PROGRAM INFORMATION DOCUMENT (PID)
APPRAISAL STAGE

September 26, 2017
Report No.: 120537

Operation Name	Benin - First Fiscal Reform and Growth Operation
Region	AFRICA
Country	Benin
Sector	Central government administration (40%); General energy sector (30%); General agriculture, fishing and forestry sector (30%)
Operation ID	P160700
Lending Instrument	Development Policy Lending
Borrower(s)	Government of Benin
Implementing Agency	Ministry of Economy and Finance
Date PID Prepared	September 26, 2017
Estimated Date of Appraisal	October 11, 2017
Estimated Date of Board Approval	November 28, 2017
Corporate Review Decision	*Proceed to Appraisal/Negotiations*

I. Key development issues and rationale for Bank involvement

1. Benin is one of the world's least-developed countries, with an annual per capita income of approximately US$820 in 2016. Poverty remains widespread, with a poverty rate of at about 50 percent ($1.90 a day poverty line – 2011 PPP) in 2015. With an average per capita GDP growth rate of 1.3 percent (2005-2015) driven primarily by the services sector, poverty reduction has been limited, highlighting the need to ensure a broad-based and stronger growth. There are significant regional disparities in poverty rates and rural poverty rates are higher than those in urban areas. Fewer female-headed households fall below the national poverty line than male-headed households.

2. Benin's economic growth has been satisfactory over the past decade (averaging about 4 percent) but the country's economic performance has been hampered by low competitiveness and high informality. Following the temporary slowdown experienced in 2015, economy activity rebounded driven by the recovery of private consumption. Economic performance was supported by increased cotton production, strong activity at the Port of Cotonou, and rising telecommunications and transport sector activity. Despite the satisfactory growth rates, economic performance in Benin is hampered by a weak business enabling environment. The high cost and unpredictable supply of electricity is a key constraint for private sector development. Agriculture's export is concentrated in the cotton sector, and agriculture suffers from supply chain deficiencies, including in the provision and distribution of inputs as well as on the marketing side. Approximately 90 percent of the labor force is engaged in the informal sector – agriculture, informal commerce and other services activities.

3. The first pillar of the Fiscal Reform and Growth series on fiscal consolidation is justified given the Government's effort to create fiscal space and improve the efficiency of public spending. In the run-up to 2016 Presidential elections, increases in the wage bill and out-of-budget expenses led to significant increases in public debt (up by almost 20 percent of GDP) and in the fiscal deficit (up from 2.1 percent of GDP in 2014 to 8 percent in 2015). The Government contained expenditures in 2016 to face the drop of tax revenues and managed to reduce the fiscal deficit from 8 percent of GDP in 2015 to 6 percent of

GDP in 2016. The DPO series will support the authorities' effort to create fiscal space by improving revenue collection and managing more efficiently public expenditure, with an emphasis on wages and transfers. In addition to the DPOs, the Government program is supported by an ECF program with the IMF approved by the IMF Board on April 7, 2017, providing macroeconomic and fiscal anchors that will support the implementation of the reforms. The first review of the Program, carried out in September 2017, confirmed that the authorities are committed to responsible fiscal management.

4. The second pillar aims at promoting agricultural productivity and strengthening the power sector which is a Government's priority to create productive formal jobs and support inclusive growth. Agriculture employs over 50 percent of the population and is the economy's leading formal sector foreign exchange earner. The country has a large endowment of arable and fertile land and adequate water resources. However, Benin's comparative advantage in agriculture remains largely unexploited as the governance structure and relatively low food-safety standards had a negative impact on the sector's competitiveness. Also, the inconsistent supply of electricity is frequently noted as a leading constraint to private sector growth, particularly in the light manufacturing and agricultural processing sectors. Strengthening the financial viability of the power sector and promote private sector participation is essential to increase electricity production capacity in a sustainable way. Focusing on these important real sectors will help improve productivity, create higher paying jobs and livelihoods, and enhance the country's effort to reach the World Bank's twin goals of poverty reduction and shared prosperity.

II. Proposed Objective(s)

5. The overarching goal of the proposed FRGC series is to boost real economic growth, reduce poverty and increase opportunities for the poorest in the population. The program development objectives of this FRGC series are to: a) support macroeconomic stability by strengthening fiscal management; and b) promote economic growth by increasing the productivity and competitiveness of the agricultural sector and strengthening the power sector's financial viability and production capacity.

III. Preliminary Description

6. The first pillar of the DPO series will focus on supporting macroeconomic stability by strengthening fiscal management. Not only is adequacy of the macroeconomic and fiscal framework a prerequisite for sustainable economic growth but budgetary and debt sustainability is necessary to the delivery of effective public services that maximize the impact of available revenues on beneficiaries, including the poorest segments of the populations. In addition, increasing fiscal space will help relax fiscal constraints to accommodate the financing of needed infrastructure projects.

7. The second pillar will seek to promote economic growth by increasing the productivity of the agricultural sector and strengthening the power sector's financial viability and production capacity. This series focuses on measures aimed at increasing the productivity of the agricultural sector by supporting a policy, regulatory, and institutional framework that strengthens agriculture value chains and enhances diversification, promotes higher quality standards for agricultural products and supports greater access to credit in the primary sector. Moreover, the measures supported by the operation strengthen the financial viability of the power sector that is necessary to attract private sector participation and, thus, increase electricity production capacity, including in renewables, and access to electricity in a sustainable way.

IV. Poverty and Social Impacts and Environment Aspects

Poverty and Social Impacts

8. The FRGC series is expected to have a positive impact on poverty reduction. Measures to increase revenue and to strengthen public expenditure efficiency are expected to ensure ongoing fiscal space for the delivery of essential public services and to contribute to a macroeconomic environment conducive to economic growth and private sector employment creation.

9. The supported measures aimed at increasing agricultural productivity and diversification are important in achieving the Government's stated poverty reduction and equitable growth goals. Results from the Poverty Assessment indicate that while agricultural growth has contributed strongly to overall growth, the impact on poverty reduction has been limited. Diversifying production into more valuable crops, focusing more resources on export-oriented crops, and raising productivity should boost incomes among the large share of the population, especially the poor population, involved in agriculture.

10. Initial results from the 2014 Poverty Assessment note the strong link between unemployment, underemployment and poverty. Gender-specific results and recommendations from the assessment have informed the policy dialogue with the Government. Gender disparities are especially pronounced in the credit market, where improving access to credit has had an important impact on women's economic empowerment. Support for reforms designed to improve credit to agriculture sector and, enhance private-sector competitiveness and build a more diversified and resilient economy will have positive effects on employment creation and poverty reduction.

11. Supported electricity sector reforms, should they meet their objective of encouraging increased access to electricity and more cost-effective provision of electricity, should have a direct and positive impact on the poor. Increased and more reliable access at affordable prices should also have a significant impact on firm creation, firm growth and resultant employment opportunities, particularly in the higher productivity formal sector.

12. A Poverty and Social Impact Assessment (PSIA) has been carried out to assess the potential impact of electricity pricing reforms in Benin. The PSIA concluded that improving the financial situation of the SBEE and thus reducing the gap between SBEE's service unit cost and revenues per kWh are prerequisites for the expansion of SBEE operations throughout the country and greater access for poor households to electricity. The PSIA study also concluded that the current social policy of subsidizing the tariff for the poor is not effective and suggested some possible options to strengthen the policy including adopting a tariff policy based on usage and eliminating fixed costs for small customers.

Environment Aspects

13. The policies supported by the proposed DPF are not likely to have negative impacts on the country's natural assets. All the actions supported throughout the first operation are policy-oriented; they do not support direct investment in environmentally impactful investments or involve policy actions with significant environmental consequences. The measures supporting domestic resource mobilization and efficient management of public expenditure pose no risk to the environment. Measures designed to strengthen economic competitiveness are also largely environmentally neutral.

14. Strengthening the financial viability of the power sector will support increased access to electricity and is expected to have a positive environmental impact. Households in Benin, particularly rural households, are highly dependent on biomass for their daily energy requirements. The reform program supported under the energy sector is likely to have positive environmental impacts and would help in the reduction of greenhouse gases occasioned by the predominance of fuel biomass (fuelwood, charcoal and plant wastes). The prior action of strengthening the financial viability of the power sector is likely to produce climate change mitigation co-benefit, since strengthening the financial viability of the sector is likely to promote the development of new energy efficient production capacities. In the agricultural sector, measures intended to diversify agriculture away from a reliance on cotton could have a potentially positive environmental effect as agriculture becomes less mono-culture based and increasingly diversified.

15. Over the last 20 years, the Government has made significant strides in mainstreaming environmental sustainability in projects. EIA is a legal requirement and it is widely applied to all developmental projects. Environmental assessment is a necessary condition to obtain the approval to implement any development project. It has been set up in the Law N° 98-30 relating to the environmental framework and in the Decree N° 2001-235 relating to the environmental assessment procedures. The national environmental protection agency (ABE) has the capacity to implement, monitor, and report on mitigating measures and/or environmental and social management plans; and have been working in direct collaborations with the environmental and social specialists of the Bank funded projects.

V. Tentative financing

Source:		($m.)
BORROWER/RECIPIENT		0.00
International Development Association (IDA)		40.00
Borrower/Recipient		
IBRD		
Others (specify)		
	Total	40.00

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