



BENIN

LETTER OF INTENT, AND TECHNICAL MEMORANDUM OF UNDERSTANDING

May 2020

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.

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International Monetary Fund
Washington, D.C.

Letter of Intent

THE MINISTER

Cotonou, May 8, 2020

TO

Madame Kristalina GEORGIEVA
Managing Director
International Monetary Fund
Washington, DC 20431, USA

Dear Madame Georgieva,

1. The government of Benin is continuing its implementation of the 2016-2021 Government Action Program (GAP) and the measures recommended as part of its economic program supported by the arrangement under the International Monetary Fund's Extended Credit Facility (ECF) for the period 2017-2020, which expires in July 2020.
2. The purpose of the ECF arrangement is to promote inclusive growth and reduce poverty by creating fiscal space for investment in infrastructure and priority social spending. It is also aimed at catalyzing official and private funding, and at building resilience in the event of potential economic shocks.
3. The sixth review under the arrangement shows significant progress, both in terms of the implementation of the GAP and in the pursuit of reforms related to the program concluded with the IMF.
4. This sixth review is also marked by the COVID-19 pandemic, which our country is having to cope with, in addition to a complex regional situation marked by the closure of the borders between Benin and Nigeria since August 2019.¹ As in the other African countries, we expect a sharp slowdown in economic activity this year. Without the support of our technical and financial partners, we are concerned that this pandemic will undermine our hard-won macroeconomic stability and will erase the gains and efforts made in recent years in transforming Benin's economy.
5. In this context, we are asking for extraordinary support from all of our technical and financial partners in the form of supplementary budget support. Assistance from the IMF is

¹ This measure, which was decided upon unilaterally by Nigeria, affects not only Benin, but also Niger, Chad, and Cameroon.

essential. The government is requesting for the disbursement of SDR 76.013 million (61.4 percent of Benin's quota) through the increased access process. This increase will make it possible to cover the balance of payments financing needs, in particular those arising from the COVID-19 response plan. In addition, the government is asking for the disbursement of the last tranche under the ECF arrangement in the amount of SDR 15.918 million, bringing the total disbursement related to the sixth review to SDR 91.931 million. We are committed to using the additional IMF financing for the sole purpose of responding to the health and economic crisis. Our response plan, which will be partly financed by the access augmentation, is presented below.

Recent Economic Developments and Performance Under the Program

6. In 2019, economic activity was marked by robust growth estimated at 6.9 percent by the National Institute of Statistics and Economic Analysis (INSAE), in spite of the closing of the border between Benin and Nigeria. The acceleration of growth compared to 2018 can be explained primarily by strong activity in the construction and agrobusiness sectors. Average annual inflation was negative at -0.9 percent, owing to a decline in food prices. The government also continued to exercise sound fiscal discipline. The fiscal deficit (including grants) was equal to 0.5 percent of GDP in 2019, compared to 2.9 percent of GDP in 2018. The current account deficit is projected at around 4.3 percent of GDP for 2019, slightly lower than the figure for 2018 owing to an improvement in the balance of services.

7. The results under the sixth and final review of the program supported by the ECF arrangement were very satisfactory. Namely:

- All of the quantitative performance criteria were met at end-December 2019 (Attachment I);
- All of the structural benchmarks were met (Attachment II). These are benchmarks regarding: (i) the implementation of a mechanism for the monitoring and verification of investments provided for under the Investment Code and special economic zones; (ii) the strengthening of the research and statistics unit within the customs administration by adding statisticians to the staff, with a view to improving risk analysis, the monitoring of exemptions, and fraud detection; (iii) the 2020 Budget Law, which includes a set of fiscal measures generating an amount equal to CFAF 45 billion; and (iv) performance of an assessment of the impact of the transfer of government deposits from commercial banks to the Treasury Single Account.

8. More generally, Benin has made significant progress under the program since 2017. All of the semi-annual quantitative performance criteria have been met, as well as almost all of the structural benchmarks. The fiscal deficit has been reduced considerably over the past three years with a view to ensuring the country's macroeconomic stability. The arrangement has allowed for a strengthening of tax administration and mobilization of revenues, as well as public financial management. It has also made it possible to maintain a sustained rate of growth in economic activity, marked by low inflation and a favorable trend over the medium term in the current

account balance. In March 2019, Benin issued its first Eurobond at very competitive market terms, offering evidence of the high degree of credibility of Benin's public policies on the international stage.

Response Plan to Fight the COVID-19 Epidemic

9. In 2020, like many countries around the world, Benin has been hit hard by the COVID-19 pandemic. In addition to the health crisis, there is also an economic slowdown linked to the global recession and the measures taken to contain the transmission of the virus:

- *From a health standpoint*, Benin has 50 confirmed cases, including 27 cases in which the patients recovered and one death, as of April 20, 2020. Unfortunately, some of the persons infected came into contact with many people before being identified as carriers of the virus and being required to remain in quarantine, thus giving rise to fears of multiple outbreaks. In addition, Benin's healthcare system is already highly mobilized, but its capacity to provide care could be exceeded very rapidly if they are not adequately reinforced on an urgent basis.
- *From an economic standpoint*, we expect a sharp slowdown in economic activity in 2020. We have therefore revised the growth rate downward to 3.2 percent (from 6.74 percent before the start of the pandemic). The closing of the borders and the slowdown in trade with importer and exporter countries will slow the momentum seen in practically all sectors. In addition, the measures to fight the spread of the virus within the country are severely constraining economic activity, affecting production, investment, and household consumption.

10. To address the situation, we have developed a response plan consisting of: (i) public health measures to combat the epidemic and to support the healthcare system; (ii) measures to protect the most vulnerable segments of the population; and (iii) economic support and recovery measures. The cost of this plan for 2020 has been set at CFAF 150 billion (1.7 percent of GDP).

- *Measures already taken*. Since February, measures have been taken in collaboration with the World Health Organization (WHO) and with the support of the World Bank, in particular at the borders and at the international airport in Cotonou. At this time, our land borders remain closed to the movement of persons, but the movement of goods is still allowed. Travelers arriving by air are systematically subject to quarantine in hotels requisitioned for this purpose. In addition, cordons sanitaires have been established to limit the spread of the virus and to contain new outbreaks. The use of taxis is strictly controlled, and the operation of other public transport has been temporarily suspended. Gatherings of more than 10 persons are prohibited. People are required to wear a protective mask in public and to maintain a minimum distance of one meter from one another. We communicate daily and transparently on the evolution of the epidemic and the measures that are being taken. Multiple infographics describing the "barrier measures" have been made available to the public and a dedicated website lists all the

official documents, press releases, videos, audio recordings, solidarity initiatives, and useful numbers.

- *New measures.* Our response plan is organized around three core areas: (i) an increase in health spending by CFAF 60 billion to cover the cost of purchasing medical equipment, the construction of temporary centers to care for people who are sick, and quarantine arrangements for at-risk populations; (ii) a total of CFAF 50 billion to help the most vulnerable segments of the population through the strengthening of the ARCH program (*Assurance pour Renforcement du Capital Humain*, or Insurance for Strengthening Human Capital) and the ACCESS program (*Appui aux Communes et Communautés pour l'Expansion des Services Sociaux*, or Community and Local Government Basic Social Services) and various social transfers (covering more than 550,000 households) carried out by means of mobile banking services or, failing that, through the payment of water and electricity bills or the distribution of foodstuffs for these households; and (iii) a CFAF 40 billion package to support struggling businesses through targeted and temporary tax exemptions and a relaxation of certain payment rules. In order to ensure proper implementation of the response plan, we will make sure that new spending is properly budgeted and that its execution is in line with the international rules of fiscal credibility and transparency. In this context, the Accounting Chamber will perform an independent audit next year of the use and effectiveness of the funds committed. This audit will be published by the Accounting Chamber in 2021 in its annual activity report and made available on its internet website. In addition, we will publish the procurement documents and contracts relating to the major projects implemented under the response plan, indicating the amounts and the names of the beneficial owners of the awarded companies.

11. In order to finance this ambitious plan and address the revenue shortfall related to the economic shock, we are planning to raise additional resources in the domestic market as well as from donors. We anticipate an increase in domestic funding in the amount of CFAF 65 billion (0.7 percent of GDP). As of mid-April 2020, we have already received additional support from donors, but we will continue to call on the international community to increase the concessional funding needed to implement the response plan. At the same time, we will also take steps to reallocate CFAF 51 billion in non-priority spending in the budget (equal to 0.6 percent of GDP). As a result, the 2020 fiscal deficit has been revised upward to 3.5 percent of GDP (from the 1.8 percent of GDP originally planned).

Macroeconomic Priorities and Future Structural Reforms

12. Beyond the short-term crisis, we remain determined to pursue our plan to modernize Benin's economy in four core areas: (i) the maintenance of macroeconomic stability by means of a credible and prudent fiscal policy; (ii) a policy of structural investments in infrastructure; (iii) the promotion of inclusive growth and protection of the most vulnerable segments of the

population; and (iv) the development of the private sector and improvement of the business climate to enable Benin to be increasingly competitive in the African economic space.

13. *Fiscal discipline.* The increase in the fiscal deficit in 2020 in response to the COVID-19 pandemic is temporary and does not call into question our objective of keeping the fiscal deficit below the convergence criterion of the West African Economic and Monetary Union (WAEMU) of 3 percent of GDP from 2021 onwards. The government is determined to continue its efforts aimed at strengthening tax administration and revenue mobilization, as well as those related to public financial management. This will make it possible to generate fiscal space needed for an infrastructure investment policy and the implementation of priority social protection programs.

14. *Major infrastructure projects.* The government intends to strengthen the infrastructure investment policy, particularly in the areas of transport and energy, in collaboration with the private sector. An analysis of the GAP financing options made it possible to prepare a catalogue of projects that would be good candidates for public-private partnerships (PPPs). In line with international best practices, we will ensure that: (i) investments involving PPPs are integrated into budget documents and government finance statistics; and (ii) liabilities related to PPPs are evaluated and annexed to the budget law. We will analyze the fiscal risks related to these PPP projects. Finally, in 2018 we established a unit for the management of fiscal risks related to PPPs within the Ministry of Economy and Finance. We are in the process of building capacity to make the unit fully operational.

15. *Inclusive growth.* The government intends to continue its efforts to foster inclusive growth and achieve a significant reduction in the poverty rate. In particular, the government is planning to accelerate the implementation of the insurance component of the government social protection project (ARCH), which entered its pilot phase in 2019 for the poorest segments of the population (300,000 people). The program will be extended to the entire population in 2021.

16. *Development of the private sector.* The government is determined to continue its policy of support for development of the private sector. In order to breathe new dynamism into its economy, since 2018 the government of Benin has undertaken a series of reforms that put the private sector at the heart of the structural transformation of the economy. In particular, numerous reforms are under way in the following areas: (i) business creation; (ii) access to electricity and water; (iii) obtaining building permits; (iv) payment of taxes and fees; (v) cross-border trade; (vi) access to public contracts; (vii) transfer of property; and (viii) obtaining loans. The parliament adopted a new Investment Code on January 29, 2020, which establishes the conditions, advantages, and general rules applicable to direct investment, both domestic and foreign, in Benin. In addition, a draft law was recently sent to the National Assembly to improve the legislative environment for the enforcement of contracts and the protection of minority investors. All the reforms thus implemented are aimed primarily at improving the business climate in order to make the business environment of the Beninese market competitive vis-à-vis the sub-regional and African economic space, and thus diversify the Beninese economy and develop new growth sectors.

17. In order to implement these priorities and support its credibility in the international community, Benin intends to maintain its productive relationship with the IMF after the current program expires in the summer of 2020. To this end, we are planning to lay the foundations for future innovative collaboration. In consultation with your staff, we will assess the optimal form of support that will meet Benin's needs and that will be in line with President Talon's desire to implement a policy of structural investments in physical infrastructure, but also in human capital.

Sincerely yours,

/s/

Romuald WADAGNI

Minister of Economy and Finance

Attachments (3):

1. Table of the Quantitative Performance Criteria and Indicative Targets, 2019
2. Table of the Structural Benchmarks for 2019-20
3. Technical Memorandum of Understanding

Attachment I. Table of the Quantitative Performance Criteria and Indicative Targets, 2019¹

	March 31, 2019			June 30, 2019			September 30, 2019			December 31, 2019			
	Indicative Targets			Performance Criteria			Indicative Targets			Performance Criteria			
	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	Prel.	Status	Prog.	Adjusted ⁴	Prel.	Status
A. Quantitative performance criteria²													
Net domestic financing of the government (ceiling) ³	15.0	27.6	Not Met	-38.0	-50.4	Met	-158.5	-68.0	Not Met	-289.0	-282.8	-302.9	Met
Basic primary balance (excluding grants) (floor)	15.6	-0.3	Not Met	44.5	50.7	Met	47.7	15.9	Not Met	101.7	71.7	93.5	Met
Total revenue (floor)	235.1	250.2	Met	505.5	522.8	Met	762.5	779.6	Met	1,112.4	1,082.4	1,088.0	Met
B. Continuous quantitative performance criteria (ceilings)													
Accumulation of external payments arrears	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	Met
Accumulation of domestic payments arrears	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	Met
Contracts by the government for the prefinancing of public investments projects	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	Met	0.0	0.0	0.0	Met
Ceiling on the present value of new external debt contracted or guaranteed by the government	468.9	458.0	Met	797.0	458.0	Met	797.0	797.0	Met	797.0		797.0	Met
C. Memorandum Items²													
Priority social expenditure (floor)	37.2	38.2	Met	82.5	84.3	Met	140.7	137.1	Not Met	180.0		192.0	Met
Budgetary assistance	0.0	3.9		3.9	3.9			3.9		45.4		64.2	

Sources: Beninese authorities; IMF staff estimates and projections.

¹ The terms in this table are defined in the Technical Memorandum of Understanding (TMU).

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

³ If the amount of disbursed external budgetary assistance net of external debt service obligations falls short of the program forecast, the ceiling on net domestic financing will be adjusted pro-tanto, subject to limits specified in the TMU. If the amount of disbursed external budgetary assistance net of external debt service obligations exceeds the program forecast, the ceiling will be adjusted downward by the excess disbursement unless it is used to reduce domestic payment arrears.

⁴ Adjustors are applied to the end-December 2019 QPCs on revenue, basic primary balance, and net domestic financing to account for the effect of the border closure with Nigeria (see TMU).

Attachment II. Table of the Structural Benchmarks for 2019-20

Measures	Dates	Rationale	Status
Revenue mobilization			
The Ministry of Finance implements the system of control and verification of the investments envisaged under the frameworks of the code of investment and the special economic zones.	November 2019	Rationalize exemptions and fight tax fraud.	Met
Strengthen the research and statistics office within the customs administration by staffing it with statistics personnel with a view to improving risk analysis, the monitoring of exemptions, and fraud detection.	December 2019	Improve customs revenues and fight customs fraud.	Met
Adopt a 2020 budget that includes a tax package with revenue-raising measures equivalent to CFAF 45 billion.	December 2019	Foster revenue mobilization.	Met
Public financial management			
Prepare an updated audit of the stock of past debt due by the government to domestic suppliers at end of December 2018. ¹	January 2019	Enhance fiscal transparency.	Met
Perform an impact assessment of the transfer of government deposits from commercial banks to the Treasury Single Account.	March 2020	Reduce fiscal and financial risks.	Met
Trade			
Perform a diagnostic assessment of the main trade barriers, based on the framework used for the notification stage of the WTO Trade Facilitation Agreement.	September 2019	Facilitate trade.	Met
¹ The unpaid services to suppliers were inherited from the previous governments.			

Attachment III. Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (the “Memorandum”) defines the performance criteria, quantitative benchmarks, and structural benchmarks of the Republic of Benin’s program supported by the Extended Credit Facility (ECF). It also specifies the frequency and deadlines for data reporting to the staff of the International Monetary Fund (IMF) for program monitoring purposes.

PROGRAM ASSUMPTIONS

2. **Exchange rates under the program.** For the purposes of this Memorandum, the value of transactions denominated in foreign currencies will be converted into the domestic currency of Benin (the CFA franc, or CFAF), based on the exchange rates agreed upon for the program projections. The key exchange rates are presented below.¹

CFAF/US\$	557.6
CFAF/euro	655.96
CFAF/SDR	785.4

DEFINITIONS

3. Unless otherwise indicated, “government” is understood to mean the central government 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).

4. The definitions of “debt” and borrowing for the purposes of this Memorandum are set out in point 8 of IMF Executive Board Decision No. 6230-(79/140), as subsequently amended on December 5, 2014 by Executive Board Decision No. 15688-(14/107):

- a. **Debt** is understood to mean a current – as opposed to a contingent – liability, created under a contractual agreement for 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, and these payments will discharge the principal and/or interest liabilities incurred under the contract. Debt 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

¹ Exchange rates as of August 19, 2017.

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 seller 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 also 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. The present value of the loan will be calculated using a single discount rate set at 5 percent.
- c. For debts carrying a variable interest rate in the form of a benchmark interest rate plus a fixed spread, the PV of the debt would be calculated using a program reference rate plus the fixed spread (in basis points) specified in the debt contract. The program reference rate for the six-month USD LIBOR is 2.63 percent and will remain fixed for the duration of the program. The spread of six-month Euro LIBOR over six-month USD LIBOR is -294 basis points. The spread of six-month JPY LIBOR over six-month USD LIBOR is -260 basis points. The spread of six-month GBP LIBOR over six-month USD LIBOR is -197 basis points. For interest rates on currencies other than Euro, JPY, and GBP, the spread over six month USD LIBOR is -200 basis points.² Where the variable rate is linked to a benchmark interest rate other than the six-month USD LIBOR, a spread reflecting the difference between the benchmark rate and the six-month USD LIBOR (rounded to the nearest 50 bps) will be added; and (d) Domestic debt is defined as debt denominated in CFA francs.
- d. "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

5. Net domestic financing (NDF) 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 shares 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 BCEAO credit to the government, including any drawings on the CFA franc counterpart of the Special Drawing Rights (SDR) allocation.
6. 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 local 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, except for industrial or commercial public agencies (EPIC) and government corporations, which are excluded from the calculation. Government debt to the banking system includes all debt to the central bank and local commercial banks, including Treasury bills and other securitized debt.
7. The data 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.
8. Gross external budgetary assistance is defined as grants, loans, and non-earmarked debt relief operations (excluding project-related loans and grants, use of IMF resources, and debt relief under the Heavily Indebted Poor Countries (HIPC) and Multilateral Debt Relief (MDRI) 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 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 arrears.

Performance Criteria and Indicative Targets

9. The ceiling on net domestic financing of the government (cumulative since January 1 of the same year) is set as follows: CFAF 74.7 billion at end-March 2018; CFAF 190.9 billion at end-June 2018; CFAF 103,0 billion at end-September 2018; and CFAF 118.8 billion at end-December 2018. These ceilings are performance criteria for end-June and end-December 2018, and an indicative target for end-September 2018.

10. The ceiling on net domestic financing of the government (cumulative since January 1 of the same year) is set as follows: CFAF 15 billion at end-March 2019; CFAF -38.0 billion at end-June 2019; CFAF -158.5 billion at end-September 2019; and CFAF -289.0 billion at end-December 2019. These ceilings are performance criteria for end-June and end-December 2019, and an indicative target for end-September 2019.

Adjustments

11. Net domestic financing of the government will be adjusted if net external budgetary assistance exceeds or falls short of the program projections indicated in paragraph 10:

- 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 more than CFAF 5 billion, the NDF ceiling will be lowered by an amount equivalent to that excess, minus CFAF 5 billion.
- 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 15 billion at end-June 2018 and CFAF 25 billion at end-December 2018. The same rule applies for 2019.

12. 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 22.6 billion at end-March 2018; CFAF 22.6 billion at end-June 2018; CFAF 39.6 billion at end-September 2018; and CFAF 55.4 billion at end-December 2018.
- The amounts of gross external budgetary assistance (cumulative since January 1 of the same year) projected in the program are CFAF 0 billion at end-March 2019; CFAF 3.9 billion at end-June 2019; CFAF 10.1 billion at end-September 2019; and CFAF 45.4 billion at end-December 2019.

13. The ceiling on the net domestic financing will be increased by an amount equivalent to the shortfall in customs revenue compared to the program's projections (CFAF 412 billion for 2019) in the event of a prolonged Benin/Nigeria border closure. The adjuster will be capped at CFAF 10 billion if the Benin/Nigeria border closure lasts until the end of October 2019, CFAF 20 billion if it lasts until the end of November 2019 and CFAF 30 billion if it lasts until the end of December 2019.

B. Floor of the Basic Primary Fiscal Balance

Definition

14. The basic primary fiscal balance is defined as the difference between total fiscal revenue (tax and nontax) and basic primary fiscal expenditure (on a commitment basis). Basic primary

fiscal expenditure is defined as fiscal (current plus capital) expenditure minus (a) interest payments 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

15. The floor of the basic primary fiscal balance (cumulative since January 1 of the same year) is a balance of not less than CFAF -69.7 billion at end-March 2018; CFAF -47.5 billion at end-June 2018; CFAF -20.3 billion at end-September 2018; and CFAF +3.9 billion at end-December 2018. The floors for end-June 2018 and end-December 2018 are performance criteria and the floor for end-September 2018 is an indicative target.

16. Similarly, the floor of the basic primary fiscal balance (cumulative since January 1 of the same year) is a balance of not less than CFAF +15.6 billion at end-March 2019; CFAF +44.5 billion at end-June 2019; CFAF 47.7 billion at end-September 2019; and CFAF 101.7 billion at end-December 2019. The floors for end-June 2019 and end-December 2019 are performance criteria and the floor for end-September 2019 is an indicative target.

Adjustments

17. The floor of the primary budget balance will be adjusted downwards by an amount equivalent to the customs revenue deficit compared to the program projections (CFAF 412 billion for 2019) in the event of a prolonged Benin/Nigeria border closure. The adjuster will be capped at CFAF 10 billion if the Benin/Nigeria border closure lasts until the end of October 2019, CFAF 20 billion if it lasts until the end of November 2019 and CFAF 30 billion if it lasts until the end of December 2019.

C. Floor of Total Government Revenue

Definition

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

Performance Criteria and Indicative Targets

19. The floor on total government revenue (cumulative since January 1 of the same year) is set at an amount that is not less than CFAF 204.8 billion at end-March 2018; CFAF 445.5 billion at end-June 2018; CFAF 701.1 billion at end-September 2018; and CFAF 1021.6 billion at end-December 2018. The floors for end-June and end-December 2018 are performance criteria and the floor for end-September 2018 is an indicative target.

20. The floor on total government revenue (cumulative since January 1 of the same year) is set at an amount that is not less than CFAF 235.1 billion at end-March 2019; CFAF 505.5 billion at end-June 2019; CFAF 762.5 billion at end-September 2019; and CFAF 1112.4 billion at end-

December 2019. The floors for end-June and end-December 2019 are performance criteria and the floor for end-September 2019 is an indicative target.

Adjustments

21. The government revenue floor will be adjusted downward by an amount equivalent to the shortfall in customs revenue compared to the program projections (CFAF 412 billion for 2019) in the event of a prolonged Benin/Nigeria border closure. The adjuster will be capped at CFAF 10 billion if the Benin/Nigeria border closure lasts until the end of October 2019, CFAF 20 billion if it lasts until the end of November 2019 and CFAF 30 billion if it lasts until the end of December 2019.

D. Non-Accumulation of New Domestic Payments Arrears by the Government

Definition

22. Domestic payments arrears are defined as domestic payments due but not paid by the government after a 90-day grace period, unless the payment arrangements specify a longer repayment period. The Autonomous Amortization Fund (CAA) and the Treasury record and update the data on the accumulation and reduction of domestic payments arrears. The definitions of debt given in paragraph 4a, of domestic debt in paragraph 4d, and of the government in paragraph 3 apply here.

Continuous Performance Criteria

23. The government undertakes not to accumulate any new domestic payments arrears. The non-accumulation of new domestic payments arrears will be continuously monitored throughout the program.

E. Non-Accumulation of External Payments Arrears by the Government

Definition

24. External public payments arrears are defined as payments due but not paid by the government as of the due date specified in the contract, taking into account any applicable grace periods, on the external debt of the government or external debt guaranteed by the government. The definitions of debt given in paragraph 4a, of external debt in paragraph 4e, and of the government in paragraph 3 apply here.

Continuous Performance Criterion

25. The government undertakes not to accumulate any external public payments arrears, with the exception of arrears related 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.

F. Ceiling on the Present Value of New External Debt Contracted or Guaranteed by the Government with a Maturity of One Year or More

Definition

26. This performance criterion applies not only to debt as defined in paragraph 4a, but also to commitments contracted or guaranteed by the government (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 4e, external debt excludes Treasury bills and bonds issued in CFA francs on the WAEMU regional market.

27. The term “government” used for this performance criterion and for the performance criterion on the contracting or guaranteeing by the government of new external debt, includes the government, as defined in paragraph 3, local governments, and all public enterprises, including administrative public agencies (EPA), 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

28. The present value of new external borrowing contracted or guaranteed by the government in 2019 will not exceed a cumulative amount of CFAF 797 billion. Changes to this ceiling may be made (subject to approval by the IMF Executive Board) based on the results of the public debt sustainability analysis prepared jointly by the staffs of the World Bank and the IMF.

G. Ceiling on Pre-Financing Contracts for Public Investments

Definition

29. Pre-financing contracts are defined as contracts pursuant to which the following steps are taken concurrently: (i) the government entrusts a private entity with the responsibility for executing public works, financed by a loan to the entity from a domestic commercial bank or group of commercial banks; (ii) the Minister of Finance guarantees this loan and signs an unconditional and irrevocable agreement to replace the private entity to honor the full amount of principal and interest of the loan, which are automatically paid from the Treasury’s account at the BCEAO. The concept of government used for this performance criterion is the one defined in paragraph 3.

Continuous Performance Criterion

30. The government undertakes not to enter into any pre-financing contracts during the program. This performance criterion on pre-financing contracts for public investments will be continuously monitored throughout the program.

INDICATIVE TARGETS

A. Floor for Priority Social Expenditures

31. Priority social expenditures are determined in line with the priority programs identified in the GAP. These expenditures consist of selected (nonwage) expenditures in the following sectors, inter alia: health; energy, water, and mines; agriculture; livestock and fisheries; social affairs; education; and living standards. The execution of these expenditures is monitored on a payment order basis during the program through the Integrated Government Finance Management System (SIGFIP).

Definition

32. 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 below.

Table 1. Priority Social Expenditure Categories

Budget code	Description
25	Ministry of Economy and Finance
36	Ministry of Health
37	Ministry of Energy
76	Ministry of Water and Mines
39	Ministry of Agriculture Livestock, and Fisheries
46	Ministry of SMEs and the Promotion of Employment
26	Ministry of Justice
52	Ministry of Labor and Public Affairs
41	Ministry of Social Affairs and Microfinance
44	Ministry of Higher Education and Scientific Research
27	Ministry of Plan and Development
62	Ministry of Nursery School and Primary School Education
63	Ministry of Secondary and Technical Education and Vocational Training
60	Ministry of Domestic and Public Security
51	Ministry of Infrastructure and Transport
38	Ministry of Tourism, Culture and Arts
40	Ministry of Sport

Indicative Target

33. The indicative target for priority social expenditures (cumulative since January 1 of the same year) is set as follows: CFAF 15.0 billion at end-March 2018, CFAF 50.0 billion at end-June 2018; CFAF 101.0 billion at end-September 2018; and CFAF 167.0 billion at end-December 2018.

34. The indicative target for priority social expenditures (cumulative since January 1 of the same year) is set as follows: CFAF 37.2 billion at end-March 2019, CFAF 82.5 billion at end-June 2019; CFAF 140.7 billion at end-September 2019; and CFAF 180.0 billion at end-December 2019.

INFORMATION FOR PROGRAM MONITORING

A. Data on Performance Criteria and Indicative Targets

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

Every month:

- 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 claims held by the nonbank private sector); and data on the basic primary fiscal balance, including data generated by 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;
- The monetary survey, within eight weeks of the end of the month.

Every quarter:

- Data pertaining to the amount of exceptional payment orders 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

36. The authorities will provide IMF staff with the following data:

Every month:

- Bank 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 loan agreements 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 review law; as well as any decree or law pertaining to the budget or the implementation.