**International Monetary Fund**

Benin and the IMF

**Press Release**:
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August 28, 2013

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# **Benin:** Letter of Intent, and Technical Memorandum of Understanding

August 7, 2013

The following item is a Letter of Intent of the government of Benin, which describes the policies that Benin intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Benin, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

# LETTER OF INTENT

REPUBLIC OF BENIN
Fraternité-Justice-Travail
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**MINISTRY OF ECONOMY AND FINANCE**
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***The Minister***

*To :*

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

Cotonou, August 7, 2013

Dear Managing Director:

1. The Government of Benin continues to implement its economic and financial program under the Extended Credit Facility (ECF) to meet its growth and poverty reduction objectives. We would like to take the opportunity of the fifth review to take stock of program implementation at end-June 2013 and outline the policies and reforms that we intend to implement through April 2014.

2. In spite of adverse international developments, program implementation has been broadly satisfactory. All performance criteria and all indicative quantitative targets for end-September 2012 were met. The macroeconomic framework remains broadly unchanged relative to that contained in our October 2012 letter and the government has reaffirmed its commitment to implement the policies and reforms described in this document. In this context, we request the completion of the fifth review under the ECF agreement and the related disbursement of Special Drawing Rights (SDRs) in the amount of 10.61 million, as well as an extension of the ECF arrangement until end-April 2014 to implement the new approach to customs reform, which will be a major pillar of our strategy to enhance fiscal management.

# Recent Economic Developments and Program Implementation

## A. Recent Economic Developments

***Recent macro-economic developments***

3. Real GDP growth reached 5.4 percent in 2012, compared with 3.5 percent in 2011. This growth acceleration resulted mainly from: (i) an increase in cotton production, (ii) a surge in the production of food and other cash crops, and (iii) strong trade performance, driven by a pick-up in port activities. Inflation in 2012 stood at 6.7 percent on average, above the 3 percent limit under the multilateral surveillance framework of the West African Economic and Monetary Union (WAEMU), after the partial removal of fuel subsidies in Nigeria. However, it has been on a downward trend since January 2013, and stood at 5.0 percent in May 2013.

4. The government managed the 2012/13 cotton campaign after the suspension of the framework agreement governing the sector in March 2012, due to problems with the sector's management, which were a major handicap to the development of cotton production. The campaign resulted in the production of about 240.000 metric tons of cotton, better than that of the previous campaign.

5. In 2012, the current account deficit of the balance of payments (excluding grants) further increased to 9.3 percent of GDP, from 8.1 percent in 2011, due to higher imports (namely oil products and agricultural inputs) and despite an increase in exports, especially cotton and textiles. Furthermore, the increase in net transfers and capital flows covered this deficit.

6. Money supply increased by 8.9 percent in 2012, driven by commercial banks' foreign assets and credit to the private sector, thanks to a pick-up in activities related to port traffic. At the end of March 2013, money supply grew by 11.2 percent compared to December 2012; and credit to the economy increased by 6.7 percent.

***Implementation of fiscal policy in 2012 and in the first quarter of 2013***

7. The government pursued its fiscal consolidation policy through all of 2012. The overall fiscal deficit, on a cash basis and excluding grants, was 2.6 percent of GDP, compared with the 4.1 percent forecast. It was financed as anticipated by external resources (grants and concessional loans) and by securities issued on the regional financial market.

8. Revenue performance in 2012 was strong. Revenue reached CFAF 722.5 billion or 18.7 percent of GDP, compared with the CFAF 710.0 billion target, due to strong non-tax revenue,

the surge in customs receipts after the opening of the single window at the Port of Cotonou, and the implementation of reforms that improved port efficiency.

9. Expenditures in 2012 remained in line with program objectives. Total expenditures and net lending (cash basis) stood at CFAF 815.7 billion, or 21.1 percent of GDP, compared with a forecast of CFAF 845.4 billion. Similarly, priority social spending reached CFAF 138.3 billion, compared with a target of CFAF 134.0 billion, thanks to close monitoring of these expenditures.

10. Fiscal consolidation facilitated the pursuit of a prudent debt policy. Public debt decreased from 31.9 percent of GDP in 2011 to 29.1 percent in 2012, and the risk of a debt crisis remains low.

11. Sound fiscal performance continued through the first quarter of 2013. By end-March 2013, total revenue reached CFAF 173.3 billion, compared with a target of CFAF 172 billion, with customs and tax revenues in line with budget forecasts. This performance was supported by port-related reforms and by enhanced inspections carried out by the tax administration, especially on the VAT, the corporate income tax, and the taxes on profits of natural persons. Total expenditure and net lending stood at CFAF 245.8 billion, or 5.9 percent of GDP, compared with a target of CFAF 221.0 billion. This over-expenditure resulted from advances to the cotton sector for the 2013-2014 campaign. Investment expenditures fell short of the objectives because of delays in project implementation. The overall fiscal deficit, on a cash basis and excluding grants, was 1.5 percent of GDP, compared with the 1.3 percent of GDP forecast.

***Program performance***

12. All performance criteria and indicative benchmarks for end-September 2012 were met (Table 1a). All quantitative performance criteria were observed with comfortable margins. Net domestic financing, for example, was only CFAF +2.9 billion, compared with a target of CFAF +48.6 billion, and the basic primary balance at CFAF +26.9 billion, compared with the CFAF -21.7 billion forecast. Indicative benchmarks for priority social expenditures and revenue were also met.

13. For end-March 2013, the original test date for the sixth review, all performance criteria and indicative benchmarks were met, except the criterion on net domestic government financing. The noncompliance with this criterion results from advances provided to the cotton sector (CFAF 19 billion) to finance campaign expenditures, pending the receipt of cotton export sales. These receipts are expected before end-2013. As the government requested to shift the test date to September, the higher than programmed domestic financing need does not require a waiver.

14. The implementation of structural benchmarks has been satisfactory (Table 2a).

- The development of a comprehensive and integrated information system in tax administration (Direction générale des impôts et des domaines—DGID) began in March 2012, as scheduled.

- The government has made progress in the generalization of the single taxpayer identification number (TIN) to all taxpayers. The use of non-specific identification numbers was significantly reduced. At the Port of Cotonou, their use has been terminated since April 2010. At Hilla-Condji, the use of non-specific identifiers was stopped at the end of July 2013. These two units handle about 90 percent of total imports.

- The civil service reform strategy was adopted in April 2013, instead of as scheduled in December 2012.

15. The government adopted a new approach to customs reform in 2013. Due to the difficulties encountered in the implementation of the new-generation import verification program (IVP) (Programme de vérification des importations), the government suspended and then cancelled the related service contract. These difficulties include the high costs of reform-related services, objections to scanner inspection of goods bound for landlocked countries, the surge in the prices of major consumption goods, and the gradual shift from the Port of Cotonou to competing ports in the sub-region. In this context, two other structural benchmarks (blocking of the following reporting fields in ASYCUDA$^{++}$: the TIN, inspection certification number, and related customs value, and integration of IVP data at the single window) related to the new-generation IVP, will not be implemented. However, the government has developed, with technical assistance from the IMF's Fiscal Affairs Department (FAD), a new approach for customs reform focused on capacity building in customs administration. In this context, the government has adopted a reform strategy for the period 2013—2016 aimed at three objectives: (i) reinforcing the capacities of the customs administration to fulfill its key functions, (ii) enhancing customs efficiency by equipping the administration with modern and effective-performance tools, including by using capacity-building assistance from private operators for a limited period of time, and (iii) improving the mobilization of customs revenue. This strategy focuses on the reinforcement of the five main functions of a modern customs administration, namely: (i) risk management, (ii) customs valuation control by integrating the new value certification program of imported goods, (iii) pre-clearance inspection by introducing tools such as scanners, scales, and weighbridges, (iv) post-clearance inspection, and (v) customs regime controls, including geolocation for goods in transit. To implement this strategy, the

government has drafted and adopted an action plan. It has also established the institutional framework for reform comprising a strategy and surveillance committee and a steering committee.

16. Progress has also been achieved in other structural reforms. These reforms focused on the civil service, economic governance, the financial sector, and the business environment.

- With regard to the civil service, the major achievements consist in cleaning-up the government's payroll files, consolidating the personnel databases of the Ministry of the Economy and Finance and of the Ministry of Labor and Public Service, adopting by the cabinet the government employees' certification identifier (identifiant de contrôle des agents de l'État), comprising the IFU and the administrative identifier, and establishing working groups and the Steering Committee for Public Service Reform.

- On financial governance, it is worth mentioning the parliamentary approval of budget review laws from 2005 to 2008, as well as the preparation and submission of the 2012 budget execution accounts to the Audit Chamber of the Supreme Court as required by budget rules, the approval by parliament of a new organic budget law in accordance with WAEMU directives, the issuance of four implementation decrees for anti-corruption legislation, including the creation of the National Anti-Corruption Authority. Measures were also taken to enhance investment and social expenditures, including (i) establishing close coordination between line ministries' implementing units and the Budget Department, (ii) processing government contracts within legal deadlines, and (iii) creating a counterpart fund for externally-financed projects. Additionally, the government has decided to organize an audit of public enterprises, including that of the 2012-13 cotton campaign.

- With regard to the financial sector, the government has promulgated three regional pieces of legislation (the framework law on banking regulation, the law on combating the financing of terrorism in WAEMU member countries, and the law imposing sanctions for offences relating to cheques, bank cards and other forms of electronic payment).

- Recent reforms to improve the business environment include (i) establishing a single window (Guichet unique de formalisation des entreprises—GUFE) to speed up the process and reduce the cost of creating a business, (ii) accelerating the settlement of trade disputes by creating three specialized trade chambers within the Cotonou Court, and (iii) facilitating access to credit by designating the Trade and Personal Property Credit Registry as the only registry for all securities and leasing operations.

## Economic, Financial, and Structural Policies for the Future

17. The government will continue to implement its economic and financial program with a view to achieving its macroeconomic stability and sustainable development objectives. The government's economic policy seeks to support the return of the economy to strong and equitable growth, driven by the private sector. This will require consolidating the macroeconomic framework and strengthening structural reforms.

### A. Macroeconomic Framework

18. The macroeconomic framework remains broadly in line with the one described in our letter of intent of October 2012, with an upward revision of the growth rate. We now forecast 5.0 percent growth in 2013, supported by the measures under way aimed at increasing agricultural production (including cotton and other cash crops) and enhancing the capacity and competitiveness of the Port of Cotonou. Average annual inflation should fall significantly in 2013 to about 3 percent, the threshold set under WAEMU regional surveillance. The current account deficit should decline slightly in 2013, mainly as a result of an increase in cotton product exports and external budget support, and of a decrease in goods and services imports. This deficit should be largely financed by foreign capital inflows.

### B. Fiscal Policy

19. The government is committed to maintaining the basic primary balance at FCFA 32.3 billion, or 0.8 percent of GDP, at end-December 2013. To this end, revenue should reach the target of FCFA 784.4 billion at end-December 2013, or 18.9 percent of GDP, while total expenditures and net loans should be capped at FCFA 913 billion, or 22 percent of GDP. Priority social expenditures will continue to receive special attention in order to reach the target of CFAF 136 billion by end-December 2013. Subsidies provided for the cotton campaign will be limited to those slated in the financing plan adopted by the government. To achieve its fiscal policy goals, the government intends to (i) consolidate the single window at the Port of Cotonou by developing the capacity to share electronic data with the customs administration, (ii) implement the 2013—16 customs reform based on the new approach, and (iii) build tax administration capacity through continued computerization to reduce reliance on customs revenue.

## C. Structural Reforms

20. The government intends to accelerate the implementation of structural reforms by placing a particular emphasis on public financial management. With regard to customs reform, and in accordance with the action plan adopted, the following measures will be taken (Table 2b).

- Launching the call for bids for the supply, operation, and maintenance of scanners, in line with recommendations by the Fiscal Affairs Department of the IMF (structural benchmark for end-November 2013).

- Signing the contract with a service provider for the certification of values at the customs program, as recommended by the Fiscal Affairs Department of the IMF (structural benchmark for end-November 2013).

- Establishing a risk analysis system by filling out inspection certificates for all declarations placed in the red channel (structural benchmark for end-December 2013) and preparing a monthly report on the results of the inspections, the rationale for the risk classifications, and the outcomes of the associated inspections (structural benchmark for end-January 2014, see TMU paragraph 35).

21. Other reform actions mainly seek to (i) enhance the control of exemptions, (ii) assess the public finance management system using the Public Expenditure Financial Accountability methodology, and (iii) adopt a new public-private partnership framework, developed with support from the World Bank. Along with a stricter fiscal control of exemptions, a report is being prepared on the exemptions granted to mobile phone operators as part of the process of acquiring their licenses. This should serve as the basis for a plan of reduction of exemptions in the future. The government will place a special focus on strengthening the tax administration's contribution to the national budget's resources by (i) building the tax administration's capacity to mobilize domestic resources optimally, (ii) modernizing the tax administration, including computerization of all units, and (iii) pursuing taxation of the informal sector. Further, the government will once again manage the 2013/2014 cotton campaign. It will continue to work with the World Bank to draft a new framework agreement to promote integrated development of the cotton sector by production zones.

## Growth and Poverty Reduction Strategy

22. The third-generation Growth and Poverty Reduction Strategy (PRSP III) for 2011-2015 and its Priority Action Program (PAP) remain the documents of reference for government action. The

strategy seeks to improve the populations' living conditions and to reach the Millennium Development Goals (MDGs), especially in the sectors of health, primary education, water, and sanitation.

23. Significant progress was achieved in the implementation of the strategy in 2012. In addition to the satisfactory macroeconomic results, important achievements in the infrastructure and social sectors should be emphasized. With regard to infrastructure, the total length of built or renovated rural roads increased from 643 km in 2011 to 9,749.8 km in 2012, the national electricity coverage rate reached 39.2 percent in 2012, compared with 37.2 percent in 2011, and the rate of access to drinking water in rural areas rose to 63.7 percent in 2012, from 61.0 percent in 2011. In social sectors, indicators of access to social services continued to improve. Thus, the gross school enrolment rate increased to 119.7 percent in 2012, from 112.6 percent in 2011, the rate of access to health services by children aged 0 to 5 rose from 81.2 percent in 2011 to 90.7 percent in 2012. Further, the government introduced a universal health insurance system (Régime d'Assurance Maladie Universelle—RAMU), in order to protect vulnerable groups.

24. In spite of these achievements, with less than a thousand days left before the deadline for achieving the Millennium Development Goals (MDGs), the government is aware that further efforts will be necessary to meet the MDGs, especially in the sectors of health, primary education, water, and sanitation. Therefore, the government intends to place a special emphasis on the priority actions defined to that effect, building in particular on the priority social expenditures mechanism. This will include continued efforts to improve the quality of spending and reallocation of expenditures among spending categories. In addition, the government intends to organize a round table for development financing, in cooperation with the World Bank, in order to scale up investment. A list of projects is being prepared for this event. Therefore the medium-term implications for the fiscal framework will be assessed once the list of investment projects is finalized. They will then be integrated into the medium-term projections.

## Conclusion

25. The government is convinced that the measures and policies described in this letter are adequate to reach the objectives of the program and reasserts its commitment to undertake all additional measures necessary to reach these objectives. For this reason, it requests the completion of the fifth review under the ECF arrangement and the associated disbursement. In addition, the government requests the extension of the ECF arrangement expiring in September 2013 to end-April 2014, in order to shift the test date for the sixth and last ECF review and the associated disbursement from March to September 2013, allowing additional time to implement the new

customs reform agenda. In this context, the sixth review of the program is expected to be completed by mid-April 2014, based on compliance with performance criteria for September 30, 2013.

26. Program monitoring will be based on quantitative performance criteria and structural benchmarks for the next six months defined in Tables 1a, 1b, 2a and 2b attached to this letter. To facilitate program monitoring, the government will communicate all relevant information to IMF staff on a regular basis, as indicated in the Technical Memorandum of Understanding (TMU), and any additional information government will deem important or requested by IMF staff.

27. As needed, the government will take all additional steps to reach program objectives. The government will consult the IMF on the adoption of such measures and before any amendment of the measures envisaged herein, in compliance with IMF procedures for such a consultation. The government authorizes the IMF to publish the staff report on discussions concerning the fifth review of the program, as well as this letter of intent.

Sincerely yours,

/s/
Jonas A. Gbian
Minister of Economy and Finance

**Table 1a. Benin: Evaluation of Quantitative Performance Criteria and Indicative Targets, 2012–13**

(Billions of CFA francs)

| | March 31, 2012 | | | | June 30, 2012 | | | | Sept. 30, 2012 | | | | December 31, 2012 | | | | March 31, 2013 | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Performance Criteria | | | | Indicative Targets | | | | Performance Criteria | | | | Indicative Targets | | | | Former Performance Criteria | | | |
| | Prog.[1] | Adj. Prog.[2] | Prel. | | Proj. | Adj. Proj.[2] | Prel. | | Prog. | Adj. Prog.[2] | Prel | | Proj. | Adj. Proj.[2] | Prel. | | Prog. | Adj. Prog.[2] | Prel. | |
| A. Quantitative performance criteria[3] | | | | | | | | | | | | | | | | | | | | |
| Net domestic financing of the government (ceiling)[4, 5] | 48.7 | 43.5 | -75.9 | Met | 60.7 | 60.7 | -20.8 | Met | 48.6 | 48.6 | 2.9 | Met | 47.5 | 43.8 | 6.0 | Met | 29.0 | 33.0 | 45.9 | Not Met |
| Basic primary balance (excluding grants) (floor) | -20.5 | -20.5 | 39.0 | Met | -39.8 | -39.8 | 34.2 | Met | -21.7 | -21.7 | 26.9 | Met | 7.2 | 7.2 | 23.6 | Met | -18.7 | -18.7 | -17.1 | Met |
| Memorandum item: Budgetary assistance[6] | 0.0 | 0.0 | 14.5 | | 14.6 | 14.6 | 14.5 | | 14.6 | 14.6 | 14.5 | | 20.9 | 20.9 | 31.5 | | 2.7 | 2.7 | 0.0 | |
| 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 | Met | 0.0 | 0.0 | 0.0 | Met |
| 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 | Met | 0.0 | 0.0 | 0.0 | Met |
| External nonconcessional debt contracted or guaranteed by government with maturities of more than one year[7] | 25.0 | 25.0 | 4.6 | Met | 25.0 | 25.0 | 4.6 | Met | 25.0 | 25.0 | 12.5 | Met | 25.0 | 25.0 | 12.5 | Met | 25.0 | 25.0 | 17.4 | Met |
| 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 | Met | 0.0 | 0.0 | 0.0 | Met |
| C. Indicative targets[3] | | | | | | | | | | | | | | | | | | | | |
| Total revenue (floor) | 148.3 | 148.3 | 211.6 | Met | 331.3 | 331.3 | 380.0 | Met | 515.0 | 515.0 | 552.9 | Met | 710.0 | 710.0 | 722.5 | Met | 172.0 | 172.0 | 173.3 | Met |
| Payment orders issued outside the expenditure chain (ceiling)[8] | 2.5 | 2.5 | 1.5 | Met | 4.6 | 4.6 | 1.4 | Met | 7.5 | 7.5 | 1.6 | Met | 10.6 | 10.6 | 2.9 | Met | 2.5 | 2.5 | 0.7 | Met |
| Priority social expenditure (floor) | 46.0 | 46.0 | 51.5 | Met | 75.0 | 75.0 | 82.1 | Met | 104.0 | 104.0 | 110.1 | Met | 134.0 | 134.0 | 138.3 | Met | 50.0 | 50.0 | 51.3 | Met |

Sources: Beninese authorities; 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 1b. Benin: Quantitative Performance Criteria and Indicative Targets, 2013

(Billions of CFA francs)

| | Sept. 30 2013 | Dec. 31, 2013 |
|---|---|---|
| | Performance Criteria | Indicative Targets |
| | Prog. | Proj. |
| A. Quantitative performance criteria[1] | | |
| Net domestic financing of the government (ceiling)[2, 3] | 48.9 | 8.9 |
| Basic primary balance (excluding grants) (floor) | 13.4 | 32.3 |
| Memorandum item: Budgetary assistance[4] | 11.3 | 40.4 |
| B. Continuous quantitative performance criteria (ceilings) | | |
| Accumulation of external payments arrears | 0.0 | 0.0 |
| External nonconcessional debt contracted or guaranteed by government with maturities of 0–1 year[5] | 0.0 | 0.0 |
| External nonconcessional debt contracted or guaranteed by government with maturities of more than one year[5] | 25.0 | 25.0 |
| Accumulation of domestic payments arrears | 0.0 | 0.0 |
| C. Indicative targets[1] | | |
| Total revenue (floor) | 574.0 | 784.4 |
| Payment orders issued outside the expenditure chain (ceiling)[6] | 7.5 | 10.6 |
| Priority social expenditure (floor) | 110.7 | 136.0 |

Sources: Beninese authorities; IMF staff estimates and projections.

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

[2] 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).

[3] 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.

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

[5] 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.

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

## Table 2a. Benin: Implementation of Structural Benchmarks for 2010–13

| Measure | Initial Date/ Revised Date | Objective | State of Execution |
|---|---|---|---|
| 1. Adoption by decision of the Council of Ministers of a strategy for the reform of the civil service. | June 30, 2011 / May 31, 2012 / December 31, 2012 | Limit the expansion of the wage bill and maintain fiscal space for investments and priority social expenditures. | Met with delay. |
| 2. Starting the development of a complete and integrated information system at the DGID. | December 31, 2010/ March 31, 2012 / March 31, 2013 | Contain the decline in revenue by improving the performance of the tax and customs administrations. | Met. |
| 3. Generalization of the TIN to all taxpayers and all the units of the tax and customs administrations. | December 31, 2010/ December 31, 2011 / March 31, 2013 | Contain the decline in revenue by improving the performance of the tax and customs administrations. | Met with delay. |
| 4. Generalization of the systematic use of the TIN by the DGDDI and the cessation of the use of nonspecific identification numbers at the level of ASYCUDA$^{++}$ (0000000000000 to 2999999999949). | December 31, 2010 / December 31, 2011 / March 31, 2013 | Contain the decline in revenue by improving the performance of the tax and customs administrations. | Met with delay. |
| 5. 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 / June 30, 2013 | Improve customs revenues. | Not met. Suspended pending implementation of the customs reform program |
| 6. 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 / June 30, 2013 | Improve customs revenues. | Not met. Suspended pending implementation of the customs reform program |

## Table 2b. Benin: Prior Actions and Structural Benchmarks for 2013-14

| | Measure | Date/Status | Objective |
|---|---|---|---|
| | **Prior actions** | | |
| 1. | Cabinet adoption of the customs reform strategy and action plan for 2013-16, developed with FAD assistance. | Met | Improve customs revenue |
| 2. | Establishing the institutional framework of reform, including an orientation and monitoring board and a steering committee. | Met | Improve customs revenue |
| | **Structural Benchmarks** | | |
| 1. | Launching a tender for the supply, operation and maintenance of a scanner, in line with the recommendations of the Fiscal Affairs Department of the IMF. | November 30, 2013 | Improve customs revenue |
| 2. | Signing a contract with a private operator for the program of certification of values at customs, in line with the recommendations of the Fiscal Affairs Department of the IMF. | November 30, 2013 | Improve customs revenue |
| 3. | Put in place a system of risk assessment, using the information of the certificate of inspection for all the declaration oriented to the red channel. | December 31, 2013 | Improve customs revenue |
| 4. | Preparation of monthly reports on: the conformity of inspections, the orientations of the risk analysis system and the results of the inspections. | January 31, 2014 | Improve customs revenue |

# ATTACHMENT 1. TECHNICAL MEMORANDUM OF UNDERSTANDING

August 7, 2013

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 current, that is, not contingent, liability, created under a contractual agreement through the provision of value in the form of assets (including currency) or services, 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 10-year average of CIRRs reported by the OECD will be used for loans with maturities longer than 15 years, while the six-month average of CIRRs will be used for loans with shorter maturities. To both the 10-year and six-month averages of the reference rate, the margin for different repayment periods will be added, as established by the OECD (0.75 percent for repayment periods of less than 15 years, 1.00 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 20 billion at end-September 2013, and CFAF 35 billion at end-December 2013.

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 11.3 billion at end-September 2013 and CFAF 40.4 billion at end-December 2013.

- The amounts of external debt service obligations (cumulative since January 1 of the same year) projected in the program are CFAF 31.5 billion at end-September 2013 and CFAF 44.1 billion at end-December 2013.

- The amounts of settlement of domestic payments arrears (cumulative since January 1 of the same year) projected in the program are CFAF 13.1 billion at end-September 2013 and CFAF 17.4 billion at end-December 2013.

- 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-September 2013 and CFAF 0 billion at end-December 2013.

**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 48.9 billion at end-September 2013 and CFAF 8.9 billion at end-December 2013.The ceiling is a performance criterion for end-September 2013 and an indicative target for end-December 2013.

## 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 13.4 billion at end-September 2013 and CFAF 32.3 billion at end-December 2013. The floor is a performance criterion for end-September 2013, and an indicative target for end-December 2013.

## 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 non-concessional 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 non-concessional 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 non-concessional 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 June 30, 2013, Benin had no short-term external debt.

# INDICATIVE TARGETS

## A. Floor for Government Revenue

**Definition**

26. Total government revenue includes tax and non-tax 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 574.0 billion at end-September 2013, and CFAF 784.4 billion at end-December 2013.

## 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 7.5 billion at end-September 2013, and CFAF 10.6 billion at end-December 2013.

## 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 among other things in the following sectors: health; energy and water; agriculture; youth; sports and leisure; family and national solidarity; education; microfinance and employment; 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, and Disabled and Senior Citizens |
| 44 | Ministry of Higher Education and Scientific Research |
| 49 | Ministry of Microfinance and Employment of Youth and Women |
| 62 | Ministry of Maternal and Primary Education |
| 63 | Ministry of Secondary, Technical, and Professional Training; and 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 110.7 billion at end-September 2013 and CFAF 136.0 billion at end-December 2013.

## 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 IMF 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.

35. The government will provide Fund staff with monthly risk analysis reports, as indicated in the relevant structural benchmark, including the following tables:

**Table 2: Results of Inspections**

| | Selected for Green Channel | Selected for Yellow Channel | Selected for Red Channel | Total |
|---|---|---|---|---|
| Compliant | | | | |
| Non-compliant (misdeclaration) | | | | |
| Not Inspected | | | | |
| Total | | | | |

**Table 3: Rationale for Risk Classification**

| | Selected for Green Channel | Selected for Yellow Channel | Selected for Red Channel | Total |
|---|---|---|---|---|
| Assigned based on Intelligence | | | | |
| Global Scoring Method | | | | |
| Random selection | | | | |
| Document Inspection (yellow channel) | | | | |
| Total | | | | |

**Table 4: Inspection Outcomes by Rationale of Risk Classification**

| | | Compliant | Non-compliant (misdeclaration) | Not Physically Inspected | Total |
|---|---|---|---|---|---|
| Rationale for Assignment to the Red Channel | Intelligence | | | | |
| | Global Scoring Method | | | | |
| | Random selection | | | | |
| | Document Inspection (yellow channel) | | | | |
| | Total | | | | |