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January 31, 2011

LETTER OF INTENT

January 31, 2011

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

Dear Mr. Strauss-Kahn:

We are pleased to take the opportunity afforded by the first review of the program supported by the Extended Credit Facility (ECF), approved by the Executive Board of the International Monetary Fund (IMF) on June 14, 2010, to bring you up to date on the progress made with its implementation and on recent developments in our economy. This program aims at promoting growth, containing inflation below the convergence criterion of the West African Economic and Monetary Union (WAEMU), implementing a prudent fiscal policy, including broadening the tax base, pursuing a moderate regional monetary policy, and accelerating structural reforms to improve external competitiveness and the business climate.

Introduction

The economic context in which we have been pursuing the program has been more unfavorable than anticipated, prompting us to revise the program in agreement with your staff. Preliminary economic indicators for 2010 suggest that economic recovery is slower than expected, as a result of which we have revised our growth forecasts downward for 2010 and the medium term.

The less favorable economic developments have been reflected in less robust growth in revenue than anticipated. Nonetheless, we have been able to contain budgetary expenditure to remain above the floor for the basic primary fiscal balance approved in the program for end-June 2010 (Table 1 annexed to this letter). Despite this compression of expenditure, we were unable to meet the ceiling on net domestic financing for the same date. Indeed, we accelerated repayment of the float (*reste-à-payer*), which was therefore higher than projected in the budget, which, combined with cash advances to public enterprises, led us to miss the performance criterion on net domestic financing at end-June 2010.

We are continuing to implement our program of structural reforms aimed at broadening the tax base, reducing the risks to the budget arising from subsidies to public enterprises, improving the effectiveness of government finances, and promoting stronger growth. In this context, we have made progress in improving the effectiveness of our revenue agencies, in particular through the generalized use of the single tax identification number (TIN), and have adopted the implementing decrees for the new public procurement code. We completed the call for bids for the one-stop window at the Port of Cotonou and the contracts have already been signed. Results of the call for bids for the privatization of *Bénin Télécoms* are in the process of being approved. The process of granting a concession for the Benin-Niger railroad network has moved forward significantly. Moreover, we are pursuing the structural reforms programmed for improving the business climate and enhancing the competitiveness of our economy to achieve the growth targets of the program.

As you know, our country was shaken by a crisis brought about by illegal financial institutions which fraudulently attracted substantial deposits from the public by promising exorbitant interest rates. The government has undertaken measures to ensure an orderly and transparent resolution of this crisis without making use of the government's financial resources or guarantee. We have benefited from technical assistance from the IMF, the World Bank, and the Central Bank of West African States (BCEAO), that has helped us pinpoint the weaknesses in the regulations and in the supervision system that made it possible for these fraudulent activities to flourish. The government has started the repayment of small depositors through the liquidation of the assets of the illegal financial institutions involved as well as those of their managers. In keeping with the recommendations of the IMF technical assistance mission, which visited Cotonou in September 2010, the government will take the necessary measures to strengthen the regulation and supervision of the microfinance sector. A special committee comprised of representatives from the Presidency and relevant ministries and agencies has been put in place to elaborate an action plan for the speedy implementation of recommendations of the technical assistance report.

Because of the unfavorable economic situation, we have held discussions with your staff to extend the program by three months and rephase its review dates accordingly, and to review the program criteria and benchmarks for 2011. The proposed revisions to the program reflect a less ambitious revenue path than initially projected, as a result of developments in 2010. In these circumstances, the government proposes an appropriate reduction in current expenditure in 2011 and 2012, as compared to the initial program. In order to ensure that current economic developments will not have an unfavorable impact on priority social expenditure, the government proposes quarterly indicative monitoring (defined by budget codes) of such expenditure beginning in the first quarter of 2011.

In September and October, our country was struck by serious and exceptional flooding, which caused a number of victims and left hundreds of thousands of individuals homeless. The floods affected two-thirds of the country (55 communes out of 77), triggered a health crisis, and severely damaged infrastructure and agricultural harvests. A joint World Bank/UNDP mission visited the country in November to assess the damage caused by the floods and their medium-term impact. As the mission noted, the floods had a major impact on important sectors of the economy, notably agriculture, commerce, and some informal sector services, and will require major recovery and prevention efforts in the medium term. These effects have led us to adjust our medium-term economic and financial program.

In December 2010, we forwarded the draft of the third Growth and Poverty Reduction Strategy (GPRS III) for 2011–15 to our technical and financial partners. The strategic pillars of GPRS III are identical to those of GPRS II, but are strengthened in response to the new constraints and challenges facing the country. This strategy will feature a priority action program, a matrix of monitoring indicators, and a system for monitoring priority social expenditures.

In view of the foregoing, the government is convinced that the policies and corrective measures set forth in this document will make it possible to meet the revised program targets. For this reason, we are making a series of program-related revision requests, as detailed in paragraph 40.

General economic situation

The program was implemented in 2010 in difficult conditions, characterized by the weakness of the global economy. This weakness was reflected in more modest economic growth than projected, slowing the return to high growth in the medium term. We are nevertheless careful to maintain priority social and investment expenditures and ensuring their quality so as not to undermine the achievement of our growth and poverty-reducing objectives for the future.

Projected economic growth in 2010 will remain modest in a context of macroeconomic stability. Inflation reached 2.1 percent on average in 2010, compared with 2.2 percent in 2009. Economic activity indicators suggest that real economic growth remained at about 2.5 percent in 2010, against a program forecast of 3.2 percent. This lower-than-projected growth is explained by smaller public investment and a dampening of domestic demand, only partially offset by improved export performance. The current account deficit, excluding grants, was reduced to about 7.9 percent of GDP in 2010. This reduction resulted primarily from the smaller fiscal deficit, slack domestic demand, and an increase in exports. The monetary survey for 2010 indicates annual money supply growth of about 5 percent, in line with the projections for economic activity and inflation.

The consolidation of government finances has continued, but fell short of the targets we set for 2010 under the program. This is a reflection primarily of the insufficient revenue collection, which, while on the rise by 4.7 percent from the 2009 level, fell below program targets on the back of weak economic activity. Budgetary expenditure was nevertheless held well below the ceilings programmed for 2010, which made it possible to continue to restore the sustainability of government finances.

Implementation of the economic and financial program

Program implementation during the first half of 2010

Despite the difficulties encountered with respect to revenue mobilization, thanks to a firm control of expenditure, we met all the performance criteria for end-June 2010, with the exception of the one for net domestic financing of the government. The exception was associated with the more-rapid-than-expected repayment of the float, and with the net lending we had to extend to public enterprises (in the energy sector in particular) which were experiencing cash flow problems. About a third of this net lending was repaid by the end of the year. We have taken steps to improve the coordination of budget execution between the Budget Department and the Treasury to ensure that net domestic financing of the government is managed in a manner that is consistent with program targets. Revenue amounted to CFAF 275.9 billion at end-June, below the indicative benchmark of CFAF 315.5 billion.

In keeping with the spirit of the program, we met this challenge through the firm control of expenditure, while preserving priority social expenditures. Thus, in order to contain expenditure in step with revenue collection, we limited authorizations, for both current expenditure and investment expenditure. We kept the wage bill within the programmed ceilings while still recruiting in the education sector and preserving social peace. In response to the revenue shortfall, we reduced current expenditure by CFAF 20.6 billion and domestically financed investment expenditure by CFAF 26.4 billion. The basic primary fiscal balance at end-June 2010 was therefore met with a margin.

We also conducted a systematic review of the portfolio of investment projects in order to improve the effectiveness of capital expenditure and avoid any accumulation of arrears in respect of expenditures already committed. This process, necessitated by the difficult budget situation, slowed the implementation of the Public Investment Program (PIP). As a result of this slowdown, payment authorizations for domestically financed investment expenditure remained more than 50 percent below the program target.

Program implementation during the second half of 2010

Unfortunately, the less-favorable-than-projected economic climate and the initial difficulties experienced with mobilizing government revenue were compounded in the second half of the year by extraordinary flooding.

Measures were taken, however, by the revenue agencies to increase the pace of revenue collection. They included, for the customs administration, strengthening of targeted controls and monitoring of transit; improved monitoring of cargo; and intensified checking of merchandise by redeploying personnel and strengthening the capacities of the units concerned with combating fraud. For the tax administration, the measures included more frequent and more intense controls, and an enhanced enforcement of collection actions through increased staff and equipment.

Total revenue reached CFAF 603.0 billion at the end of 2010, as compared to the initial target of CFAF 681.9 billion. Current primary expenditure and domestically financed investment expenditure was reduced to CFAF 587.9 billion, as compared to the CFAF 692.3 billion initially programmed. As a result, the criterion for basic primary balance for end-2010 was largely met. This very prudent fiscal policy resulted in a deficit in the overall balance on a cash basis of CFAF 107 billion, equivalent to 3.3 percent of GDP.

After delays in the first half of the year in executing the PIP, the pace of payment authorizations picked up in the second half of the year. The number of projects executed during 2010 was nonetheless reduced owing to the decline in available financial resources and the results of the review of the PIP in order to improve its quality. Lower-than-expected revenue and delays in external budget support disbursements also adversely affected externally financed projects. Consequently, expenditure authorized in 2010 fell significantly short of the amounts projected in the program for both domestically and externally financed investments.

To preserve debt sustainability, we have pursued a prudent borrowing policy focused on the mobilization of concessional external financing, including budgetary assistance loans from the World Bank for a total of US$30 million under the PRSC-6 program. For the financing of projects in the roads and health sectors, the government has negotiated three slightly non concessional potential loans. However, the government commits to further negotiations of these loans to bring them into compliance with the continuous performance criteria of the program.

Program implementation in 2011

Program implementation in 2011 and beyond will be affected by the adverse economic impact of the 2010 floods. Accordingly, we propose to adjust our 2011 program framework.

In the wake of the floods, growth is now projected at 3.4 percent in 2011, as compared to 4.4 percent initially projected for 2011, reflecting, on the one hand, the impact of the flooding, and, on the other hand, a weaker than expected global recovery. Despite a limited increase in the price of some agricultural products affected by the floods, inflation is expected to remain moderate. The current account deficit, excluding grants, is projected to narrow slightly to 7.2 percent of GDP in 2011 reflecting an increase in export growth. In this context, the money supply should expand in keeping with the nominal GDP and permit the financing of the private sector.

While continuing to pursue the fundamental objectives of the program, the impact of the floods and the revenue shortfall in 2010 have led us to review the quantitative targets of the program in 2011 and in the medium term. The program objectives will now be pursued with lower revenue and expenditure levels. The projected growth path for the medium term has also been revised downward.

The effectiveness of the tax and customs administrations will be emphasized in order to enhance revenue mobilization, which is a major objective of the program. In this context, we will broaden the tax base (including to small-scale businesses), build the capacities of, and improve the synergy between, the tax and customs administrations, extend taxation in the informal sector, and intensify efforts to combat fraud and corruption. In December, the National Assembly adopted the budget for 2011, which broadly supports a stable macroeconomic environment, conducive to growth and poverty reduction. Accordingly, we will keep expenditure in line with revenue developments and ensure that budget execution in 2011 is consistent with the program targets as proposed in this letter of intent.

We think that the introduction of the personal income tax and the generalization of the TIN for use by most economic operators will make it possible to improve the performance of the tax administration. To supplement these important reforms, we have: (i) developed a cross-checking tool making it possible to determine the turnover of successful bidders on procurement contracts; (ii) created a tax center for medium-sized enterprises; (iii) adopted procedures for the systematic verification of information provided to customs and to the tax administration in respect of the same taxpayers; (iv) established joint task forces (customs-tax administration) for fight commercial fraud and introduced a joint customs-tax administration oversight committee; (v) strengthened targeted controls by customs and the monitoring of transit trade; (vi) modernized the merchandise valuation procedures at customs; and (vii) increased the inspection and control missions focused on bonded warehouses.

Total revenue for 2011 is projected at CFAF 650 billion, equivalent to 18.7 percent of GDP. This forecast takes into account the improvements in the tax and customs administrations, whose contribution to revenue collection will exceed the growth in nominal GDP. We have revised expenditure for 2011 downward, in particular current expenditure, in order to preserve investment expenditure and fiscal balance objectives. These objectives will incorporate the wage bill agreed in the initial program, as well as expenditure to cover the costs of the presidential and legislative elections to be held in the spring. The basic primary fiscal deficit will thus remain modest at -0.5 percent of GDP. The overall fiscal deficit, on a cash basis, will be CFAF 168 billion, which is below the initial program target. External assistance, borrowing on the regional market, and the use of government deposits will finance this deficit while preserving the sustainability of public debt. The government re-confirms its readiness to consult with IMF staff before and during external debt negotiations, to check that contemplated external borrowing conditions are consistent with the concessionality requirement under the program.

In order to better protect the execution of priority social expenditures, we have introduced, starting with the 2011 budget, quarterly indicative targets for them. These expenditures comprise certain expenditures in the education, health, agriculture, energy, and water sectors, and mainly benefit the most vulnerable groups of the population. The specific budget lines for monitoring these expenditures are identified and defined in the Technical Memorandum of Understanding (TMU), and the quarterly indicative targets are shown in Table 1.

While keeping costs under control, we will enhance the effectiveness and transparency of public financial management by reforming the budget preparation process and by reinforcing capacity in the units involved with the expenditure chain. Accordingly, and in keeping with WAEMU directives, we will continue the reform of the organic law on the budget, whose central focus is performance-based management, with technical assistance from the IMF and other technical partners.

Implementation of structural reforms

In the context of reducing poverty and pursuing sustainable growth, the government is continuing to implement structural reforms (Table 2) aimed at enhancing competitiveness and improving the business climate to encourage private investment. These reforms include strengthening the financial viability and productivity of the public enterprises and opening their capital to the private sector, in particular in the key sectors of telecommunications, energy, and transportation. We have thus continued to make progress with the implementation of structural reforms. However, some of them will take longer than projected. Steps will be taken to ensure that these delays do not undermine our development objectives.

The goal of establishing an administration for development in the interest of the general public and the private sector will be pursued while keeping the wage bill under control. The development of a civil service reform strategy is in progress, with support from our technical and financial partners, and is expected to be completed on schedule. Two related studies, one on the civil service remuneration system and another taking stock of ongoing reforms in this area, are to be completed by May 2011, and will recommend action plans. In this context, the Council of Ministers will adopt a civil service reform strategy by end-June 2011, and will present to the National Assembly a draft law governing pensions, as envisaged in the program. To reduce the actuarial deficit of the Civil Service Retirement Fund (FNRB), and on the basis of the actuarial audit of the FNRB completed in September 2009, a draft law on the implementation of a new strategy will be examined by the Council of Ministers in June 2011 and will be submitted to the National Assembly by December 2011.

The implementing decrees for the new public procurement code (*benchmark for September 2010*) were adopted in the Council of Ministers and signed by the President of the Republic in November, and published in the *Journal Officiel* (official gazette). These decrees will make it possible to continue improving the effectiveness of expenditure and promoting competition in the private sector.

The introduction of a personal income tax (*benchmark for October 2010*) was adopted by the National Assembly with the 2011 budget law in December 2010, and will come into force in 2012.

The measures to improve the effectiveness of the revenue agencies are in the process of being implemented. However, some reforms will take longer than anticipated. The generalization of the TIN at customs and taxes (*benchmark for December 2010*) is already in effect for large operators. To further combat fraud, the government plans to extend the issuance of TINs to small operators by establishing registration centers at eight border posts, with support from the African Development Bank (AfDB). These registration centers will be operational by December 2011, taking into account the time lag needed to bring the AfDB support into effect. The use of nonspecific numbers (0000000000000 and 2999999999949) at the level of the ASYCUDA++ computer program has already been abolished (*benchmark for December 2010*). However, we were obliged to create a temporary TIN for the informal sector, pending the installation of computer hardware expected to be financed by the AfDB. The positive impact of abolishing nonspecific numbers within the ASYCUDA++ system will thus not be achieved until December 2011, when the temporary TIN will in turn be eliminated.

The customs administration is in the process of extending the ASYCUDA++ system to 12 additional border units (*benchmark for December 2010*). Extension to two new units was completed in October 2010, and the ongoing efforts to extend it to the other units should be completed by end-June 2011.

The projects to upgrade the information technology (IT) systems at customs and tax administrations, currently being implemented (*benchmark for December 2010*), will be delayed from the initial timetable. The audit of the Tax Department's IT system, aimed at the adoption of an IT master plan, is in progress. The consulting firm selected for carrying out this task was recruited in October 2010. The development of a comprehensive and integrated IT system at the Tax Department, planned to be undertaken with support from the Canadian International Development Agency (CIDA), began before end-2010, but will take up to three years to reach completion. With regard to the modernization of the IT system at customs, it is already in effect at the Directorate General and in the six main offices. Its extension should be completed by end-June 2011, as explained above.

The implementation of a one-stop window for operations at the Port of Cotonou is on track. The company that won the bidding process has begun work and we expect the one-stop window to be operational in the first half of the year, slightly ahead of schedule. The integration of the one-stop window with customs will be completed by end-June 2011, as planned. In addition, we have awarded a contract for import verification and the installation of scanners to combat fraud. The latter measure, not envisaged in the structural measures of the program, and the one-stop window becoming operational will improve the collection of the financial resources deriving from port and customs operations and reduce waiting times at the port.

We are continuing to implement the other structural reforms envisaged under the program for 2011 (Table 2), on which we reported to you in our letter of intent of May 27, 2010. It further bears noting that the outsourcing of the management of the Benin-Niger railroad network is nearing completion, and should make it possible to improve the competitiveness of our economy by unclogging the port, promoting the emergence of dry ports, and facilitating transit trade in goods routed to landlocked countries of the subregion. The results of the call for bids for the privatization of *Bénin Télécoms*, which brought forward two internationally renowned investors each of which has the capacity to improve the efficiency of that company, are in the process of being approved.

With regard to the reform of the energy sector, we are continuing our efforts aimed at adopting a new regulatory framework by end-June 2011, with the assistance of our technical partners. We are resolved to provide a framework for the energy sector that will permit the establishment of a regulatory authority and a transparent price-setting system to open up the distribution of electricity to the private sector. In anticipation of the above, the April 2010 financial restructuring of the SBEE has made it possible to improve its financial position and reduce subsidies from the government. The SBEE has stepped up its efforts to combat illegal connections to the grid and is auditing its customer database. The company's management expects these efforts to result in enhanced revenue. In addition, a new office has been created for dealing with industrial users, and the waiting period for connection has been reduced to less than 48 hours for new businesses. Moreover, the waiting list of applicants for connection has been shortened from 20,000 to 4,000. A new power plant with gas turbines is ready to come on stream and will allow for greater and more stable power generation at a lesser cost, as soon as the supply of natural gas from Nigeria becomes operational.

In December 2010, we submitted the draft GPRS for 2011–15 to our technical and financial partners. The updated strategy focuses on development issues and issues pertaining to sectoral and local strategies, including the organization of the rural sector and the diversification of agriculture, creating jobs for young people and women, reducing the isolation of agricultural production areas, promoting rural economic growth, building the legal capacities of the poor, and promoting social protection and solidarity. The strategy will be accompanied by a Priority Action Program (PAP) to be finalized in January 2010.

Conclusion

The government is convinced that the measures and policies described in this letter are appropriate for achieving the objectives of the program, and reaffirms its commitment to take any additional measures necessary for meeting them. The government therefore requests (i) a waiver of the nonobservance of the end-June performance criterion on net domestic financing; (ii) completion of the first review under the ECF and the release of the associated disbursement; (iii) an extension and a rephasing of the program by three months; and (iv) the establishment of performance criteria for September 30, 2011. The second review under the ECF will be completed by September 15, 2011 on the basis of the observance of the revised performance criteria for March 31, 2011, and the third review will be completed by March 15, 2012 on the basis of the performance criteria for September 30, 2011. Program monitoring will be based on the performance criteria and structural and quantitative benchmarks defined in Tables 1 and 2 and in the attached TMU. To facilitate program monitoring and evaluation, the government will regularly provide IMF staff with all the information referred to in the updated TMU within the prescribed deadlines.

The government will consult with the IMF on its own initiative or at the request of the Managing Director before adopting any additional measure or changing any of the measures included in this letter of intent with a view to achieving program targets. The government authorizes the IMF to publish the Staff Report on the discussions for the first review of the program, as well as this letter.

Sincerely yours,

/s/

Idriss L. DAOUDA
Minister of Economy and Finance

Table 1. Benin: Quantitative Performance Criteria and Indicative Targets, 2010–11
(Billions of CFA francs)

	June 30, 2010			September 30, 2010			December 31, 2010			March 31, 2011	June 30, 2011	Sept. 30, 2011	Dec. 31, 2011
	Performance criteria			Indicative targets			Indicative targets			Performance criteria	Indicative targets	Performance criteria	Indicative targets
	Prog.	Adj. Prog.[1]	Prel.	Prog.	Adj. Prog.[1]	Prel.	Prog.	Adj. Prog.[1]	Prel.	Prog.	Proj.	Prog.	Proj.
A. Quantitative Performance Criteria and Indicative Targets[2]													
Net domestic financing of the government (ceiling)[3 4]	-37.0	-27.0	41.3	-25.4	-5.4	36.9	-15.3	-0.1	0.7	69.9	72.1	79.7	57.3
Basic primary balance (excuding grants) (floor)	37.8	37.8	38.4	1.9	1.9	-20.3	-10.5	-10.5	15.1	-46.4	-36.5	-48.5	-17.6
Memorandum Item: Budgetary Assistance[5]	10.0	10.0	0.0	20.9	49.2[6]	4.3	38.3	69.9[6]	52.2	11.0	11.0	23.0	33.8
B. Continuous Quantitative Performance Criteria (ceilings)													
Accumulation of external payments arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External nonconcessional debt contracted or guaranteed by government with maturities of 0–1 year[7]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External nonconcessional debt contracted or guaranteed by government with maturities of more than one year[7]	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Accumulation of domestic payments arrears	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
C. Indicative Targets													
Total revenue (floor)[2]	315.5	315.5	275.9	494.6	494.6	438.1	681.9	681.9	603.0	136.6	295.0	464.2	650.1
Payment orders issued outside the expenditure chain (ceiling)[8]	4.6	4.6	4.0	7.5	7.5	3.9	10.6	10.6	8.6	2.5	4.6	7.5	10.6
Social priority expenditure (floor)	…	…	…	…	…	…	…	…	…	45.3	77.6	117.3	132.6

Sources: Beninese authorities; and IMF staff estimates and projections.

[1] The performance criterion on net domestic financing is automatically adjusted as indicated in Footnote 3 below (as per Paragraph 8 of the Technical Memorandum of Understanding).

[2] The indicative targets and performance criteria are cumulative from the beginning of the calendar year.

[3] If the amount of disbursed external budgetary assistance net of external debt service obligations falls short of the program forecast, the ceiling on net domestic financing will be adjusted pro tanto, subject to limits specified in the Technical Memorandum of Understanding (Paragraph 8).

[4] If the amount of disbursed external budgetary assistance net of external debt service obligations exceeds the program forecast by 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.

[5] Gross disbursements, not adjusted for debt service obligations.

[6] Includes the part of the financing gap that was expected to be covered with nonidentified external budgetary assistance.

[7] Debt is considered nonconcessional if the difference between the present value (PV) of the debt and its nominal value, as a percentage of the nominal value of the debt, is lower than 35 percent.

[8] Exceptional payment procedures: stock of payment orders issued since the beginning of the calendar year and not yet regularized at each test date.

Table 2. Benin: Structural Benchmarks, 2010–11

Measures	Initial date / revised date	Rationale	State of execution
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.	Achieved with a slight delay. The Council of Ministers adopted the implementing decrees in November 2010.
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.	Achieved. The introduction of a personal income tax was adopted by the National Assembly in with the 2011 Budget Law in December 2010.
Extension of the ASYCUDA++ information system to 12 additional regional customs offices.	December 31, 2010 / June 30, 2011	The authorities aim to improve the collection of customs revenue to expand the fiscal space for infrastructure investment and measures to reduce poverty.	Delayed. The extension to two additional border posts was achieved at end-October. The extension to the remaining offices will be achieved by end-June 2011.
(i) Adoption of an information technology (IT) master plan for the tax department (DGID) (after its audit to generalize the TIN); (ii) the development of a complete and integrated information system at the DGID; (iii) the modernization of the information system of the customs department (DGDDI); and (v) its extension to all units.	December 31, 2010 / June 30, 2011	The authorities aim to contain the decline in revenue by improving the performance of the tax and customs administration.	Delayed. (i) The audit of the DGID IT system is in progress. (ii) A consulting firm has been recruited in October 2010 to develop an IT master plan for the DGID but its development will take up to three years. (iii) The modernisation is considered to have been achieved at the Directorate General and in the six main DGDDI offices. (iv) Its extension to all units is in progress, but will be completed by June 2011.
Generalization of the Tax Identification Number (TIN) to all taxpayers and all the units of the tax and customs administration.	December 31, 2010 / December 31, 2011	The authorities aim to contain the decline in revenue by improving the performance of the tax and customs administration.	Delayed. The generalization is already effective for the large taxpayers. The generalization to small operators, with support from the African Development Bank (AfDB), will only become effective in December 2011.
Generalization of the systematic use of the TIN by the DGDDI and the abolition of the use of nonspecific identification numbers at the level of ASYCUDA++ (0000000000000 and 2999999999949).	December 31, 2010 / December 31, 2011	The authorities aim to contain the decline in revenue by improving the performance of the tax and customs administration.	Delayed. The use of the identification numbers (0000000000000 and 2999999999949) has already been abolished, but the abolition of all non-specific numbers within the ASYCUDA++ system will not be achieved until December 2011.
Adoption by decision of the Council of Ministers of a strategy for the reform of 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.	In progress. This effort is pursued with the support of our technical and financial partners. Two studies on the remuneration system and civil service reforms are underway and will be completed by end-May 2011.
Implementation of the integration and federation of all the agents at customs and at the Autonomous Port of 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.	In progress. The company that has won the contract for the development of the software at the port has begun work and the one-stop window is expected to become operational within the deadline.
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).	In progress. This effort is pursued with support from the French Development Agency (AFD).
Presentation to the National Assembly of a draft law governing pensions based on the final report on the actuarial audit of the national pension scheme, FNRB.	December 31, 2011	The authorities aim to contain the impact of FRNB's deficit on public finances by strengthening its financial viability.	In progress.

ATTACHMENT I

TECHNICAL MEMORANDUM OF UNDERSTANDING

January 31, 2011

1. This technical memorandum of understanding ("the Memorandum") defines the 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's flow-of-funds table (*Tableau des opérations financières de l'État*, TOFE).

3. The definitions of "debt" and "concessional borrowing" for the purposes of this Memorandum are set out in point 9 of IMF Executive Board Decision No. 6230-(79/140), as subsequently amended, including by Executive Board Decision No. 14416-(09/91), effective December 1, 2009:

(a) For the purposes of this Memorandum, 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 *Communauté Financière Africaine* (CFA) francs on the West African Economic and Monetary Union's (WAEMU) regional market, which are included in public 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 became effective, 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 ten-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 ten-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. Quantitative Performance Criteria

A. Ceiling on Net Domestic Financing of the Government

Definitions

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, 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 Central Bank of West African States (*Banque centrale des États de l'Afrique de l'Ouest*, BCEAO) credit to the government, including any drawings on the CFA franc counterpart of the allocation of Special Drawing Rights (SDRs).

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 national commercial banks. The scope of net credit to the government is that used by the BCEAO and is in keeping with general IMF 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 entities, with the exception of industrial or commercial public agencies (*établissements publics à caractère industriel et commercial*, 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.

6. 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 Treasury of Benin.

7. *Gross* external budgetary assistance is defined as grants, loans, and debt relief operations (excluding project-related loans and grants, use of IMF resources, and debt relief under the Highly Indebted Poor Countries (HIPC) and Multilateral Debt Relief Initiatives). *Net* external budgetary assistance is defined as the difference between gross external budgetary assistance and the sum of total debt service obligations on all external debt (defined, in turn, as the sum of interest payments and amortizations on all external loans, including interest payments and other charges to the IMF and on project-related loans, but excluding repayment obligations to the IMF), and all payments of external payments arrears.

Adjustments

8. The ceiling on net domestic financing (NDF) of the government will be adjusted if net external budgetary assistance exceeds or falls short of the program projections indicated in paragraph 9:

- If, at the end of a quarter, net external budgetary assistance exceeds the total projected amounts (cumulative since January 1 of the same year) by over CFAF 5 billion, the NDF ceiling will be lowered by an amount equivalent to this excess minus CFAF 5 billion. However, if the excess is entirely or partly allocated to the settlement of domestic arrears above and beyond the program objective specified in paragraph 9, the NDF ceiling will be lowered by an amount equal to the excess net external budgetary assistance compared with program targets, minus the sum of (a) CFAF 5 billion and (b) the excess repayment of domestic arrears compared with program targets.

- If at the end of a quarter, net external budgetary assistance falls short of the projected amounts (cumulative since January 1 of the same year), the NDF ceiling will be increased by an amount equivalent to this shortfall, within the following limits: the increase may not exceed CFAF 5 billion at end-March 2011; CFAF 10 billion at end-June 2011; CFAF 20 billion at end-September 2011; and CFAF 35 billion at end-December 2011.

9. For the purposes of calculating the adjustment to the NDF ceiling, the following amounts are projected in the program:

- The amounts of gross external budgetary assistance (cumulative since January 1 of the same year) projected in the program are: CFAF 11.0 billion at end-March 2011; CFAF 11.0 billion at end-June 2011; CFAF 23.0 billion at end-September 2011; and CFAF 33.8 billion at end-December 2011.

- The amounts of external debt service obligations (cumulative since January 1 of the same year) projected in the program are: CFAF 6.0 billion at end-March 2011; CFAF 16.6 billion at end-June 2011; CFAF 21.7 billion at end-September 2011; and CFAF 32.9 billion at end-December 2011.

- The amounts of settlement of domestic payments arrears (cumulative since January 1 of the same year) projected in the program are: CFAF 3.4 billion at end-March 2011; CFAF 11.4 billion at end-June 2011; CFAF 14.4 billion at end-September 2011; and CFAF 17.4 billion at end-December 2011.

- The amounts of settlement of external payments arrears (cumulative since January 1 of the same year) projected in the program are: CFAF 0 billion at end-March 2011; CFAF 0 billion at end-June 2011; CFAF 0 billion at end-September 2011; and CFAF 0 billion at end-December 2011.

Performance criteria and indicative targets

10. The ceiling on net domestic financing of the government (cumulative since January 1 of the same year) is set as follows: CFAF 69.9 billion at end-March 2011; CFAF 72.1 billion at end-June 2011; CFAF 79.7 billion at end-September 2011; and CFAF 57.3 billion at end-December 2011. The ceiling is a performance criterion for end-March 2011 and end-September 2011, and an indicative target for end-June 2011 and end-December 2011.

B. Floor for 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 basic primary fiscal expenditure (on a payment-order basis). Basic primary fiscal expenditure is defined as fiscal (current plus capital) expenditure minus (a) the payments of interest on domestic and external debt; and (b) capital expenditure financed by external grants and loans. Grants are excluded from revenue and net government lending is excluded from fiscal expenditure.

Performance criteria and indicative targets

12. The floor on the basic primary fiscal balance (cumulative since January 1 of the same year) is a balance of not less than: CFAF -46.4 billion at end-March 2011; CFAF-36.5 billion at end-June 2011; CFAF -48.5 billion at end-September 2011; and CFAF -17.6 billion at end-December 2011. The floor is a performance criterion for end-March 2011 and end-September 2011, and an indicative target for end-June 2011 and end-December 2011.

C. Nonaccumulation of New Domestic Payments Arrears by the Government

Definition

13. Domestic payments arrears are defined as domestic payments due but not paid after a 90-day grace period, unless the obligation specifies a longer grace period. The National Amortization Fund (*Caisse Autonome d'Amortissement*, CAA) and the Treasury record and update the data on the accumulation of domestic payments arrears, as well as their settlement. The definitions of debt provided in paragraph 3a, of domestic debt in paragraph 3c, and of government in paragraph 2 apply here.

Continuous performance criterion

14. The government undertakes not to accumulate any new domestic payments arrears. The nonaccumulation of new domestic payments arrears will be continuously monitored throughout the program.

D. Nonaccumulation of External Public Payments Arrears

Definition

15. External public payments arrears are defined as the sum of payments due, but not paid, by the government at 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.

Continuous performance criterion

16. The government undertakes not to accumulate any external public payments arrears, 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 public 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

17. This performance criterion applies not only to debt as defined in paragraph 3a, but also to commitments contracted or guaranteed by the government (as defined in paragraph 18) (including lease-purchase contracts) for which no value has been received. This criterion also applies to the private sector debt guaranteed by the government, which constitutes a contingent liability of the government. As indicated in paragraph 3c, external debt excludes Treasury bills and bonds issued in CFA francs on the WAEMU regional market. The definition of nonconcessional debt in paragraph 3b applies here.

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

Continuous performance criterion

19. No nonconcessional external borrowing will be contracted or guaranteed by the government for the duration of the program. Changes to the ceiling in question 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 IMF.

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

F. Ceiling on the Contracting or Guaranteeing by the Government of New Nonconcessional Short-Term External Debt

Definition

21. The definitions in paragraphs 17 and 18 also apply to this performance criterion.

22. 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

23. The government undertakes not to contract or guarantee short-term nonconcessional external debt.

24. The government also undertakes not to contract or guarantee any short-term external debt during the implementation of the program without first having determined its concessionality with IMF staff.

25. On December 31, 2010, Benin had no short-term external debt.

III. Indicative Targets

A. Floor for Government Revenue

Definition

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

Indicative targets

27. The indicative target for total government revenue (cumulative since January 1 of the same year) is set as follows: CFAF 136.6 billion at end-March 2011; CFAF 295.0 billion at end-June 2011; CFAF 464.2 billion at end-September 2011; and CFAF 650.1 billion at end-December 2011.

B. Ceiling on Exceptional Payment Procedures

Definition

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

Indicative targets

29. The government undertakes to limit total expenditures (cumulative since January 1 of the same year) effected by exceptional payment procedures to a ceiling of: CFAF 2.5 billion at end-March 2011; CFAF 4.6 billion at end-June 2011; CFAF 7.5 billion at end-September 2011; and CFAF 10.6 billion at end-December 2011.

C. Floor for Priority Social Expenditures

30. Priority social expenditures are determined in line with the priority programs identified in the Growth and Poverty Reduction Strategy for 2011-15 (GPRS III). These expenditures consist of selected (nonwage) expenditures in the following sectors: health; energy and water; agriculture; youth, sports and leisure; family and national solidarity; education, microfinance and employment; and culture, literacy, and the promotion of national languages. Their execution is monitored on a payment-order basis during the program, through the integrated fiscal management system (SIGFiP).

Definition

31. The indicative target for priority social expenditures is defined as the total amount (cumulative since January 1 of the same year) of the payment orders issued under the budget lines indicated in Table 1.

Table 1. Priority Social Expenditure Categories

Budget code	Description
36 and 64	Ministry of Health
37	Ministry of Energy and Water
39	Ministry of Agriculture, Livestock, and Fisheries
40	Ministry of Youth, Sports, and Leisure
41	Ministry of the Family and National Solidarity
44	Ministry of Higher Education and Scientific Research
49	Ministry of Microfinance and for the Employment of Youth and Women
62	Ministry of Maternal and Primary Education
63	Ministry of Secondary, Technical, and Professional Education
68	Ministry of Culture, Literacy, and for the Promotion of National Languages

Indicative targets

32. The indicative target for priority social expenditures (cumulative since January 1 of the same year) is set as follows: CFAF 45.3 billion at end-March 2011; CFAF 77.6 billion at end-June 2011; CFAF 117.3 billion at end-September 2011; and CFAF 132.6 billion at end-December 2011.

IV. Structural Benchmarks

33. The following measures will serve as structural benchmarks under the program:

- 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;

- Extension of the ASYCUDA++ information system to 12 additional regional customs offices by June 30, 2011;

- Adoption of an information technology (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 information system of the customs department (DGDDI) and its extension to all units, by June 30, 2011;

- Generalization of the TIN to all taxpayers and to all units of the tax and customs administrations, by December 31, 2011;

- Generalization of the systematic use of the TIN by the DGDDI and the abolition of the use of nonspecific identification numbers at the level of ASYCUDA++ (0000000000000 and 299999999949) by December 31, 2011;

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

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

- 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 by June 30, 2011; and

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

V. Information for Program Monitoring

A. Data on Performance Criteria and Indicative Targets

34. To facilitate effective program monitoring, the government will provide IMF staff with the following data:

Every month:

- copies of the contracts and data on any loan (terms and creditors) contracted or guaranteed by the government, in the first week after the end of the month;

- monthly consumer price index, within two weeks of the end of the month;

- the TOFE, including revenue, detailed data on net domestic financing of the government (bank and nonbank domestic financing, including the claims held by the nonbank private sector); and data on the basic primary fiscal balance, including data generated by the SIGFiP, within six weeks of the end of the month;

- data on the balance, accumulation, amount (stock), and repayment of public domestic and external payments arrears, including in the event that these arrears amount to zero, within six weeks of the end of the month; and

- the monetary survey, within eight weeks of the end of the month.

Every quarter:

- data pertaining to the amount of exceptional payment procedures or other exceptional measures, within six weeks of the end of the quarter;

- data pertaining to priority social expenditures, within six weeks of the end of the quarter.

B. Other Information

35. The government will provide Fund staff with the following data:

Every month:

- banking and nonbanking supervision indicators for bank and nonbank financial institutions within eight weeks of the end of the month.

Every quarter:

- data on the implementation of the public investment program, including detailed information on sources of financing, within four weeks of the end of the quarter;

- data on the stock of external debt, external debt service, the signing of external loans and disbursements of external loans, within twelve weeks of the end of the quarter.

On an *ad hoc* basis:

- in the quarter when they become available: a copy of the budget law and its supplementary documents; a copy of the most recent budget execution law; as well as any decree or law pertaining to the budget or implementation of the IMF-supported program.