PROGRAM INFORMATION DOCUMENT (PID)
CONCEPT STAGE

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<th>Operation Name</th>
<th>Fourth Poverty Reduction Strategy Credit</th>
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<td>AFRICA</td>
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<tr>
<td>Sector</td>
<td>General public administration sector (50%); Other social services (50%)</td>
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<td>Project ID</td>
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<td>Borrower(s)</td>
<td>GOVERNMENT OF BENIN</td>
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<td>Implementing Agency</td>
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<td>Date PID Prepared</td>
<td>March 13, 2007</td>
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1. Key development issues and rationale for Bank involvement

Benin is a country with a population of 7.6 million and a per capita income of US$510 in 2005. Following 1989 fundamental political change, the country has enjoyed a relative political stability and democracy has been greatly strengthened with the last presidential election taking place in 2006. Real GDP growth rate averaged 5 percent over 2000-03 (compared to 4 percent for Sub-Saharan Africa) but slowed to 3 percent in 2004 and 2005. However, economic growth is expected to recover to 4.5 percent in 2006 reflecting a rebound in cotton and services sectors. Nonetheless, poverty remains widespread and per capita income is below the Sub-Saharan average.

The economy remains heavily dependent on the agricultural sector, in particular cotton and transit trade with Nigeria, while the informal sector accounts for more than 90 percent of non-agricultural employment and close to 70 percent of non-agricultural GDP. The agricultural sector accounts for about 35 percent of GDP and provides nearly 70 percent of the country’s workforce while cotton is the major primary export commodity with about 65 percent of total exports over 2003-05. Transit trade with Nigeria is estimated to represent between 6.5 and 7.5 percent of GDP and explains the vulnerability of the economy to trade policy changes in its neighboring and main trade partner.

Despite the increases in the international prices of oil and in the regional food prices caused by draught in neighboring Niger, inflation was broadly contained, averaging 2.7 percent over the 2003-2006 period. Although inflation remains low, Benin’s competitiveness weakened due to the appreciation of the real effective exchange rate and delays in the implementation of key structural reforms.

Since 2003, PRSCs have served the role of supporting the main planks of Benin’s PRSP, addressing the Government’s request for donor harmonization around a common set of measures in key reform areas, and for increasing the share of budget support in donor assistance. Similarly, the current Country Assistance Strategy (CAS for FY04-07, Report No. 26054-BEN, approved by the Board in July 2003) includes a plank for supporting a number of policy reforms using development policy lending to provide budget support. Development policy lending via budget support will continue to be featured in the new CAS to be presented in FY08.
PRSCs 1, 2 and 3: (i) helped create the basis for private-sector-led economic growth by supporting the Government’s macroeconomic program and improving the investment climate; (ii) supported the GoB’s public expenditure management reform program; and (iii) supported the reform of the public resources management and help finance the Government's expenditure program in key sectors, focusing on the delivery of basic services tailored to the needs of the poor. PRSC 2 expanded the coverage to three new sectors (agriculture, rural transportation and justice). PRSC 3 maintained a core focus on economic growth and governance, supporting service delivery through improved public expenditure management, financial decentralization, and expanding results-oriented budgeting to new sectors. PRSC 3 put a new emphasis on private sector development, on civil service reforms that helped instill a practice of monitoring and evaluation, including at the local level, and also on Justice sector reforms that improved the business climate.

2. Proposed objective(s)

The current credit would be the first of a proposed new series of three PRSC operations. The overall objective of the proposed PRSCs is to support implementation of Benin’s PRSP and the attainment of PRSP goals, including progress toward reaching the MDGs. In order to promote the attainment of PRSP objectives, PRSC-4 will support the PSD agenda in improving the investment climate and raising the competitiveness of productive sectors, complemented by components in infrastructure services and justice sector reforms. As in PRSC-3, the new operation will also support policy reforms, strategic planning and program budgets in the agriculture, forestry, and transport sectors. PRSC-4 will continue to pursue progress on the MDGs through improvements in basic services including water, health, education, and environment. PRSC-4 will also continue to cover budget system reforms as a means of reinforcing program budgets, fiduciary standards, and results-oriented management through monitoring and evaluation. These reforms will be complemented by components on the cross-cutting themes of civil service reform, decentralization, and anti-corruption. The Team finds that this combination of reforms provides a multi-sectoral package well-suited both to promoting implementation of the PRSP and to collaboration with other donors, who aid PRSP objectives through a similar package of programs.

3. Preliminary description

The PRSCs would provide programmatic support for reform agendas in key sectors while allowing a multisectoral approach to aiding the Government’s agenda which has been specified in cross-sectoral terms: (i) Governance in the service of development; (ii) macroeconomic stability and promotion of a business climate favorable to economic growth; (iii) development of economic and social infrastructure; (iv) building human capital; and (v) assuring equitable development.

The one shift of emphasis most strongly articulated by Government for the revised PRSP is the new importance accorded to economic growth and the development of a favorable business environment. This central element requires an increase in competitiveness of the economy, which Government has recognized is an inherently multi-sectoral endeavor with a broad set of stakeholders. Planned structural reforms and disengagement from state enterprises have implications for the Ministries of Industry and Commerce, Agriculture, Transport, Public Works, Energy, and Communications. The Ministry of Education is called on to build human capital more efficiently, and to improve vocational training. Similarly, the Ministry of Development and Finance is managing reforms in tax administration, customs, and land tenure. A major finding of (ICA/Doing Business) is the strong demand among members of the private sector for improvements in governance and in the justice system, particularly for enforcing contracts and land use rights. Stakeholders in the business climate include employers, unions, consumers, exporters, and potential investors both domestic and foreign.
In a similar fashion, governance in all its dimensions has become a central cross-cutting reform vital to service delivery in every sector, and is in fact the first pillar of the new PRSP. In particular, the system of sectoral program budgets organized into the medium term expenditure framework has become the core system for planning, implementing, and monitoring development programs, as well as the means for delegating spending authority to the line ministries and to decentralized levels of Government. A series of reforms in internal and external financial controls, as well as in procurement, are intended to ensure that the budget is implemented according to what was adopted by the National Assembly, and in a transparent manner. A requirement for regular performance reports on results indicators is designed to harness monitoring and evaluation systems to the interests of improving efficiency in service delivery.

Reform programs in civil service and decentralization are designed to provide Government with the means to respond to performance reports with innovations that can improve efficiency and staff motivation. Civil service reforms will enable a better match between needed skills and staff, as well as allow improvements in wage bill management that can create room for new staff to fill current shortages. The decentralization strategy aims to increase resources for decentralized service delivery and for supporting local development plans and decision-making. Further capacity building will target improvements in financial management at the local level and systematizing the collection of monitoring data from the local communities.

The new Government has also made a forceful statement on the importance it accords to raising the quality of governance, and reducing corruption in particular. The Minister of Development and Finance has spoken publicly on the corrosive effects corruption can have on fiscal revenues, the macro-economic and business environment, economic productivity and investment climate, mobilization of foreign financing, and illicit rent seeking, and he has launched the final phases of the diagnostic survey on corruption as a basis for formalizing plans for improving governance. The PRSC will take a cross-sectoral approach to raising the standards of governance in all ministries. Moreover, reforms in the Justice sector, in addition to benefits for the business climate, will also serve the governance agenda.

4. Environment Aspects

The proposed development policy Credit supports mostly economic governance and sectoral reforms that are unlikely to have any additional significant environmental effects. The potential environmental and social effects associated with the proposed PRSC-4 are mainly related to the rural water, rural transport, and health and education sectors, and the cotton sector reforms.

This operation is governed by Operational Policy (OP) 8.60, Development Policy Lending, and therefore is not subject to OP 4.01, Environmental Assessment. However, PRSC1-3 were governed by Operational Directives 8.60, Adjustment Lending Policy, deemed a sector adjustment operation, subject to OP 4.01, and classified category B for purposes of environmental assessment. As such, extensive Environment Assessment and Social Analysis were undertaken during the preparation of PRSC1-3 to identify possible positive and negative linkages between the PRSC support and environmental and social impacts, including examining the Bank’s safeguards definition of social impacts in regard to involuntary resettlement, indigenous peoples, and cultural property. It also took into account the environmental and social analysis undertaken for other Bank operations. While PRSC support is not expected to have any significant negative environmental or social impacts, the analysis focused on the environmental and social issues facing Benin and the capacity of national and local public sector agencies roles and responsibilities to manage them.

PRSC4 continues to draw on the Environmental Assessment and Social Analysis undertaken for PRSC1-3. The PRSC program includes a component to improve environment management. These
reforms have provided for training of environment sector and line ministry staff in identifying and implementing measures for mitigating any residual adverse environmental or social impacts of public investment programs. The Environment Agency of the Ministry of Environment and Natural Protection has helped to create environmental impact assessment (EIA) cells in several line ministries, charged with implementing their respective Environmental and Social Management Plans, and will continue to oversee their activities. Benin’s environmental compliance is supported by the environmental management activities in several sectoral investment projects supported by the Bank.

PRSC-4-6 will support Benin in meeting key challenges ahead by strengthening: (i) institutional and technical capacities of the Ministry of environment and nature protection regarding budget execution and monitoring and evaluation; (ii) ABE ability to best monitor and evaluate sector programs; In addition, PRSC-4-6 will: develop the means to reduce air pollution significantly, by: (i) strengthening capacities; (ii) design and execution of a detailed action plan for air pollution reduction; (iii) supporting the activities of the unit in charge of tracking air pollution reduction. PRSC-4-6 will resume the implementation of the reform agenda for the forestry sub-sector.

5. Tentative financing
Source: ($m.)
BORROWER/RECIPIENT  0
International Development Association (IDA)  45
Total  45

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