Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 31-Oct-2019 | Report No: PIDA27744
**BASIC INFORMATION**

### A. Basic Project Data

<table>
<thead>
<tr>
<th>Country</th>
<th>Project ID</th>
<th>Project Name</th>
<th>Parent Project ID (if any)</th>
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<tbody>
<tr>
<td>Benin</td>
<td>P168668</td>
<td>Benin First Fiscal Management and Structural Transformation Development Policy Operation (P168668)</td>
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<tr>
<th>Region</th>
<th>Estimated Board Date</th>
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<td>12-Dec-2019</td>
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<td>Republic of Benin</td>
<td>Ministry of Economy and Finance</td>
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**Proposed Development Objective(s)**

The Program Development Objectives are to support the Government to: 1) strengthen fiscal and debt management; 2) improve the financial sustainability of the energy sector; and 3) foster the development of the digital economy.

**Financing (in US$, Millions)**

<table>
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<th>SUMMARY</th>
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<td><strong>Total Financing</strong></td>
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**Decision**

The review did authorize the team to appraise and negotiate
B. Introduction and Context

Country Context

1. Despite Benin being the 4th fastest growing economy in Sub-Saharan Africa (SSA) with growth averaging 6.7 percent in 2017-19, poverty remains high at 49.5 percent in 2015. Growth could be higher were public investment and social outlays not constrained by a revenue ratio that is among the lowest in SSA. Growth is also limited by low productivity: Between 2000-2015, economic growth featured negative gains in Total Factor Productivity (TFP). And a low-productivity informal economy – rooted in both agriculture and trade in services, including those with neighboring Nigeria – still represents 65 percent of GDP, while engaging about 90 percent of the labor force.

2. In the context of a recent political upheaval, sustaining the high growth momentum is critical to preserving social and institutional stability. With a population of 10.9 million people, Benin had traditionally benefited from low political violence and the stability of its democratic institutions. Presidential elections were held in March 2016 and won by Patrice Talon for a 5-year term. However, contested legislative elections in April 2019, in which no opposition party participated and with a low turnout of 27 percent, resulted in several riots. This unprecedented event attracted regional and international concerns. In response, President Talon launched a process of dialogue with opposition parties in order to improve political and social conditions, but tensions remain acute.

3. Benin’s macroeconomic policy framework provides an adequate basis for the proposed operation. This assessment is confirmed by favorable medium-term growth prospects underpinned by a booming cotton production and port activity, and the development of new sectors such as tourism (with planned private investments in hotel infrastructure, for example) and the digital economy. The government is committed to the 2019 WAEMU fiscal deficit target over the medium term. The IMF ECF arrangement provides an internal anchor and the membership of WAEMU provides an external anchor of the macro policy framework. Public debt is sustainable and the risk of overall and external debt distress is moderate.

Relationship to CPF

4. DPF loans are an important instrument in the World Bank Group’s ongoing policy dialogue with the Government of Benin and its development partners. The WBG Country Partnership Framework (CPF) for FY2019-2023 (Report No. 123031-BJ) reflects the priorities identified by the Systematic Country Diagnostic (Report No. 114822-BJ). The guiding principles of the CPF state that DPFs support the government to (a) leverage its own resources for its priority development targets; (b) crowd in international and domestic private sector financing, and (c) use innovative financing models. Selected pillars supported by the DPF series are aligned with the SCD and CPF priorities, including macroeconomic and fiscal stability, debt management, electricity provision, and the development of a digital economy. All these areas are viewed as critical for job creation arising from structural transformation and the delivery of quality social services – the first two pillars of the CPF -- thus complementing other interventions in agriculture, infrastructure, and human capital. The digital economy can help achieve the UN Sustainable Development Goals (SDGs) and the World Bank Group’s twin

C. Proposed Development Objective(s)

5. The Program Development Objectives are to support the Government to: 1) strengthen fiscal and debt management; 2) improve the financial sustainability of the energy sector; and 3) foster the development of the digital economy. While each objective is individually important, their combination will help Benin achieve significant results in the next few years. Better revenue mobilization will help finance the Government’s ambitious infrastructure programs in the energy and digital sectors. The development of digital platforms will generate efficiency gains in fiscal management.

1 SCD – Report Nº 114822-BJ.
Reforms in the electricity and ICT sectors will promote private sector development which will in turn favor revenue mobilization through higher growth.

Key Results

6. **The combination of measures supported by the proposed series are expected to have an important impact across sectors.** They are expected to improve domestic tax revenue mobilization efforts and strengthen Benin’s debt management practices (pillar 1). Tax revenue to GDP is expected to rise by more than 1 percentage point of GDP between 2018 and 2021. The measures should also produce significantly positive financial results for the Electricity Utility company SBEE, and support Benin’s gradual transition towards renewable energy sources (pillar 2). For example, the level of technical and commercial losses is expected to decline from 24 percent in 2018 to 20 percent in 2021. Finally, the measures will support the Government’s efforts to reduce the digital divide, and significantly increase the quality and integrity of the digital services developed and provided in Benin both from the supply and demand sides. Access to enhance broadband internet should increase during this period from 13.4 to 20 percent in 2021.

D. Project Description

7. **The proposed Fiscal Management and Structural Transformation operation in the amount of EURXX million (US$100 million equivalent) supports the Republic of Benin’s efforts to create fiscal space and bolster the structural transformation of the economy.** It is the first of two single-tranche Development Policy Financing (DPF) loans. The proposed series has been informed by the Systematic Country Diagnostic (SCD). The Program Development Objective is to strengthen fiscal and debt management, improve the financial sustainability of the energy sector, and to foster the development of the digital economy.

8. **The objective of the first pillar is to heighten revenue mobilization, and improve fiscal and debt management.** The WB and the IMF are working jointly on supporting the tax mobilization effort by complementing and supporting each other’s actions. In the proposed series the focus is on broadening the tax base through the higher tax rates on luxury or health damaging products; the elimination of tax expenditure through the suppression of the exemptions of fees on property transactions; higher rates on the minimum tax payment (IMF); and by improving tax compliance through the development of digital platform for registration, payments and reporting by taxpayers. An improved debt management through enhanced regulations will also support debt sustainability.

9. **The second pillar in the series consolidates the Government’s efforts in supporting the long-term sustainability of the energy sector.** The first objective is to improve financial management of the electricity utility SBEE, and to facilitate planning for the cost-effective supply of electricity. Together these will improve the power sector’s long-term sustainability. In addition, it aims at promoting the use of renewable energies.

10. **The third pillar in the series supports the Government’s efforts to reduce the digital divide and accelerate Benin’s structural transformation.** The Government has launched a major restructuring of the sector with the enactment of the new Digital Law (Code du Numérique – Law 2017-20 adopted on June 13, 2017). This new law is aligned with international best practices as it covers all five pillars of the Digital Economy. However, this new Law needs many application Decrees to be effectively implemented. The policy actions supported under this pillar aim at enabling the cost-effective development of fiber optic infrastructure in urban areas. It also promotes digital start-ups by enabling the young labor force to acquire digital skills and take advantage of the potential offered by digital technologies.

E. Implementation

Institutional and Implementation Arrangements
11. The implementing agency of the program supported by the DPO are coordinated by the Ministry of Economy and Finance. The Ministry of Finance through its Cellule de Suivi des Programmes Economiques (CSPE) is responsible for the coordination and implementation of Prior Actions and triggers. It ensures close communication with all the Ministries involved – Ministry of Energy and Ministry of Digital Development – and other public entities such as the CAA and SBEE. The CSPE will be responsible for the Monitoring and Evaluation of the results.

F. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

12. The proposed operation is expected to have a positive impact on poverty reduction through different channels. Most measures will have an indirect impact. The fiscal pillar supports strengthening fiscal management through increased revenue mobilization and improved debt management. This will increase fiscal space, which could be allocated to finance poverty-reducing public services. Improving the financial sustainability of the energy sector is important to reduce regressive subsidization of this sector, allow an increase in pro-poor expenditures and provide greater access to electricity by the poor in the medium term. Still, it remains unclear what will be the ultimate impact of the new power tariffs under consideration by the authorities. The third pillar will help lay the foundations of the digital economy that are expected to have positive effects on poverty reduction over the medium term. A well-functioning digital economy can help reduce cross-cutting obstacles in the business environment, especially for small and informal firms.

Environmental Aspects

13. The reforms and policy actions supported by the proposed operation are not likely to have significant negative impacts on the country’s environment, forests, and other natural resources. All the actions supported by the operation are policy-oriented; they do not directly support environmentally impactful investments or involve policy actions with significant environmental consequences. Prior actions designed to strengthen fiscal management and to develop digital economy are environmentally neutral. Improving technical performance of the electricity SOE, pursing cost-recovery by transparent electricity price setting, and partially using gas as inputs instead of liquid fuel to achieve least cost electricity production are likely to produce climate change mitigation co-benefits, since they help promote a more efficient use of energy using an environmentally cleaner technology. The same is true of the adoption of a legal framework promoting renewable energy adoption.

G. Risks and Mitigation

14. The overall risk level associated with this operation is substantial. Substantial macroeconomic, political and governance, and institutional capacity risks could adversely impact the PDO. Despite the overall substantial risk rating, staff believes that the potential benefits of the proposed operation outweigh the risks involved and warrant IDA’s assistance to the implementation of the critical reforms and policy actions contained in this document, in coordination with other donors, along with appropriate risk mitigation actions. Macroeconomic risks are substantial but the ongoing ECF program with the IMF and policy dialogue with the World Bank on macroeconomic, structural and public financial management issues will help mitigate these risks. Political and governance risks are considered substantial but it is being mitigated by multilateral institutions continued support to the Government’s transparency agenda. Substantial implementation and sustainability risks arise from capacity constraints and weaknesses in public administration. To help mitigate against these risks, the proposed operation focuses on a limited range of policy areas that have been identified as priorities by the administration. Climate change and disaster risk screening was considered and determined not to be of fundamental concern for this current series.
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APPROVAL

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