market, which are included in domestic debt for the purpose of this Memorandum.

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 (for example, 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 (that is, the grant element of the loan is at least equal to 35 percent of its nominal value). The present value of the loan will be calculated by discounting future payments of interest and principal using the commercial interest reference rates (CIRRs) established by the Organization for Economic Cooperation and Development (OECD). Specifically, the 10-year average of CIRRs reported by the OECD will be used for loans with maturities longer than 15 years while the six-month average of CIRRs will be used for loans with shorter maturities. To both the 10-year and six-month averages of the reference rate, the margin for different repayment periods will be added, as established by the OECD (0.75 percent for repayment periods of less than 15 years; 1 percent for repayment periods of 15–19 years; 1.15 percent for repayment periods of 20–29 years; and 1.25 percent for repayment periods of 30 years or more).

(c) "Domestic debt" is defined as debt denominated in CFA francs, while "external debt" is defined as debt denominated in any currency other than the CFA franc.

II. Prior Actions

4. The government has undertaken with IMF staff to implement the following measures before presenting the program to the Executive Board of the IMF (MEFP Table 2). The implementation of these measures will be verified five days before presentation of the program:

- the launch of a call for bids for the establishment by end-December 2010 of a one-stop shop for port operations at the Port of Cotonou.

- the increase by CFAF 10 per kWh on average of all electricity tariffs.

III. Quantitative Performance Criteria

A. Ceiling on Net Domestic Financing of the Government

Definition

5. 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, which includes proceeds from the divestiture of parts of public enterprises, that is, privatizations; Treasury bills and other securitized obligations issued by the government and listed in CFA francs on the WAEMU regional financial market and any BCEAO credit to the government, including any drawings on the CFA franc counterpart of the allocation of Special Drawing Rights (SDR).

6. 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 national 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 government owned, with the exception of industrial or commercial public agencies (*établissements publics industriaux et commerciaux* - EPICs) and government corporations, which are excluded from the calculation. Government debt to the banking system includes all debt to the central bank and the national commercial banks, including Treasury bills and other securitized debt.

7. The figures deemed valid within the framework of the program will be the figures for net bank credit to the government and for the net amount of Treasury bills and bonds issued in CFA francs on the WAEMU regional financial market calculated by the BCEAO and the figures for nonbank financing calculated by the Benin Treasury.

8. The government will decide on the use of resources from the divestiture of parts of corporations, including the use of the proceeds from the sale of Benin Telecom and the cement company (Société des Ciments d'Onigbolo—SCO), in consultation with the staff of the International Monitory Fund (IMF). 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 of CFAF 10 billion at end-June 2010, CFAF 20 billion at end-September 2010, and CFAF 35 billion at end-December 2010 (cumulative since January 1, 2010). 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). The amount of budgetary assistance provided in the program is CFAF 10 billion at end-June 2010, CFAF 20.9 billion at end-September and CFAF 38.3 billion at end-December 2010 (cumulative since January 1, 2010).

Indicative targets and performance criteria

9. The ceiling on net domestic financing of the government is set at CFAF 37.0 billion for end-June 2010, CFAF -25.4 billion for end-September 2010, and CFAF -15.3 billion for end-December 2010. The ceiling is a performance criterion for end-June 2010 and end-December 2010; and an indicative target for end-September 2010.

Reporting deadline

10. Detailed data on domestic financing of the government will be reported 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. Basic Primary Fiscal Balance

Definition

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

Performance criterion

12. For 2010, the ceiling on the basic primary fiscal balance (excluding grants) is a balance of not less than CFAF 37.8 billion at end-June, CFAF 1.9 billion at end-September and CFAF -10.5.8billion at end-December. It is a performance criterion for end-June 2010 and end-December 2010 and an indicative target for end-September 2010.

Reporting deadline

13. Provisional data on the basic primary fiscal balance, including data produced by the automated fiscal management system (SIGFiP), will be reported on a monthly basis, within four weeks of the end of the month. The definitive data will be reported four additional weeks after reporting of the provisional data.

C. Accumulation of New Domestic Payments Arrears by the Government

Definition

14. Domestic payments arrears are defined as domestic payments that are due but not paid after a 90-day grace period, unless the obligation specifies a longer grace period; arrears in payments on government domestic debt are defined as the stock of debt that is due but not paid at the end of a 90-day grace period, unless the obligation specifies a longer grace period.

The National Amortization Fund (CAA, Caisse Autonome d'Amortissement) and the Treasury record and update the accumulation of domestic payments arrears, as well as their settlement.

Performance criterion

15. The government undertakes not to accumulate any new payments arrears on government domestic debt, and not to accumulate further arrears on obligations other than public debt for periods of more than 90 days. The non-accumulation of domestic payments arrears will be continuously monitored throughout the program. The definitions of debt provided in paragraph 3a, of domestic debt in paragraph 3c and of government in paragraph 2 apply here.

Reporting deadline

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

D. Nonaccumulation of External Payments Arrears by the Government

Definition

17. External public payments arrears are defined as the sum of payments due, and not paid by the due date specified in the contract, on external debt of or guaranteed by the government. The definitions of debt provided in paragraph 3a, of external debt in paragraph 3c and of government in paragraph 2 apply here.

Performance criterion

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

E. Ceiling on the Contracting or Guaranteeing by the Government of New Nonconcessional External Debt Maturing in a Year or More.

Definition

19. This performance criterion applies not only to debt as defined in point 9 of Executive Board Decision No. 6230-(79/140), as subsequently amended, including by Executive Board Decision No. 14416-(09/91), effective December 1, 2009, but also to commitments contracted or guaranteed (including lease-purchase contracts) for which no value have been received. This criterion also applies to the guaranteeing of private sector debt by the government, which consequently constitutes a contingent liability of the government, as defined in paragraph 20. External debt excludes Treasury bills and bonds issued in CFA francs on the WAEMU regional market.

20. The concept of "government" used for this performance criterion and for the performance criterion on the contracting or guaranteeing of short-term debt includes the government, as defined in paragraph 2, local governments, and all public enterprises, including administrative public agencies (EPAs), scientific and technical public agencies, professional public agencies, and enterprises jointly owned by the Beninese government with the governments of other countries.

Performance criterion

21. No nonconcessional external borrowing will be contracted or guaranteed by the government for the duration of the 2010–13 program. Changes to the ceiling to accommodate nonconcessional external debt can be made during the course of the program after approval of the IMF Executive Board. Any such changes would be proposed solely for specific investment projects whose financial viability and profitability have been evaluated and approved by a recognized institution, and on condition that the loan does not seriously exacerbate debt vulnerabilities according to the debt sustainability analysis prepared jointly by the staff of the World Bank and the International Monetary Fund.

22. The government also undertakes not to contract or guarantee any external loan during the implementation of the 2010–13 program without first having determined its concessionality with IMF staff.

Reporting deadline

23. Data on any debt (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 the Contracting or Guaranteeing by the Government of New Short-Term Nonconcessional External Debt

Definition

24. The definitions in paragraphs 19 and 20 also apply to this performance criterion.

25. Short-term external debt is debt with a contractual term of less than one year. Import- and export-related loans, Treasury bills issued in CFA francs on the WAEMU regional market, normal short-term supplier credits, and debt relief operations are not covered by this performance criterion.

Performance criterion

26. In the context of the program, the government undertakes not to contract or guarantee short-term nonconcessional external debt. The definition of nonconcessional in paragraph 3b applies here.

27. The government also undertakes not to contract or guarantee any short-term external debt without having first determined its concessionality with IMF staff.

28. On December 31, 2009, Benin had no short-term external debt.

IV. Quantitative Benchmarks

A. Floor for Government Revenue

Definition

29. Total government revenue includes tax and nontax revenue as shown in the TOFE and excludes foreign grants, revenue of autonomous agencies, and privatization receipts.

Indicative targets

30. For 2010, the indicative targets for total government revenue are set at CFAF 315.5 billion for end-June, CFAF 494.6 billion for end-September and CFAF 618.9 billion for end-December (cumulative since January 1, 2010).

Reporting deadline

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

B. Ceiling on Exceptional Payment Procedures

Definition

32. Exceptional payment procedures (*ordres de paiement hors de la chaîne de dépenses*) are defined as all expenditures of a budgetary nature that are not executed following the expenditure chain stages of expenditure commitment (*engagement*) and validation (*liquidation*) before the order to pay (*ordonnancement*) is issued, and that have not been regularized on the test date.

Indicative targets

33. The Beninese government undertakes to limit total expenditures effected by exceptional payment procedures to a ceiling of CFAF 4.6 billion at end-June 2010, CFAF 7.5 billion at end-September 2010, and CFAF 10.6 billion at end-December 2010 (cumulative from January 1, 2010).

Reporting deadline

34. The government will report the amount of exceptional payment procedures to Fund staff within four weeks following the test date.

V. STRUCTURAL BENCHMARKS

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

- Adoption by the Council of Ministers of all implementing decrees for the Public Procurement Code by September 30, 2010;

- Submission to the National Assembly of legislation introducing the personal income tax by October 31, 2010;

- Expansion of the ASYCUDA++ computer system to 12 additional workstations in regional customs offices by December 31, 2010;

- Adoption of an IT master plan for the tax department (DGID) (after its audit to generalize the taxpayer identification number, TIN), development of a complete and integrated information system at the DGID, modernization of the computer system in the customs department (DGDDI) and its extension to all units, by December 31, 2010;

- Generalization of the taxpayer identification number (TIN) to all taxpayers and to all units of the tax and customs administrations, by December 31, 2010;

- Generalization of the systemic use of the TIN by the DGDDI and the adoption of a deadline for the abolition of the use of nonspecific numbers at the level of ASYCUDA++ (0000000000000 and 299999999949) by December 31, 2010;

- Adoption by the Council of Ministers by June 30, 2011, of a comprehensive strategy for the reform of the civil service;

- Implementation of the integration and federation of all the agents at customs and at the Autonomous Port of Cotonou in the one-stop shop by June 30, 2011;

- Adoption by decision of the Council of Ministers by June 30, 2011, of a regulatory framework governing the energy sector that will formally sanction the opening of electricity distribution to private investors and the establishment of a regulatory authority and of a system that will guarantee transparency in the electricity price-setting mechanism;

- Presentation to the National Assembly of a draft law governing pensions (based on the final report on the actuarial audit of the FNRB) by December 31, 2011.

VI. Additional Information for Program Monitoring

A. Government Finance

36. The government will provide the Fund with:

- the monthly government flow-of-funds table (TOFE), to be submitted within six weeks of the end of each month;

- the list of expenditures authorized by *ordres de paiement* or other exceptional payment procedures after January 1, 2010;

- detailed monthly revenue and expenditure estimates, including for social expenditure, the settlement of arrears, and expenditure financed under the HIPC Initiative;

- comprehensive monthly data on domestic financing (bank and nonbank) of the budget, including the claims held by the nonbank private sector. These data will be reported every month, within four weeks of the end of the month; and

- quarterly data on implementation of the public investment program, including a breakdown of financing sources. These data will be reported on a quarterly basis, within four weeks of the end of the quarter.

B. Monetary Sector

37. 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

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

- any revision of balance of payments data (including services, private transfers, official transfers, and capital transactions), as they occur;

- monthly data on import and export values, prices and volumes;

- other balance of payments data, including services, private transfers, official transfers, and capital transactions; and

- quarterly data on the stock of external debt, external debt service, the signing of external loans, and disbursements of external loans.

D. Real Sector

39. 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;

- provisional national accounts; and

- any revision of the national accounts, within eight weeks of the revision date.

E. Structural Reforms and other Data

40. 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.