



Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 28-Jul-2022 | Report No: PIDA34234



BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Benin	P178042	Benin Second Unlocking Human and Productive Potential DPF series (P178042)	P176513
Region	Estimated Board Date	Practice Area (Lead)	Financing Instrument
WESTERN AND CENTRAL AFRICA	13-Sep-2022	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	Implementing Agency		
Government of Benin	Ministry of Economy and Finance		

Proposed Development Objective(s)

The proposed DPO series aims to: (1) empower women and girls; (2) expand access to reliable and sustainable energy; (3) strengthen fiscal and debt management.

Financing (in US\$, Millions)

SUMMARY

Total Financing	150.00
------------------------	--------

DETAILS

Total World Bank Group Financing	150.00
World Bank Lending	150.00

Decision

The review did authorize the team to appraise and negotiate



B. Introduction and Context

Country Context

- 1. After displaying relative resilience in 2020 and a strong rebound in 2021, Benin's economy is facing headwinds due to increasing inflationary pressures and higher borrowing costs.** Thanks to a significant fiscal stimulus and contained domestic contagion of COVID-19, real GDP growth has remained robust at 3.8 percent and 7.2 percent, respectively, in 2020 and 2021. However, the fiscal deficit and public debt have significantly increased by 5.0 and 7.4 percentage points (ppts) since 2019. In this context, war in Ukraine is putting an additional strain on public finances and increasing financing needs. Benin, like many countries, has responded to rising prices of food, fuel, and fertilizers with subsidies and price caps estimated at close to 1 percent of GDP.¹ Rising external borrowing costs are limiting its capacity to access international markets and addressing these urgent expenses along with other short-term needs such as security spending (the security situation deteriorated in the northern region) are adding liquidity pressures. As of end June, Benin's EMBI spreads have increased by +190bps since the onset of the war. The additional financing needs for 2022 are estimated at 2.4 percent of GDP², while real economic growth is expected to decelerate by 1.5 ppts to 5.7 percent (2.8 in per capita terms).
- 2. This operation supports medium term structural reforms to lay the foundations for Benin's stepping up the ladder towards an upper middle-income economy and addresses short-term financing needs.** A small open economy that recently transitioned to lower middle-income (LMIC) status, Benin's real Gross Domestic Product (GDP) growth averaged 5.1 percent over 2011-19, above sub-Saharan Africa (SSA). Yet, growth has been volatile and has not resulted in significant quality job creation. Labor productivity has increased slowly since 2010 with most of the employment shifts out of agriculture happening towards low productivity non-tradable services. Large gender disparities have kept fertility rates high and above the average in SSA, slowing the demographic transition and creating additional pressure on human capital investments. As a result, gains on real income per capita have been insufficient. In 2019, 38.5 percent of the population (44.2 percent of the rural population) was still living under the national poverty line. Consolidation of the status of middle-income economy will require expanding the capacity of people and firms to participate in the growth process.³
- 3. Empowering women and girls requires continued improvements of their human development.** The productivity and economic gaps between women and men stem from structural social disparities that start earlier in life. In Benin, gender gaps in schooling and literacy, high adolescent fertility and gender-based violence (GBV) limit the ability of women and girls to contribute to their full potential to society and economic growth (World Bank 2022). Compared to boys, half the share of girls completes full secondary schooling, with only one in ten girls aged 21-24 having completed secondary schooling. Moreover 30.6 percent of 20-24-year-old are married by the age of 18. Low educational attainment, child marriage and limited sexual and reproductive health services, contribute to a high adolescent fertility rate, slowing the demographic transition. GBV is prevalent and has been identified by Beninese women and girls as the greatest threat to their empowerment and to reaching equality (UNFPA). In 2021, to start breaking this cycle, Benin passed important legislative reforms. Specifically, the government passed laws and decrees to promote access to sexual and reproductive health (SRH), reinforce the penalization of GBV; and strength the national entity in charge of advocacy, monitoring, and supporting gender-related reforms. GBV directed to the justice system (as percent of total received) increased from 12.1 percent in 2020 to 13.7 percent in 2021. Challenges, however, remain and the reform agenda requires a continued multi-sector and multi-level approach.

¹Faced with the urgency to limit hardship from higher prices, the authorities adopted on March 23 a series of non-targeted measures detailed in the program document.

²The total amounts to the additional unexpected spending, lower forecasted tax revenue and changes in the financing composition given the higher external borrowing costs.

³Benin Country Economic Memorandum 2.0 (World Bank 2022).



4. **Accessibility, affordability, and reliability are bottlenecks for the expansion of electricity across the country.** More than half of the population does not have access to electricity, limiting firms' and households' capacity to invest in human capital and participate in productive activities. Only 36.5 percent of the population has access to electricity.⁴ Hence, the majority of the population is excluded from participating into a modern economy and satisfying other dimensions of wellbeing. Limited access to electricity also curtails the effective delivery of public services, the collection of taxes outside of large cities, and reduce the effectiveness of the public sector. Poor transmission and distribution infrastructure, vulnerable to climatic events, high costs of supply to remote areas, are among the biggest hurdles for extending grid-based electricity. The government has started an ambitious program to expand access to electricity, notably in rural areas, organized around the National Electrification Strategy to meet their objective of reaching universal access by 2030; and is putting in place different policies and regulations to ensure more reliable and affordable access to sustainable energy. In that context, for instance, solar self-generation capacity installed among medium voltage consumers has started increasing (from 0 megawatts in 2020 to 0.5 megawatts in 2021).
5. **Resource mobilization and strengthening debt management have become central in the volatile external environment post COVID-19 and to finance growth.** Improving domestic revenue mobilization and strengthening debt management remains crucial in the short term - as the country rebuilds buffers against external shocks while ensuring debt sustainability -, and in the medium term to continue financing its growth ambitions in a fiscally sustainable manner. Since 2018, the government has focused on enhancing the tax administration (digitalization and institutional reforms) and tax policy, by simplifying and modernizing the tax code, as well as aligning with the West Africa Economic and Monetary Union (WAEMU) directives. Despite gains, with direct and indirect taxation increasing as a share of GDP by 1 ppt, low domestic revenue collection implies efforts need to continue in order to expand the tax base and improve overall efficiency. It remains paramount for the country considering the large financing needs and public investments plans, tighter external financing conditions, and becomes more crucial as Benin pivots to a revenue-based fiscal consolidation strategy as the crises abate.
6. **The macroeconomic policy framework is adequate for the proposed operation.** Real GDP growth should pick up in the medium term (to 6 percent per year) as global pressures abate. The PAG2 (2022-26) should continue underpinning an ambitious reform agenda to increase private sector participation in the economy and reduce key gaps in human capital and infrastructure. Growth should benefit from the accelerated implementation of the current measures to promote sectors with high potential (such as agriculture, tourism, and digital economy) and from the continuation of major projects designed to fill the infrastructure deficit. Continued improvements in the competitiveness of the Port of Cotonou will help harness further trade opportunities, and promote private investment. On the fiscal front, the government is committed to reverting the 3 percent fiscal deficit WAEMU convergence criterion by 2024. The recently approved EFF/ECF IMF program covering 2022-25 will help anchor fiscal consolidation. Public debt is sustainable, and the risk of overall and external debt distress is moderate. The debt reprofiling operation carried out in 2021 was successful in smoothing debt service in the medium term and demonstrates the authorities' active debt portfolio management capacity and commitment to debt sustainability. Since 2016, the government has displayed a strong track record of prudent macroeconomic policy that has enabled the country to achieve high economic growth and macroeconomic stability. Monetary and exchange rate policies are anchored in its membership to the WAEMU.

Relationship to CPF

7. **This DPF operation is well aligned with the World Bank Group (WBG) identified priorities in Benin.** The operation selectively addresses three binding constraints to economic growth and productivity identified in the 2017 Systematic Country Diagnostic (SCD, Report No. 114822-BJ), i.e., large gender disparities, infrastructure constraints – notably low

⁴ ESMAP monitored statistics place access at 42 percent in 2018 but for better monitoring, the team will use annually produced statistics by the Ministry of Energy – *Rapport du Systeme d'Information Energetique du Benin 2021*.



access to electricity -, and scarce public resources. The PDO falls within the first and second focus area of the FY19-FY23 World Bank Country Partnership Framework (CPF, Report No. 123031-BJ). By addressing the resilience of the electricity network to climatic hazards and supporting energy efficiency, the operation is aligned with the findings of the CPF Performance Learning Review⁵ (2022) that highlighted the growing vulnerability to climate change. More broadly, the DPF is in synergy with the thematic priorities identified in the Western and Central Africa Gender Regional Action Plan (FY22-FY27) including GBV, adolescent fertility and child marriage and girls' education; the Next Generation Africa Climate Business Plan supporting Sustainable Development Goal (SDG). The authorities have continued to strengthen debt management and transparency through the proposed Performance and Policy Actions (PPAs) under the Sustainable Development Finance Policy (SDFP), which are complementary with the prior actions of this proposed DPO.

C. Proposed Development Objective(s)

The proposed DPO series aims to: (1) empower women and girls; (2) expand access to reliable and sustainable energy; (3) strengthen fiscal and debt management.

Key Results

8. The proposed measures in pillar 1 are expected to improve the number of GBV survivors that have access to a safe referral pathway to psychological, health, legal and socioeconomic services, increase the number of GBV crimes that are brought forward to the justice system, improve access to contraception, and increase girls' enrollment in secondary school. The reforms supported in pillar 2 are expected to support greater self-generation of electricity from solar sources, reduce the number and length of power outages to the distribution grid due to external events, including climatic events, improve energy efficiency and increase access to electricity. Finally measures supported in pillar 3 will support domestic revenue mobilization by improving direct and indirect tax revenue collection, and strengthen the debt management and the availability of publicly disclosed information on public debt.

D. Project Description

9. **The proposed Development Policy Financing (DPF) aims to unlock Benin's human development and productive potential to support inclusive and sustainable growth.** It is the second and last of two single-tranche DPFs in a programmatic series. The first operation was approved by the Board on December 16, 2021. This second proposed operation amounts to an International Development Association (IDA) Credit of EUR XX million (US\$150 million equivalent). The Program Development Objective (PDO) is to (1) empower women and girls; (2) expand access to affordable and sustainable energy; and (3) strengthen fiscal and debt management.

10. **The DPO reform agenda will contribute to unlock Benin's human development and productive potential to transform the economy and improve wellbeing in the long-term. The selected areas are priorities in the strategic development plans and the Government Action Plan (PAG 2022-26).** Reform areas include:

- **Pillar 1. Empower women and girls** by supporting girls' secondary school completion in vulnerable communities, adopting a life skills curriculum that includes modules on concepts of gender equality, empowerment, autonomy, and sexual health education for boys and girls in the first and second cycle of secondary schools. In addition, by further removing barriers to improve sexual and reproductive health services and strengthening the mechanisms to protect GBV survivors.

⁵ Report No. 170821-BJ



- **Pillar 2. Expand access to reliable and sustainable energy** through the reinforcement of the resilience of the electricity distribution network, the adoption of a connection charge policy that ensures affordability and gradual picked up in demand, and the adoption of additional regulations for energy efficiency. These actions should address both supply and demand aspects of electricity expansion.
- **Pillar 3. Strengthen fiscal and debt management** by completing the tax policy reform of 2021, through a structural overhaul to property taxation, and by reinforcing debt management with an institutional reform of the debt management office. This reform institutes a back, middle and front office, and reinforces notably its front-office's capacity to assess regional and international markets and ensure debt sustainability.

E. Implementation

Institutional and Implementation Arrangements

11. **M&E arrangements are led by the Ministry of Economy and Finance.** The MEF is the main counterpart for monitoring program implementation. The Ministry's Monitoring Unit for Economic and Financial Programs (*Cellule de Suivi des Programmes Economiques et Financiers, CSPEF*) conducts a systematic review of the performance indicators and targets set out in sector program budgets, with inputs from sector ministries. The donor community and the government have agreed to an annual review process that includes quarterly review meetings, additional meetings on special subjects as needed, a mid-year progress review, individual sector reviews, a joint donor-government review mission and the preparation of a new aide memoire for the coming year. The World Bank team will request these quarterly reports and request corrective measures as needed until the closure of DPO in 2023.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

12. **The policy reforms under the proposed operation are expected to support long term economic growth and have positive impacts on household welfare and social inclusion, reducing gender disparities and poverty headcount rates, while improving non-monetary welfare measures.** The policy actions in the Pillar 1 aimed at empowering girls and women will have positive social impacts and are expected to reduce poverty by enhancing gender equality, improving access to contraception, enhancing girls' ability to remain and complete schooling, and by developing a legal and institutional framework to address GBV. The reforms under the Pillar 2 are expected to promote higher and more resilient access to electricity, improving non-monetary welfare measures such as the Human Opportunity Index (HOI) and the Multidimensional Poverty Index, as well as supporting the income generation capacity of households, fostering higher worker productivity. The policies under Pillar 3 are expected to increase the tax base, generating fiscal resources to increase available fiscal space, supporting debt sustainability. The estimated poverty and social impacts and a detailed quantitative analysis are developed and presented in the program document.

Environmental, Forests, and Other Natural Resource Aspects

13. **Some of the reforms and policy actions supported by the proposed operation will have a positive impact on the country's environment, forests, and other natural resources in the medium-term.** All the actions supported by the operation are policy-oriented and do not directly finance environmentally impactful investments. Prior actions designed to empower women and girls; and strengthen fiscal management are environmentally neutral. However, prior actions under Pillar 2 can be sources of adverse environmental and social risks and impacts. For example, prior action 5 will favor the increase in demand of connection of households to electricity networks. The extensions of the present electricity grids and connections of households at a lower cost may require civil engineering work (burying cables and others), which may



cross sensitive ecological areas, houses, etc., with environmental and social risks and impacts. Fortunately, the Environmental safeguards mechanism in place ensure that any construction related to increased investments in the short-term in the energy sector (solar mostly) will follow the country's framework for conducting ESIA's. Any eventual environmental and social adverse impacts associated with activities supported by the current DPF will rely on the existing national legal and regulatory framework. It will subsequently be monitored and addressed through the national procedures in place. Sector-specific guidelines and procedures are in place to ensure that the country can manage the potential adverse environmental and social impacts of energy infrastructure. Some policies, notably in the energy sector, - improving energy efficiency, improving the resilience of the distribution network to climate change and strengthen the regulatory framework for the expansion of electricity - are likely to produce climate change mitigation co-benefits.

G. Risks and Mitigation

14. **The overall risk level associated with this operation is “Moderate”.** No risk is considered substantial after the mitigating factors have been taken into account. Environmental and Social risks⁶ are low given the expected positive impacts of the reforms and the existent institutional framework reinforced by ongoing IPFs. Macroeconomic, stakeholder, and institutional risks, although assessed as moderate, are discussed below.

15. **Macroeconomic.** The medium-term outlook is broadly positive, with fiscal and debt sustainability underpinned by the new IMF program. Headwinds are strong in the short term however, given the uncertainty with respect to the war in Ukraine and the pandemic, and could compromise the targets on domestic revenue mobilization and limit fiscal policy reforms. Growth will be adversely affected by lower domestic demand as the global inflationary pressures stemming from higher commodity and fuel prices and supply-side disruptions caused by the UKR war, adversely affect effective incomes. Measures to contain the price increases and heightened security spending will create fiscal pressure in a context of limited fiscal space. Social tensions resulting from the higher inflation may limit the scope to curtail spending. This could delay the proposed return to the WAEMU fiscal convergence criteria. While the peg to the euro and the participation in the regional economic and monetary union represent an anchor, delayed fiscal consolidation, and limited fiscal space to absorb a large response to the external shock, tightening international financing conditions and increased debt vulnerabilities, justify a moderate risk. The latter is further mitigated by the strong record and commitment of the authorities to macroeconomic stability, which is reflected in the ongoing engagement with the Bank and IMF, and the government's proved commitment to reform despite severe headwinds, as evidence during the COVID-19 pandemic.

16. **Institutional Capacity for Implementation and Sustainability is assessed as moderate.** Addressing issues such as GBV, adolescents access to reproductive health and adolescents' school enrollment necessitates cross-sectoral engagement and strong coordination capacity. This role is to be played by the Ministry of Social Affairs and Microfinance (MASM) and the *Institut de la Femme* (INF). The risks arising from this cross-sectoral agenda are being mitigated against by technical assistance provided by the World Bank to the INF, the complementarity of the reform agenda with that of ongoing IPFs and the engagement of other donors (notably UNFPA, UNICEF, the EU).

17. **Stakeholder risks are moderate and reflect the potential resistance of local religious and traditional leaders to reforms related to sexual and reproductive health, notably the introduction of life skills curriculum.** Reform to the Law 2003 related to abortion already faced strong opposition from religious leaders and members of Parliament, despite strong defense by the Minister of Health and the Presidency. This risk is mitigated against by the pilot phases and consultations that the government is putting in place ahead of these reforms.

⁶ There are allegations of forced labor in the production of solar panels and components. This DPF focuses on policies and institutional reforms in Benin. DPF proceeds are not earmarked to any specific purpose, including the manufacture or procurement of solar panels or components.



CONTACT POINT

World Bank

Nathalie Picarelli, Miarintsoa Vonjy Rakotondramanana
Senior Economist

Borrower/Client/Recipient

Government of Benin
Hermann Orou Takou
Directeur de Cabinet MEF
htakou@finances.bj

Implementing Agencies

Ministry of Economy and Finance
Hermann Orou Takou
Directeur de Cabinet MEF
htakou@finances.bj

FOR MORE INFORMATION CONTACT

The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 473-1000
Web: <http://www.worldbank.org/projects>

APPROVAL

Task Team Leader(s):	Nathalie Picarelli, Miarintsoa Vonjy Rakotondramanana
----------------------	---

Approved By

Country Director:	Coralie Gevers	15-Jul-2022
-------------------	----------------	-------------