

INTERNATIONAL MONETARY FUND
AND INTERNATIONAL DEVELOPMENT ASSOCIATION

REPUBLIC OF BENIN

**Annual Progress Report of the Poverty Reduction Strategy
Joint Staff Advisory Note**

Prepared by the Staffs of the International Monetary Fund (IMF) and
the International Development Association (IDA)

Approved by David Nellor and Anthony Boote (IMF)
and Gobind T. Nankani (IDA)

June 3, 2005

I. OVERVIEW

1. **Benin's first annual progress report (APR) shows that Benin has made mixed progress in implementing its poverty reduction strategy (PRS) since the finalization of the poverty reduction strategy paper (PRSP) in September 2002.** Macroeconomic stability and low inflation have been maintained despite a deterioration of the public finances and a weaker economic growth than targeted in the PRSP caused by adverse external shocks in the form of declining international prices of cotton and trade restrictions imposed by Nigeria. The impacts of these shocks have furthermore been exacerbated by delays in structural reforms due to capacity constraints, lack of coordination among the principals involved, and increasing political and social resistance to reforms. The authorities have made progress, nevertheless, in implementing the PRSP in areas such as public expenditure management and service delivery in the social sectors, while donors have worked with the government to harmonize monitoring indicators based on PRSP programs.

2. **As evaluated by Benin's first annual progress report (APR), the PRS remains a sound strategy for poverty reduction in Benin.** The APR provides a frank and honest evaluation of the progress achieved in 2003 in implementing the four pillars of Benin's PRSP, namely: (i) strengthening the macroeconomic framework; (ii) developing human capital and environmental management; (iii) strengthening good governance and institutional capacity; and (iv) promoting sustainable employment and participation of the poor in the decision and production process. The APR provides also some review of progress made in addressing shortcomings identified in the joint staff assessment (JSA) of the PRSP.

3. **The authorities intend to shorten the preparation time of the APR and, in particular, to achieve a closer integration of the PRS monitoring and evaluation process with the policy cycle.** The preparation and finalization of this first APR followed a lengthy

process that included the resolution of organizational issues and the official dissemination of the PRSP in late 2004. These delays meant that formal delivery of the APR was made in 2005, even though the APR was written in 2004 about progress in 2003. This outcome prevented a close integration of the APR with the budgetary and policy cycle and a review of the coming year's policy intentions. These problems will be addressed in the context of the 2004 APR that is to be finalized in due time for the 2006 budget discussions and for the preparation of the next PRSP.

4. **The APR process has been an effective instrument for improving donors' coordination and harmonization.** The draft APR was discussed with key domestic and external stakeholders to provide them with information on the PRSP implementation. The process resulted in a joint donors' assessment of the document preparation and of the progress in the implementation of the PRSP. The experience drawn from this dialogue between the authorities and the donors has contributed to strengthening donors' coordination and harmonization. It has also provided the government with a better understanding of donors' expectations in terms of PRS reporting and with ways to improve the preparation of future APRs. The staffs welcome the government's commitment to make the PRSP and the APR more effective instruments of donors' coordination.

II. PROGRESS IN IMPLEMENTING THE STRATEGY

A. Macroeconomic Developments

5. **Macroeconomic policies conducted during the first year of implementation of the Poverty Reduction Strategy (PRS) were appropriate and broadly in line with Benin's PRS objectives.** The government continued to focus on maintaining macroeconomic stability, strengthening public finance management, and reflecting PRSP priorities in budgetary allocations to social sectors.

6. **However, as stressed in the APR, government efforts have been confronted by external shocks, and economic performance was weaker than envisaged under the PRSP.** Import restrictions imposed by Nigeria in mid-2003 and adverse developments in the cotton sector that are linked to declining international prices of cotton, unfavorable climatic conditions, and the emergence of dysfunctions in the production and marketing arrangements, led to a deceleration of real GDP growth from 4.5 percent in 2002 to 3.9 percent in 2003, compared with a target of 5.6 percent in the PRSP baseline scenario. The external current account deficit widened by more than one percentage point of GDP, but inflation was kept below the WAEMU convergence criterion. The APR reports on the conduct of a prudent fiscal policy despite adverse economic conditions and expenditure pressures. The overrun of the overall budget deficit beyond the PRSP target was contained to 0.5 percentage point of GDP. On the revenue side, the APR discusses the strengthening of revenue mobilization through the enhancement of tax administration, which contributed to increasing the revenue to GDP ratio to 16.6 percent, slightly below the PRSP target. On the expenditure side, outlays were higher than envisaged mainly as a result of an overshooting of the wage bill and additional transfers linked to the organization of local elections.

7. **By highlighting the vulnerability of the Beninese economy to external shocks and its dependency on cotton production and on exports to Nigeria, the economic slowdown since 2002 underlines the need to diversify the economy and strengthen its competitiveness.**

This need has been exacerbated by the delays in implementing the structural reforms envisaged under the PRS and by an international environment that is likely to remain difficult in the medium term. Enhancing competitiveness and export diversification will thus require the acceleration of structural reforms and the promotion of a dynamic private sector. In this respect, the staffs encourage the authorities to implement without delay the envisaged reforms in the cotton, telecommunications, energy and transportation sectors. The staffs welcome the efforts to strengthen the legal and judiciary system, improve the business environment, and carry out a thorough diagnosis of impediments to private sector development. Benin also participates in the Integrated Framework (IF) and a Diagnostic Trade Integration Study (DTIS) is being finalized. The staffs suggest that the DTIS recommendations be incorporated into Benin's medium-term growth strategy.

8. **The staffs concur with the authorities that attaining the PRSP objectives will also require continued implementation of sound and prudent economic and financial policies.**

Fiscal policy will be instrumental in maintaining macroeconomic stability and making progress towards achieving the Millennium Development Goals (MDGs). This will involve not only improvement of revenue collection (through the broadening of tax base, fighting tax evasion and simplifying procedures), but also restraint in spending while enhancing the execution of poverty-reducing expenditures and strengthening public expenditure management. The recurrence of budgetary pressures and exceptional outlays has prevented a smooth execution of the budget and a better management of public finances. As this may affect the implementation of medium term expenditure frameworks and the attainment of the PRS objectives, improving the planning and programming aspects of budget management and developing a better understanding of fiscal sustainability would reduce the risks of budgetary slippages and provide for greater flexibility in the conduct of fiscal policy.

9. **For the purpose of revising the PRS and confirming that its pillars remain appropriate to attain the MDGs, it will be important for the authorities to assess recent economic developments and evaluate why neither of the two scenarios presented in the PRSP has materialized.**

Drawing lessons and recommendations for this recent experience would become an important input for the revision of the PRSP and its macroeconomic framework. The staffs continue to support the use of alternative scenarios and sensitivity analysis in the PRSP with a view to broadening the policy space for the discussion of the PRS. In this context, the staffs suggest a strengthening of the institutional capacity to collect and provide data on a timely basis, as well as to analyze recent macroeconomic developments.

B. Sectoral Policies

10. **The APR notes that despite the liberalization of many aspects of the cotton sector, attempts to bypass the regulatory framework, agreed by producer organizations and ginners associations, have led to disruptions in the production and marketing**

system of cotton. The staffs encourage the authorities to enforce the new cotton regulatory framework in order to increase competitiveness of the sector. Moreover, after world cotton prices dropped in 2002 and 2004, the government provided subsidies to producers. Subsidies to support producer prices could be warranted only on a limited and temporary basis. The authorities should also start implementing a privately managed price mechanism and an income stabilization fund to enable producers to cope with world price shocks.

11. **Staffs concur with the APR that the long-delayed privatization of SONAPRA, the cotton parastatal, should be completed to foster the development of the sector.** By failing to complete the privatization, opportunities for increased productivity and private investment in the sector have been reduced, as well as the potential for higher cotton producer income. The staffs assessment is that completion of the privatization of the sector under full enforcement of the recently adopted regulatory framework, as well as the establishment of a privately-managed income stabilization fund for farmers, will best ensure the most efficient domestic production.

12. **The APR discusses progress in the computerization of the port system, a reform critical to Benin's competitiveness, but does not mention the lengthy delays and obstacles encountered in opening the management of the port to the private sector.** Similarly, the Report describes the government's success in separating the water and electricity companies and the postal services from telecommunications, but does not mention the lack of progress in privatizing utility services nor in setting up badly needed regulatory functions, especially for the partly private telecommunications sector. As indicated above regarding Benin's response to slower economic growth since 2002, government has recognized a number of reforms needed to improve the private business climate and remove constraints to growth, but it has been slow in taking action to formulate and implement these reforms. The staffs encourage the authorities to complete a comprehensive private sector development strategy during 2005 and start implementing its recommendations.

C. Human Development and Service Delivery

13. **The APR cites an abundance of statistics on PRSP human development indicators and MDGs covering the period 1999 to 2002, but fails to provide information on what may affect or change current trends in poverty.** The poverty indicators presented in the APR are derived largely from household surveys conducted in 2002, the year before the PRSP went into effect. The discussion of poverty figures struggles to describe the trend between 1999 and 2002 and provides only limited information on what may explain this trend, while pointing to inconclusive evidence regarding a significant improvement in poverty alleviation. However, these data provide a good baseline for measuring progress under the PRSP in future surveys. The main value of the APR is thus to provide a portrait of the baseline and of the government's agenda of measures undertaken to respond to these results in light of MDG and PRSP targets.

14. **The general portrait given in these data is that child and maternal mortality, as well as malnutrition, are high while literacy and access to potable water remain low.** Government has taken a number of actions to improve on these outcomes. The APR reports

that in both health and education, government has implemented program budgets oriented toward PRSP goals and has developed monitoring and evaluation systems. Even so, the links between sectoral public spending and outcomes should be strengthened. Accelerating progress will require greater attention to improving the quality of social services. It will also depend on improving decentralized service delivery, especially for disadvantaged areas, whereas many new initiatives in decentralization are still in the planning stages.

15. **The APR also discusses the progress achieved and the shortcomings in terms of health, education, or water provision.** In health, the APR cites the extensive new vaccination program, nutrition surveillance, and gives details of programs for combating HIV/AIDS and malaria. In education, the APR cites the rapidly increasing enrollment rates, but notes several inefficiencies, such as high drop-out and repetition rates, contributing to slow progress on literacy. In water, the APR cites the new water sector strategy and its agenda to construct an ambitious number of new water points to increase access to potable water.

D. Governance

16. **The APR documents good progress in implementing budget system reforms, notably public expenditure management, fiduciary management, and auditing systems.** Delegation of spending authority has been granted to line ministries, which have consequently a greater control over the commitments and pace of budget execution. Budget formulation and preparation have improved with the adoption of the Medium Term Expenditure Framework (MTEF) within many ministries. The APR also notes the alignment between the MTEF and the PRSP. However, frequent overestimates of revenues and expenditure pressures in recent years have forced post-approval revisions of the budget. Staffs recommend the government to strengthen the quality of data regarding macroeconomic projections and outcomes, including budgetary estimates, and to ensure their availability on a timely basis. The government is working to align the PRSP with the MTEF and the budget within an integrated framework.

17. **The authorities have also improved the monitoring and reporting of budget execution and accounting through implementation of new software systems.** SIGFIP, for budget preparation, and ASTER, for accounting, are functioning well, and efforts have been deployed to integrate the two software systems. The electronic link currently available has permitted an improved follow up on the execution of the budget, including external domestic funded projects. However, some foreign grants are not included in the system, meaning that the information is not comprehensive. In addition, there has been a recent tendency to circumvent the standard expenditure process through the use of exceptional procedures during budget execution. This may interfere with the consistency and transparency of the information on the budget execution and may also favor corrupt practices as well as create pressure on the treasury. The staffs encourage the government to limit the use of exceptional procedures in order to increase transparency in the execution of the budget. Progress in integrating all public spending, including grants, is also vital.

18. **The APR counts administrative and judicial system reforms as part of its agenda to improve the business climate and increase economic growth.** Civil service reform has long been delayed in Benin but some recent actions have been taken to provide the administrative corollary to program budgets and to support more decentralized service delivery. The APR notes specific management innovations in certain sectors, but concrete steps toward a systematic administrative reform have been slow due to lack of a strategic plan for managing and monitoring results, and for budgetary decentralization. Such plans are now being studied. The government has also embarked on a ten-year program, adopted in 2001, to modernize the judicial system in the interest of improving service delivery, including services to the private sector such as dispute resolution. While the program is underway, it begins from a low base and will require years to achieve the kind of reliable legal and judiciary services needed to strengthen economic growth and development.

E. Capacity Building and Participation

19. **Significant progress has been made in strengthening the mechanism for monitoring and evaluating the PRSP implementation.** The institutional framework has been clarified and reinforced with the issuance of a new decree in November 2004, which led to a more effective collaboration between the two main technical arms of the system, that is the Permanent Secretariat of the National Committee for Development and the Fight Against Poverty (ST-CNDLP), located in the Ministry of Finance and Economy, and the Observatory of Social Change (OCS), in the Ministry of Planning. Most of the monitoring and evaluation (M&E) departmental committees have been installed, though these committees need to become truly operational. The dissemination of the PRSP and the validation of the APR were pursued through broadly participative processes at both the central and local levels.

20. **Despite the achievements in strengthening the monitoring and evaluation of the PRSP implementation, progress in capacity building and participation at the local level has been slow.** Corresponding to the delays in budgetary decentralization, capacity building and resource transfers to the local level are proceeding slowly. The APR notes that few of the localities have adopted local development plans. One factor in these delays is the fact that dissemination of the PRSP was not launched until late 2004. The government is usefully tracking the degree of penetration of financial services into decentralized communities. However, this penetration rate, just over 26 percent, is well below the government target.

III. ADDRESSING WEAKNESSES NOTED IN THE JSA OF THE PRSP

21. **The JSA of the PRSP identified several weaknesses to be addressed in future work on the PRSP.** These included: increasing knowledge about the impact of policies on the poor; improving analysis of the determinants of poverty; designing a private sector development strategy; and improving capacity for implementation. The APR addresses some of these issues in a list of actions undertaken to improve the PRSP. Other events have taken shape since the APR was validated. To improve the poverty diagnosis, new core welfare indicators questionnaire (CWIQ) surveys have been planned for the next several years. A poverty and social impact assessment (PSIA) study of the cotton sector explores the poverty

impact of over a decade of policy reforms in the sector producing Benin's main export. Concrete plans are prepared for developing the private sector growth strategy. Government has also agreed on the definition of a set of indicators it would use for monitoring implementation of the PRSP. Nevertheless, staffs concur with the APR assessment that there is an urgent need to specify and sharpen the content of the monitoring and evaluation program, make truly effective the M&E units that have been established in line ministries, and strengthen their capacities to carry out M&E work.

IV. CONCLUSION AND RECOMMENDATIONS

22. **The APR broadly reflects Benin's progress in implementing the PRSP and lays out the government's agenda for improving performance and for monitoring progress on implementation.** The long period required for finalizing the document indicates that the government is still working on establishing a process for producing and using monitoring data. Delays in the availability of monitoring data will make it harder to improve the efficiency of public spending, a crucial ingredient for accelerating progress towards the MDGs. The abundant data in the report has been technically analyzed, but provides little indication of the degree to which results have been institutionally absorbed. Staffs encourage the authorities to examine closely the progress in implementing the PRS and to consider new adjustments if the impact is less than expected. In particular, staffs note the critical importance of the following issues raised in the APR:

- Reducing the vulnerability of the economy to external shocks through implementation of structural reforms,
- Strengthening the macroeconomic framework through prudent and sound financial policies, while improving budget forecasts and envelopes for program sectors,
- Adopting the administrative and judicial reforms needed to improve the business climate,
- Stabilizing the policy environment for the cotton sector,
- Adopting administrative reforms needed to fully implement and monitor program budgets and improve public sector efficiency, and
- Implementing budgetary decentralization critical for improved service delivery.

23. **Government is now planning for the development of their next PRSP.** While the first one extends through 2005, the next one will be produced during 2006 and will cover the period 2007-2009, the same period as is covered in the next Medium Term Expenditure Framework. This timing will allow government to make use of new survey data that will become available only toward the end of 2005. Further, after the presidential elections scheduled in early 2006, the new government will be able to combine the preparation of the revised PRSP with the articulation of its political agenda.