International Monetary Fund

Benin and the IMF

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IMF Executive Board Completes Third Review Under Benin's Extended Credit Facility Arrangement and Approves US$16.4 Million Disbursement
March 27, 2012

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Benin: Letter of Intent, and Technical Memorandum of Understanding

March 9, 2012

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LETTER OF INTENT

REPUBLIC OF BENIN

MINISTRY OF ECONOMY
AND FINANCE

The Minister

To :

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, DC 20431, USA

Cotonou, March 9, 2012

Dear Ms. Lagarde:

1. I am pleased to inform you that the Government of Benin continues to implement its economic and financial program under the Extended Credit Facility (ECF) to achieve its growth and poverty reduction objectives. I wish to take the opportunity of the third review to take stock of program implementation in the second half of 2011 and to define the policies and reforms contemplated for 2012.

2. Despite the problems encountered in 2011, in particular in reaction to the introduction of certain major reforms, the implementation of our program was satisfactory. All the quantitative performance criteria for end-September 2011 were met. The medium-term economic framework is largely unchanged, but the global economic environment has deteriorated since the last review. Moreover, the drastic increase in the price of gasoline imported fraudulently from Nigeria will slow the recovery of the national economy. The Government nonetheless reaffirms its resolve to implement the policies and reforms described herein. Accordingly, it hereby requests conclusion of the third review under the ECF and the disbursement of the fourth ECF tranche of SDR 10.61 million.

I. Economic Developments and Program Implementation in 2011

A. Economic developments in 2011

3. There was a modest recovery in economic activity in 2011. Preliminary data indicate that the real GDP growth rate is estimated at 3.1 percent in 2011 compared to 2.6 percent in 2010. This recovery in economic activity was driven by a rebound in agriculture following the extraordinary floods of 2010, public works, transportation, and the energy sector. Inflation remained largely under control in 2011, standing at 2.7 percent at the end of the year, slightly below the convergence criterion of the West African Economic and Monetary Union (WAEMU).

4. The external current balance deteriorated somewhat in 2011 owing to the decline in public current transfers and the increase in petroleum product imports (driven in part by the increase in international prices), this despite the sound performance of nontraditional exports (cashew nuts). The current account deficit, excluding grants, thus widened to 8.2 percent of GDP compared to 8.1 percent in 2010. This deterioration in the current balance was partially offset by the improved balance of the capital account and portfolio investments, bringing the overall balance of payments deficit to 1.5 percent of GDP.

5. Money supply grew by 14.0 percent at end-November 2011, driven by credit to the private sector and to government. The net foreign assets of the banking system grew slightly.

6. Ten out of 13 banks complied with the decision of the WAEMU Council of Ministers to raise capital requirements. The regional and national authorities are exploring options concerning banks that fail to meet the requirement. A law regulating decentralized financial structures in Benin was adopted by the National Assembly on January 26, 2012. As a result of that law, the Central Bank of West African States (BCEAO) and the Bank Supervision Commission have legal authority to supervise directly certain decentralized financial structures, notably those with deposits or loans larger than CFAF 2 billion (about US$4 million).

7. The Government continued its prudent external indebtedness policy. Throughout 2011 and to the present day, the continuous performance criteria have been met. The Government intends to continue this prudent policy in the future, and will cover its external financing needs by means of grants and concessional borrowing, unless an exception is authorized.

B. Budget execution in 2011

8. Budget execution in 2011 was characterized by lower-than-projected revenue performance, attributable to the elections (which slowed revenue collection in the first half of the year), a diversion of goods traffic toward Niger, and the resistance of some users to the reforms introduced at the Autonomous Port of Cotonou and at the border customs posts. This shortfall, which in large measure is temporary, led to a strict control of public expenditure execution in order to meet the program targets for public finance consolidation.

Execution during the first three quarters

9. Major fiscal rehabilitation measures were continued throughout 2011. These included the implementation of two major reforms at customs, namely the introduction of the one-stop shop at the Port of Cotonou and the new generation Import Verification Program (PVI). The PVI includes: preshipment verification of goods intended for Benin; scanner inspection of goods offloaded within Beninese territory; electronic monitoring of goods in transit; support for the automated management of customs clearance warehouses and areas, export warehouses and areas, and container terminals; and the certification of the weights and values of goods imported by sea and overland. The anticipated effect is an increase in customs valuations and strengthened import verification procedures, which should be reflected in improved customs receipts in the medium term. The reforms will also make it possible to speed up the goods removal formalities at customs and to intensify efforts to combat fraud.

10. The customs reforms met with some resistance: importers were initially reticent because of customs valuations that were higher than those applied previously. There were strikes within customs and in the port. This situation triggered congestion of the Port of Cotonou and slowdowns at the Benin-Togo border (Hilla-Condji), because of the increased volume of imports offloaded in Lomé for destinations in Benin. In addition, to ease the social pressure associated with increases in the prices of mass consumer goods occasioned by the application of the PVI and some price speculation, the Government decided to implement temporarily a waiver system for 14 mass consumer items. All these events had a negative impact on revenue mobilization.

11. Consequently, budget execution was difficult at end-September 2011. Total revenue came to CFAF 439.8 billion, or 12.8 percent of GDP, falling below the program target of CFAF 464.2 billion.

In order to maintain fiscal equilibrium and continue public finance consolidation, the Government had to limit expenditure execution and net lending to CFAF 549.3 billion, or 16.0 percent of GDP, compared to a forecast of CFAF 586.0 billion. Accordingly, the overall deficit on a cash basis was limited to CFAF 125.5 billion, equivalent to 3.6 percent of GDP, below program forecasts. However, the program performance criteria relating to the primary basic balance and the net domestic financing were met. The overall deficit was financed by external financing, disbursement of the third tranche under the ECF, and the use of government deposits with the banking system.

12. At end-September 2011, the components of fiscal revenue showed the following results: (i) customs receipts amounted to CFAF 189.4 billion, or 5.5 percent of GDP, short of the program target (CFAF 216.3 billion)—their low performance largely reflects the resistance to the reforms in the second half of the year, but was also affected by the climate of uncertainty in the run-up to the elections in March and April, and a diversion of traffic toward Niger (reflected in a drop in the volume of imports to Benin for re-export); (ii) tax collections came to CFAF 200.0 billion (5.8 percent of GDP), in keeping with the program target—this performance reflects the level of collections of the value-added tax (VAT) and property taxes, thanks to strengthened controls implemented by the tax administration and the general application of the taxpayer identification number (TIN) to major economic operators; and (iii) nontax revenue came to CFAF 50.3 billion (1.5 percent of GDP), exceeding the program target.

13. At end-September 2011, all primary current expenditure and domestically financed capital expenditure were held below their respective ceilings. Externally financed capital expenditure, in contrast, overshot the target level. It was not possible to meet the indicative benchmark for priority social expenditure. Indeed, payment orders issued under this heading amounted to only CFAF 73.6 billion, approximately 63 percent of the targeted amount.

14. In sum, all quantitative performance criteria were met at end-September 2011. The basic primary deficit amounted to CFAF 30.4 billion, above the program floor of CFAF 48.5 billion. The adjusted criterion for net domestic financing was also observed at a level of CFAF 83.5 billion, below the program's adjusted ceiling of CFAF 88.0 billion.

Execution during the fourth quarter

15. The fiscal consolidation continued during the fourth quarter of 2011. At end-December, total revenue amounted to CFAF 605.6 billion, or 17.6 percent of GDP, compared to a target of CFAF 650.1 billion. However, the measures taken during the fourth quarter to strengthen the collection of customs receipts (clearing port congestion by bringing the Allada logistical platform on stream; disseminating public information on the reforms targeting importers and private sector operators; improving the operations of the one-stop window) did bear fruit. The monthly target for December, CFAF 63.7 billion, was exceeded by CFAF 4.4 billion. Overall, customs revenue at end-year came to CFAF 261.2 billion, or 7.6 percent of GDP, compared to a target of CFAF 304.0 billion. Tax collections are estimated at CFAF 273.5 billion, or 7.9 percent of GDP, slightly below the target of CFAF 274.0 billion. Nontax revenue was about CFAF 70.9 billion, slightly below the annual objective of 72.0 billion, or 2.1 percent of GDP.

16. To preserve fiscal equilibrium, the Government had to contain expenditure at a level below program projections. At end-December, total expenditure and net lending amounted to CFAF 754.7 billion, or 21.9 percent of GDP, compared to a target of CFAF 801.0 billion. In particular, the wage bill was reined in and kept within its ceiling. Thanks to this effort, the overall fiscal deficit, on a cash basis and excluding grants, amounted to CFAF 168.5 billion, or 4.9 percent of GDP, below the program target. This deficit was financed by concessional external budgetary support and by the issuance of treasury bills and multiyear bonds on the regional financial market. At year's end, the quantitative benchmarks on the basic primary balance and on the net domestic financing were both met, but the benchmarks on total revenue and on priority social expenditure were not. However, the execution of such expenditure was speeded up in the fourth quarter, with the result that at the end of the year it came to CFAF 99 billion (compared to a target of CFAF 132.6 billion). The poor execution of social expenditure was associated with technical difficulties with monitoring on the part of the ministries responsible for the execution of such expenditure.

C. Implementation of structural reforms in 2011

17. Implementation of the reforms initiated in 2010-11 has had mixed results. Some of the reforms have experienced delays but should, for the most part, be implemented in the months ahead. The status of implementation of these benchmarks is as follows:

- the extension of ASYCUDA++ system to 12 additional border units, planned for end-August 2011, was completed at end-February 2012 because of the need to bring electrical hardware up to standards;

- the start of the development of a complete and integrated information system at the Directorate General of Taxes (DGID) will begin in March 2012 because of delays in the provision of technical assistance for this project; full development may require up to three years;

- the extension of the information system to all units at Directorate General of Customs (DGDDI), planned for end-August 2011, was completed at end-February 2012 for the same reason as mentioned for the first benchmark;

- the general extension of the TIN to all tax payers and to all units of the tax and customs administrations, planned for end-December 2011, will be completed at the latest by September 30, 2012; this postponement is linked to delays in finalizing the modalities of the grant agreement supporting the implementation of this benchmark;

- the generalization of the systematic use of the TIN by the DGDDI and the cessation of the use of nonspecific numbers in the ASYCUDA++ system, planned for end-December 2011, will be completed at the latest by September 30, 2012; this postponement was caused by the same reasons as noted for the previous benchmark;

- the preparatory work for the adoption of a civil service reform strategy by decision of the Council of Ministers made progress: the studies relating to the organizational and institutional audit of the ministry responsible for the civil service and to the status of reforms in the civil service were completed at end-November and end-December 2011, respectively; the report on the diagnostic phase of the study on the compensation system for government employees was delivered to the Government at end-December 2011; this report was validated at end-February 2012; finalization of the other components of the study will be completed by end-May 2012;

- the adoption by the Council of Ministers of a regulatory framework governing the energy sector occurred on January 11, 2012; this framework makes it possible to open power distribution to private operators and to introduce a regulatory authority and a system guaranteeing transparency in the electricity price-setting mechanism;

- the draft law governing pensions, based on the final report on the actuarial audit of the Benin National Retirement Fund (FNRB) met with opposition from social partners, and it was not possible to implement this measure by end-December 2011 as planned; after discussions with these partners held during the sessions of the Government-Labor Unions Civil Service Committee in December 2011 and January 2012, the Government decided that the issue will be considered by the permanent national committee for consultation and collective bargaining between the Government and labor unions in March 2012; thereafter, the draft law will be conveyed to the Government for submission to the National Assembly by end-May 2012;

- the draft Organic Law on Budget Law (LOLF) was submitted to the Supreme Court in December 2011 as scheduled;

- regarding the introduction of the Integrated Human Resource Management System (SIGRH), a technical assistance mission from the World Bank recommended, in October 2011, a gradual approach to introducing the system, together with an action plan; this approach differs from the one initially planned in the program, but constitutes a better fit with the absorptive capacity of Benin's administrations;

- the 2010 budget accounts were forwarded to the Chamber of Accounts of the Supreme Court in December 2011, as scheduled; and

- the joint Customs-Taxes Brigade was established by ministerial decree at end-December 2011, as scheduled.

II. Economic, Financial, and Structural Policies for 2012

18. The Government is determined to continue the implementation of its economic and financial program to achieve its macroeconomic stability and sustainable development objectives.

A. Macroeconomic framework

19. The Government's economic policy aims at supporting the return to strong and sustained private-sector-led growth. This choice will mandate a consolidation of the macroeconomic framework and strengthened structural measures. However, the impact of the sudden and considerable increase in the price of gasoline fraudulently imported from Nigeria and the growing sluggishness of the global economy will have a negative impact in 2012 on real household incomes, growth, and inflation. Accordingly, the growth rate in 2012 is expected to be only 3.5 percent. This rebound in activity would be driven by, among other things, the development of the agricultural sector, increased capacity at the Port of Cotonou, and the port's improved competitiveness.

20. The Government will continue to pursue prudent fiscal and monetary policies. However, owing to the external shocks referred to above, average inflation in 2012 could significantly exceed the WAEMU convergence criterion of 3 percent. The external current account deficit and the overall balance of payments are expected to improve in 2012 by comparison with 2011 as a result of the anticipated increase in cotton exports and external budgetary support.

B. Fiscal policy

21. Under the 2012 budget adopted by the National Assembly, the Government intends to speed up the pace of mobilizing budgetary revenue by continuing the structural reforms initiated and by new measures to be adopted, while continuing to pursue a prudent public expenditure policy. The 2012 budget, which is broadly consistent with the program objectives, aims at preserving the major financial equilibria. Total revenue is expected to reach 18.9 percent of GDP, and total expenditure and net lending would amount to 22.5 percent of GDP. The basic primary balance would come to 0.2 percent of GDP.

22. On the revenue side, the Government undertakes to contain the weaknesses observed in the implementation of the major reforms, namely the one-stop window and the PVI. The mobilization of customs revenue will be helped by the return to normal of conditions at the Port of Cotonou and the advantage gained by the extension of ASYCUDA++ to all customs units and their interconnection with the Directorate General of Customs. Tax revenue will also be bolstered by the increased forced collection efforts and the results of introducing the joint Customs-Taxes Brigade. Customs receipts are expected to increase by 28 percent to CFAF 334.0 billion and tax revenue by 10 percent to CFAF 297.4 billion. Nontax revenue is expected to amount to CFAF 78.6 billion, an amount comparable to that of the previous year.

23. Total expenditure and net lending should amount to CFAF 845.4 billion, or 22.5 percent of GDP, corresponding to increase of 0.6 percentage point of GDP over the 2011 level. The breakdown of expenditure in terms of GDP should remain broadly unchanged from 2011. To meet the objective for priority social expenditure, the authorities have introduced a mechanism for consultation with the ministries in the context of preparing and executing the 2012 Budget Law and will modify the management and monitoring process for such expenditure in order to meet the corresponding objectives. Monthly targets will be determined for each ministry concerned.

24. The Government has conducted a review of the works carried out under the current Public Investment Program (PIP) with a view to streamlining its management. It has identified the works that are ready to be definitively accepted in the amount of CFAF 35 billion and will move promptly to settle that amount. It therefore undertakes to pay at least CFAF 5 billion by March 9, 2012, to pay at least CFAF 10 billion by March 31, 2012, and to settle the balance by June 8, 2012.

25. The Government reached a wage agreement with the labor unions in August 2011. This agreement put an end to a prolonged period of strikes and projects a social truce for four years. The Government has undertaken increasing the wage scale for government employees by 25 percent over 2011–14. The staff of the Ministry of Economy and Finance received the total increase of 25 percent in 2011 in order to encourage them to step up the pace of revenue mobilization. For other staff, excluding teachers of primary, secondary, technical, and higher education, the rates of increase of the wage scale will be phased in as follows: 5 percent in 2012; 5 percent in 2013; and 10 percent in 2014; the catch-up for the increase for 2011 will be the subject of future negotiations. The total impact of the wage increase is about CFAF 5 billion in 2012. The Government remains committed to keeping the wage bill within the envelope of CFAF 279 billion, as planned under the 2012 budget.

C. Structural reforms

26. Our economic and financial program is and will be underpinned by additional structural measures during 2012. These include the following benchmarks:

- launching operation of the computerized transit module of the ASYCUDA++ system between the Port of Cotonou and all land-based border posts by end-March 2012;
- conducting a detailed review of all existing tax and customs exemptions with a view to streamlining them; the results of this review will be presented to the Council of Ministers by June 30, 2012;

- the measure on the introduction of the SIGRH will be implemented with assistance from the World Bank;[1]

- completing the pilot phase and the decision of the extension of the "Sunkwè" system (civil servants' database) to the Ministry of Labor and Civil Service (MTFP), at the latest by June 30, 2012; This measure will be implemented with assistance from the World Bank.

- blocking the following fields in the customs declaration (ASYCUDA++ system): TIN, the inspection certification number (AV), and the customs value corresponding to the AV, at the latest by June 30, 2012;

- including the PVI data to the one-stop window to facilitate systematic consistency checks between the certification and attestation functions during data processing within the one-stop window, at the latest by June 30, 2012; and

- closing a bank that lost its license in 2009 and that was put under provisional administration, at the latest by September 30, 2012.

III. Growth and Poverty Reduction Strategy

27. To continue the efforts to reduce poverty, the Priority Action Program under the Growth and Poverty Reduction Strategy (GPRS) for 2011–15 has been revised to maintain its consistency with the program budget. As noted above, steps have been taken to encourage the full execution of priority social expenditures. These included ensuring that priority expenditures are in conformity with the objectives of the GPRS 2011–15 and the availability of the major budget execution tools. The priority social expenditures selected are aimed at improving the population's living standards and achieving the Millennium Development Goals (MDGs), particularly in health, primary education, water, and sanitation.

IV. Conclusion

28. The Government believes the measures and policies described in this letter are appropriate for achieving the program objectives, and it reaffirms its commitment to take any additional

[1] The IMF is solely responsible for assessing compliance with the program conditionalities.

measures required to that end. It therefore requests conclusion of the third ECF review and the associated disbursement. The fifth review of the program is expected to be completed by end-March 2013, based on the observance of performance criteria on September 30, 2012.

29. Program monitoring will be based on the semi-annual performance criteria, quantitative targets, and structural benchmarks defined in Tables 1 and 2 attached to this letter. To facilitate program monitoring, the Government will regularly provide IMF staff with all the information required, as defined in the Technical Memorandum of Understanding (TMU), or any other additional information that it considers necessary or that the IMF staff requests.

30. The Government believes that the policies set forth in this letter are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. The Government will consult with the IMF on the adoption of these measures, and in advance of revisions to the policies contained in the letter, in accordance with the IMF's policies on such consultation. The Government authorizes the IMF to publish the staff report on the discussions of the third review of the program, as well as this letter of intent.

Sincerely yours,

/s/
Adidjatou A. Mathys
Minister of Economy and Finance

Table 1. Benin: Quantitative Performance Criteria and Indicative Targets, 2011–12
(Billions of CFA francs)

	June 30, 2011				Sept. 30, 2011				December 31, 2011				March 31, 2012	June 30, 2012	Sept. 30, 2012
	Indicative Targets				Performance Criteria				Indicative Targets				Performance Criteria	Indicative Targets	Performance Criteria
	Prog.[1]	Adj. Proj.[2]	Outturn		Prog.[1]	Adj. Proj.[2]	Outturn		Prog.[1]	Adj. Proj.[2]	Est.		Prog.[1]	Proj.	Prog.
A. Quantitative performance criteria [3]															
Net domestic financing of the government (ceiling) [4, 5]	72.1	78.6	46.3	Met	79.7	88.0	83.5	Met	57.3	73.6	54.7	Met	48.7	60.7	48.6
Basic primary balance (excluding grants) (floor)	-36.5	-36.5	-32.2	Met	-48.5	-48.5	-30.4	Met	-17.6	-17.6	-2.6	Met	-20.5	-39.8	-21.7
Memorandum item : Budgetary assistance [6]	11.0	11.0	0.0		23.0	23.0	10.3		33.8	33.8	10.3		0.0	14.6	14.6
B. Continuous quantitative performance criteria (ceilings)															
Accumulation of external payments arrears	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	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	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	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	Met	25.0	25.0	0.0	Met	25.0	25.0	4.6	Met	25.0	25.0	25.0
Accumulation of domestic payments arrears	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0	Met	0.0	0.0	0.0
C. Indicative targets [3]															
Total revenue (floor)	295.0	295.0	290.9	Not met	464.2	464.2	439.8	Not met	650.1	650.1	605.6	Not met	148.3	331.3	515.0
Payment orders issued outside the expenditure chain (ceiling) [8]	4.6	4.6	3.3	Met	7.5	7.5	4.4	Met	10.6	10.6	9.2	Met	2.5	4.6	7.5
Priority social expenditure (floor)	77.6	77.6	56.6	Not met	117.3	117.3	73.6	Not met	132.6	132.6	99.0	Not met	46.0	75.0	104.0

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

[1] Technical Memorandum of Understanding of the Second Review.

[2] The performance criterion on net domestic financing is automatically adjusted as indicated in Footnotes 4 and 5 (per Paragraph 8 of the Technical Memorandum of Understanding).

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

[4] 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).

[5] 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.

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

[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. The ceiling for this continuous performance criterion was raised with effect from the second program review.

[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 for 2010–13

Measure	Initial Date/ Revised Date	Objective	State of Execution
Measures implemented			
Extension of the ASYCUDA++ information system to 12 additional regional customs offices.	December 31, 2010/ August 31, 2011	Improve the collection of customs revenue to expand the fiscal space for infrastructure investment and poverty reduction measures.	Implemented in February 2012 (delayed).
Starting the development of a complete and integrated information system at the DGID.	December 31 2010/ March 31, 2012	Contain the decline in revenue by improving the performance of the tax and customs administrations.	Delayed. Scheduled to start in March 2012, but full development may take up to three years.
Extension of the information system of the customs department (DGDDI) to all units.	December 31, 2010/ August 31, 2011	Contain the decline in revenue by improving the performance of the tax and customs administrations.	Implemented in February 2012 (delayed).
Generalization of the TIN to all taxpayers and all the units of the tax and customs administrations.	December 31, 2010/ December 31, 2011/September 30, 2012	Contain the decline in revenue by improving the performance of the tax and customs administrations.	Delayed. The generalization of the TIN to all taxpayers and all the units of the tax and customs administration will be completed by end-September 2012.
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 to 2999999999949).	December 31, 2010/ December 31, 2011/September 30, 2012	Contain the decline in revenue by improving the performance of the tax and customs administrations.	Delayed. The abolition of all nonspecific numbers within the ASYCUDA++ system will be completed by end-September 2012 with support from the AfDB.
Adoption by decision of the Council of Ministers of a strategy for the reform of the civil service.	June 30, 2011/May 31, 2012	Limit the expansion of the wage bill and maintain fiscal space for investments and priority social expenditures.	Delayed. The studies for the adoption by the Council of Ministers of a civil service reform strategy have made progress; the report on the diagnostic phase of the study on the remuneration system for civil servants was validated by end-February 2012; the other sections of the study will be completed by end-May 2012.
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 operators and the establishment of a regulatory authority and of a system that will guarantee transparency in the electricity price-setting mechanism.	June 30, 2011/ August 31, 2011	Maintain the financial viability of the electricity company (SBEE).	Implemented in January 2012 (delayed).
Presentation to the National Assembly of a draft law governing pensions, based on the final report of the actuarial audit of the national pension scheme (FNRB).	December 31, 2011/May 31, 2012	Contain the impact of the FRNB's deficit on public finances by strengthening its financial viability.	Delayed. The draft legislation will be sent to the government, for submission to the National Assembly by end-May 2012.
Submission to the Supreme Court of a draft Organic Budget Law (LOLF).	December 31, 2011	Enhance the management of public finances.	Implemented.

Table 2. Benin: Structural Benchmarks for 2010–13 (concluded)

Measure	Initial Date/ Revised Date	Objective	State of Execution
Finalization of the studies for the preparation of the terms of reference and the project document for the Integrated Human Resources Management System (SIGRH).	December 31, 2011	Improve the management of civil servants' compensation	Delayed. This measure will henceforth be followed by the World Bank.
Submission to the budget audit office (Chambre des Comptes) of the 2010 budget execution accounts.	December 31, 2011	Improve the transparency of public financial management.	Implemented.
Establishment of a joint Customs-Tax control unit.	December 31, 2011	Enhance revenue mobilization.	Implemented.
Measures to be implemented			
Operationalization of the computerized transit module of ASYCUDA++ between the Port of Cotonou and all land-based border posts.	March 31, 2012	Enhance revenue mobilization.	In progress.
Completion of a detailed review of all existing tax and customs exemption regimes, with a view to rationalizing them; the results of this review will be presented to the Council of Ministers.	June 30, 2012	Increase the efficiency and transparency of public finances, and broaden the tax base.	In progress.
Introduce the Integrated Human Resources Management System (SIGRH).	December 31, 2012	Improve the management of civil servants' compensation.	Delayed. This measure will be implemented with assistance from the World Bank.
New measures agreed during the 3rd review			
Completing the pilot phase and the decision of the extension of the "Sunkwe" system (civil servants' database) to the Ministry of Labor and Civil Service (MTFP).	June 30, 2012	Improve management of the compensation of civil servants.	In progress. This measure will be implemented with assistance from the World Bank.
Block the following fields in the customs declaration (ASYCUDA): Taxpayer Identification Number (TIN), inspection certification number (AV), and customs valuation corresponding to the AV.	June 30, 2012	Improve customs revenues.	In progress.
Including the PVI data to the one-stop window to facilitate systematic consistency checks, between the certification and attestation functions during data processing within the one-stop window.	June 30, 2012	Improve customs revenues.	In progress.
Closing a bank that lost its license in 2009 and was placed in provisional administration.	September 30, 2012	Strengthen the financial sector.	In progress.

Source: Beninese authorities.

ATTACHMENT 1. TECHNICAL MEMORANDUM OF UNDERSTANDING

March 9, 2012

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.

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; 1.00 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.

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 2012; CFAF 10 billion at end-June 2012; and CFAF 20 billion at end-September 2012.

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 0.0 billion at end-March 2012; CFAF 14.6 billion at end-June 2012; and CFAF 14.6 billion at end-September 2012.
- The amounts of external debt service obligations (cumulative since January 1 of the same year) projected in the program are: CFAF 4.2 billion at end-March 2012; CFAF 16.0 billion at end-June 2012; and CFAF 23.9 billion at end-September 2012.
- The amounts of settlement of domestic payments arrears (cumulative since January 1 of the same year) projected in the program are: CFAF 2.1 billion at end-March 2012; CFAF 8.7 billion at end-June 2012; and CFAF 13.1 billion at end-September 2012.
- 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 2012; CFAF 0 billion at end-June 2012; and CFAF 0 billion at end-September 2012.

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 48.7 billion at end-March 2012; CFAF 60.7 billion at end-June 2012; and CFAF 48.6 billion at end-September 2012. The ceiling is a performance criterion for end-March 2012 and end-September 2012, and an indicative target for end-June 2012.

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 -20.5 billion at end-March 2012; CFAF -39.8 billion at end-June 2012; and CFAF -21.7 billion at end-September 2012. The floor is a performance criterion for end-March 2012 and end-September 2012, and an indicative target for end-June 2012.

C. Non-accumulation 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. Non-accumulation of External Public Payments Arrears by the Government

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 Non-concessional 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 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, except for borrowing with a grant element of at least 20 percent and not exceeding a cumulative amount equivalent of CFAF 25 billion. Changes to this ceiling may be made (subject to approval by the IMF Executive Board) 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 staffs of the World Bank and the IMF.

20. The government also undertakes not to contract or guarantee any external debt 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 Non-concessional 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, 2011, Benin had no short-term external debt.

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 targets for total government revenue (cumulative since January 1 of the same year) are set as follows: CFAF 148.3 billion at end-March 2012; CFAF 331.3 billion at end-June 2012; and CFAF 515.0 billion at end-September 2012.

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 2012; CFAF 4.6 billion at end-June 2012; and CFAF 7.5 billion at end-September 2012.

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 *inter alia* 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	Ministry of Health
37	Ministry of Energy, Petroleum and Mineral Research, Water, and Development of Renewable Energy
38	Ministry of Culture, Literacy, Crafts and Tourism
39	Ministry of Agriculture, Livestock, and Fisheries
40	Ministry of Youth, Sports, and Leisure
41	Ministry of the Family, Social Affairs, National Solidarity, Disabled and Senior Citizens
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 Training, Reconversion and Inclusion of Youth

Indicative targets

32. The indicative targets for priority social expenditures (cumulative since January 1 of the same year) are set as follows: CFAF 46.0 billion at end-March 2012; CFAF 75.0 billion at end-June 2012; and CFAF 104.0 billion at end-September 2012.

INFORMATION FOR PROGRAM MONITORING

A. Data on Performance Criteria and Indicative Targets

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

B. Other information

34. 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; and
- 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.