

IDA AT WORK

Benin: Stepping Up Growth and Economic Diversification

Important economic and structural reforms, supported by the World Bank and the International Monetary Fund (IMF) helped Benin sustain growth rates averaging 4.7 percent annually during the last decade, resulting in modest increases in its per capita income (US\$750) as well as improvements in human development, ranging from the construction of new classrooms to tackling malaria. Nevertheless, poverty remains widespread and the economy remains little diversified and vulnerable to external shocks.

Challenge

Benin's economy remains heavily dependent on cotton and transit/re-export trade, both of which suffer from serious vulnerabilities. Cotton is the primary export commodity with 25-40 percent of annual exports. Regional re-export and transit trade is the other mainstay of the economy (much of it informal), accounting for 20 percent of GDP and 25 percent of government revenues. The recent global economic crisis highlighted the vulnerability of the economy to trade policy changes in Nigeria, its neighboring and main trading partner.

The global economic and financial crisis has contributed to a significant economic slowdown in Benin, and a widening of the fiscal and current account deficits. The recent deceleration of growth, from 5 percent in 2008 to 2.7 percent in 2009 and an estimated 2.5 percent in 2010, is largely the result of: weaker global demand for exports, particularly in 2009; a decrease in re-export trade, primarily to Nigeria; lower foreign direct investment; lower public investment; a domestic financial scandal; and lower cotton prices. The 2010 floods have resulted in additional strains on an already difficult fiscal position.

Despite progress in improving access to basic services, achieving the Millennium Development Goals (MDGs) remains a significant challenge. Benin is on track to meet the MDGs for access to potable water in rural areas, hunger, and reduced HIV/AIDS prevalence. Attaining the rest of the MDGs would be difficult, however, without sharp accelerations of current trends. In particular, in the health sector, child and maternal mortality remain very high despite a sharp reduction over the last years. In education, the universal primary education goal and the completion rate goal for boys are likely to be reached, but the 2005 goal of parity in primary and secondary education has not been met and would not be reached by 2015 without reinforced effort. Furthermore, improving the quality of education and the management of the sector remain key challenges. Finally, while Benin is in a position to meet the MDG for rural water supply, reaching the sanitation goal would be very challenging, even with sustained actions.

Benin's location provides special opportunities and challenges for regional integration with West Africa Economic Monetary Union (WAEMU) and non-WAEMU countries. Since the bulk of its intra-regional trade is with Nigeria, Benin is well placed to benefit from renewed growth in that country. Benin must compete with neighboring Togo and other countries in the West Africa region, such as Côte d'Ivoire and Ghana, to be a key port of entry for trade. While the Port of Cotonou could play a crucial role in strengthening Benin's competitiveness as a regional transport hub, the port suffers from considerable congestion and delays due to corruption and weak administration.

Approach

IDA Country Assistance Strategies have supported Benin's efforts to implement core priorities established in Poverty Reduction Strategy Papers (PRSPs). The first PRSP was adopted in September 2002 and the current plan (covering 2007-2009) provides the strategic framework for the 2009-2012 Country Assistance Strategy. A third PRSP for the period 2011-15, for which a Bank/Fund JSAN is planned for April 2011, aims at achieving a higher sustainable rate of growth and expanding employment. In line with the current PRSP, the new plan is organized around five strategic axes: (i) acceleration of economic growth; (ii) infrastructure development; (iii) human capital development and improvement of basic services; (iv) promotion of good governance; and (v) promoting balanced and sustainable development. Renewed focus would be given to decentralization and local development, agriculture diversification, climate change initiatives, promotion of female and youth employment, social protection and the legal rights of the poor.

The Beninese government successfully completed the implementation of the last three-year IMF-supported Poverty Reduction and Growth Facility (PRGF) in August 2009. Preparation of a new Fund-supported program was temporarily suspended due to important slippages in government expenditures, including large bonuses to civil servants. However, the authorities have implemented corrective measures to restore fiscal discipline and agreed on a revised fiscal policy for 2010. In mid-June 2010, the IMF approved a three-year US\$109 million extended credit facility for Benin.

Benin is one of the 19 heavily indebted countries that have graduated from the Heavily-Indebted Poor Countries initiative, receiving 100 percent cancellation of eligible debt under the Multilateral Debt Relief Initiative. Debt relief helped to improve debt management and reduce the country's external debt stock from 47 percent of GDP at end-2002 to 19.4 percent of GDP at end-2010. Although the impact of the financial crisis is not expected to jeopardize debt sustainability, the DSA stressed that it is important to pursue a prudent fiscal and borrowing policies, notably by sticking with highly concessional funding.

Results

Projects supported by the International Development Association (IDA) have achieved the following:

As of December 2010, the US\$50-million **National Community Driven Development (CDD) project** (which received an additional US\$12 million in July 2010) had reached about 735,000 direct beneficiaries. To date, 1,285 community sub-projects have been financed by the project, of which 938 are completed (with a target of 1,400), with another 270 soon to begin implementation with financing under the additional grant. The project has supported the construction or rehabilitation of over 1,680 classrooms, 89 health centers, and 39 water and sanitation systems. Around 84,000 students are enrolled in schools constructed or rehabilitated under the Project. The micro-finance component has been successful in extending financial services to 14,087 individuals in 512 previously unserved communities.

Under a US\$9-million **Emergency Food Security Support project** approved in October 2008, some 37,543 maize and rice producers obtained 9,800 tons of fertilizers (out of which they actually used about 9,143 tons as of December 2010) leading to an expansion in cereal production from 140,000 tons (98,897 tons of maize and 41,102 tons of rice) against a target 147,000 tons. Thus, the project has led to a significant increase in food crop farmers' access to agricultural inputs and in rice and maize production. The closing date has been extended by six months to June 2011 to complete all project activities.

Through the regional **Abidjan-Lagos transport and transit facilitation project** approved in March 2010 (total Benin allocation of US\$75 million), IDA is helping address transport and trade facilitation bottlenecks identified along the corridor, which accounts for about 65 percent of trade in West and Central Africa. The first phase of the project (including Ghana, Togo, and Benin) took off quickly and is promising. In Benin, the first year of implementation under IDA funding has meant getting ready to start rehabilitation and expansion in April of one of the most congested road sections along the Corridor (outside Cotonou between Godomey and Pahou). Furthermore, the project attracted additional funding from the African Development Bank for another section of the Beninese Corridor. Under the US-Millennium Challenge Account, IDA financing and a PPP launched by the government, improvement of port operations through the introduction of a "single window" for trade has started. The ALTFP framework provides the member countries, including Benin, to actively participate in the several regional events—such as workshops

on the “regional single window” and the Authorized Economic Operator mechanisms—aimed at gradually enabling a real regional integration in the West Africa region.

Since March 2007, when the US\$31-million IDA-supported *Malaria Control Booster project* was launched, about two million long-lasting impregnated mosquito nets have been distributed throughout Benin, for the benefit of children under five and pregnant women. A second national mass campaign is scheduled to take place in April-May 2011 to distribute four million mosquito nets all over the country with the IDA supported-project contributing for additional 1,200,000 nets. The project also provided the country’s public health centers with new malaria medication, which are more effective in treating malaria-affected persons. In addition, these centers received laboratory equipment that help with quick diagnosis of malaria cases; they were also equipped with vehicles (cars and motorcycles) to improve the mobility of health agents. Moreover, about 10,000 public health agents were trained on how to deal with different cases of malaria. Geographical coverage under this project has been achieved. Statistical data released by the National Malaria Control Program at end December 2010 show that the project has already met its end-of-project target results in terms of children under five and pregnant women sleeping under impregnated mosquito nets, and that progress remains steady towards reaching targets for children under five treated correctly with the new malaria medication.

The IDA-financed *Second Decentralized City Management Project* (US\$75 million), launched in 2005, is progressing well and has helped improve access to infrastructure

and basic services in Benin’s primary cities of Cotonou, Porto Novo, Parakou and three selected secondary cities (Abomey-Calavi, Kandi, and Lokossa). The rehabilitation (drainage and pavage) of 25.6 kilometers (out of 31.6 km) of dense urban roads is completed, and providing to over 260,000 residents better access to the country’s economic activity centers. In addition, 12.3 kilometers (out of 14.8 km) of primary drainage network were constructed protecting 91,000 residents from periodic flooding. Fourteen operational neighborhood development committees have been established surpassing the end of project target of 10. The committees are supporting the entrenchment of community decision making in the project. All participating municipalities (except one) have increased their overall internally generated funds and are consistently allocating funds for urban infrastructure maintenance per project agreement and targets.

IDA Contribution

Current commitments for Benin (IDA, the Global Environment Fund and trust funds) amount to US\$523 million, of which about 57 percent has been disbursed to date. IDA’s February 2009 Benin Country Assistance Strategy (2009-2012) proposes a mix of complementary instruments. Annual Poverty Reduction Strategy Credits will continue to be prepared in addition to specific investment lending operations to support either reform activities (cotton, private sector, energy, telecommunications, governance, and capacity building) or to support basic needs and achievement of the MDGs (malaria, HIV/AIDS, community-driven development, drainage and water supply).

IDA analysis has served to underpin the progressive shift from a project-by-project

approach towards consolidated programmatic support and the design of the first series of Poverty Reduction Support Credits (PRSC). Analysis also informed the preparation of the second generation of PRSPs. Substantial analytical work on private sector development supported the development of a Private Sector Development strategy adopted by the government in September 2006.

Since 2004, IDA has been providing direct budget support through a series of annual single tranche PRSC operations. The first PRSC series, covering the 2004-2006 period, amounted to US\$85 million and contributed to enhancing macroeconomic stability, improving governance and public sector management and increasing access to basic social services, in particular education, health and water. The second series was launched in 2007 and focused on reforming the regulatory framework and policy environment for private sector development, the cotton sector, and strategic planning and program budgets in the water, health and education sectors. Given the progress made on the macroeconomic front, the third and final operation in the series (US\$30 million) was submitted to the Board and approved on April 29, 2010. Preparation of a PRSC-7, the first operation in a new series, has started. Overall, the program of reforms supported by the PRSCs was implemented in a satisfactory manner despite economic difficulties.

Partners

The European Union, African Development Bank, UN agencies, bilateral donors, the World Bank, and the IMF are among Benin's key partners. Non-traditional creditors, such as China and the Islamic Bank, are also increasingly active.

Since 2004, annual joint missions of the main donors providing budget support have taken place, and together they have begun to develop a policy matrix to monitor the implementation of key structural and sector reforms, including aid harmonization for which a Memorandum of Understanding was signed in December 2007. At the sector level, joint government-donor reviews are regularly carried out in the core sectors of rural water, health, education, agriculture, transport and justice. Since 2004, the African Development Bank (AfDB) has aligned its program loans with the PRSP and the PRSC. On public procurement reform, the AfDB and IDA teams have enhanced their coordination, leading to the selection of joint sets of prior actions. The two teams plan to continue to work closely on public expenditure management reforms, public procurement, internal and external controls, and capacity building.

Moving Forward

The global economic crisis continues to affect Benin adversely. The government's Growth and Poverty Reduction Strategy, currently being updated for the period 2011-2015, is to make Benin an emerging economy by 2025. The main challenge ahead is to contain the impact of the crisis in the short run while increasing sustainable growth over the medium term to make progress towards the MDGs. The fiscal situation continues to be difficult. Tax revenue collection remains weak, limiting the fiscal space for priority social and investment spending, but Benin's demonstrated commitment to reform and desire to absorb aid effectively offer it an opportunity to accelerate progress.

Benin will continue to pursue regional economic integration, particularly in the

important energy, transport and telecommunications sectors, given the significant advantages of its strategic location next to Nigeria and the continued possibilities offered by cross-border trade. IDA will support Benin in pursuing stronger partnerships with the International Finance Corporation (notably in the area of infrastructure) and Multilateral Investment Guarantee Agency.

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