Benin

2011

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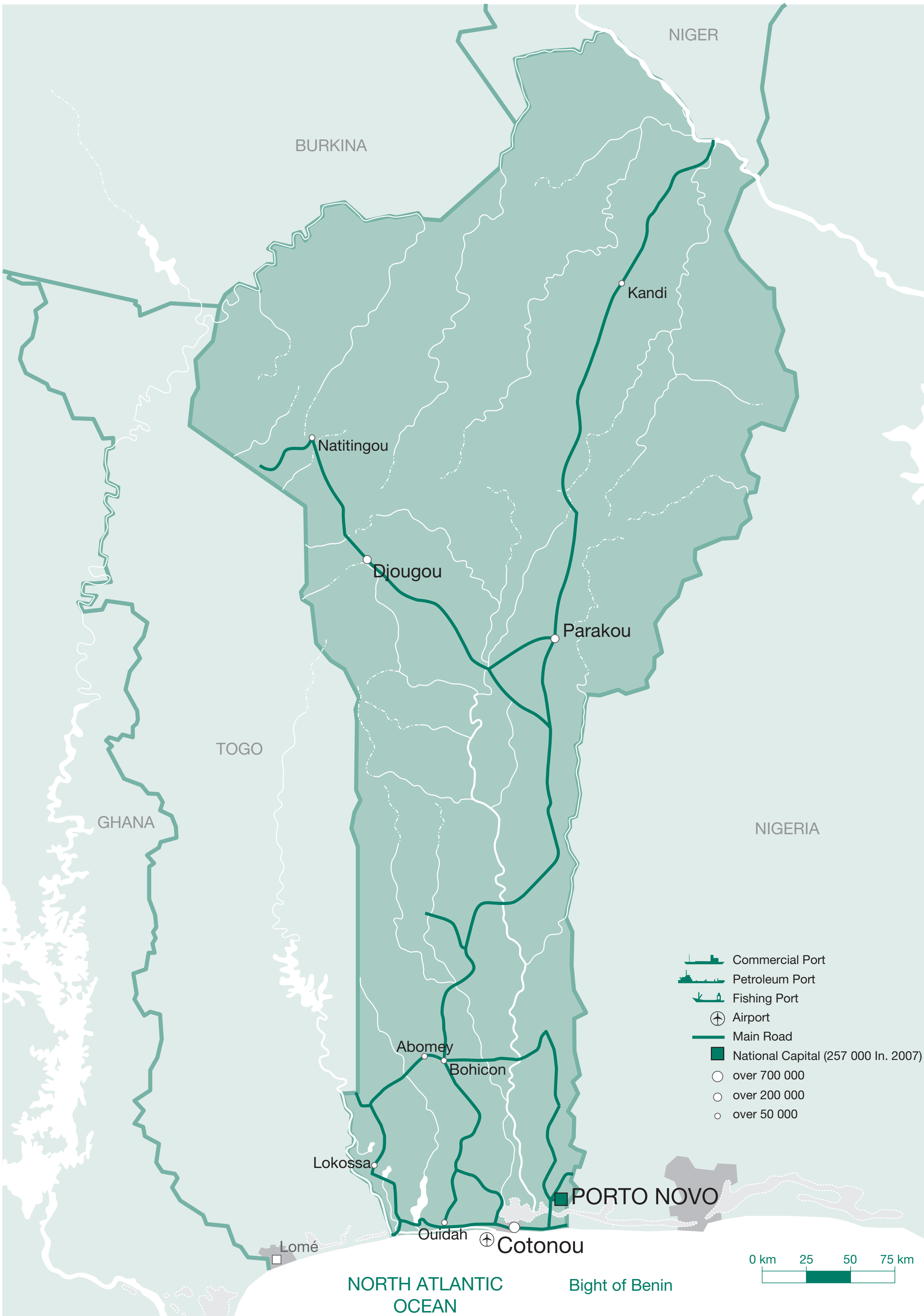


This map is for illustrative purposes and is without prejudice to the status of or sovereignty over any territory covered by this map.

Benin

Overview

Benin's economy is characterised by a labour market dominated by the informal sector which involves about 95% of the working population and plays a major role in income generation. In 2010, activity was slowed down by low agricultural and cotton production, reduced public investment and floods. The cost of these unanticipated factors is evaluated at 0.8 economic growth points. An estimated 8% of the Beninese population, nearly one-third of which lives off agricultural activities, was directly affected. Growth in gross domestic product (GDP) in 2010, which was initially expected to be around 3%, is now estimated at 2.1% in a context of control over inflation, compared to 2.7% in 2009. Projections for 2011 are banking on 2.5% growth, driven by trade with Nigeria, agricultural production and the pursuance of major public projects in the form of road infrastructure, general construction work and agricultural development.

Macroeconomic policy is implemented on the basis of agreements related to the Extended Credit Facility concluded with the International Monetary Fund (IMF) in June 2010, which is backed by other development partners in the form of financial and technical support for budget execution. Fiscal policy has been characterised since 2006 by a significant increase in public expenditure. The lethargy observed in the implementation of reforms, however, has prevented tax revenues from following the same upward trend. In the 2007-10 period, tax revenues increased on average by 12%, whereas expenditure increased by nearly 20%, with a peak between 2007 and 2008 due to rises in wages and investment expenditure.

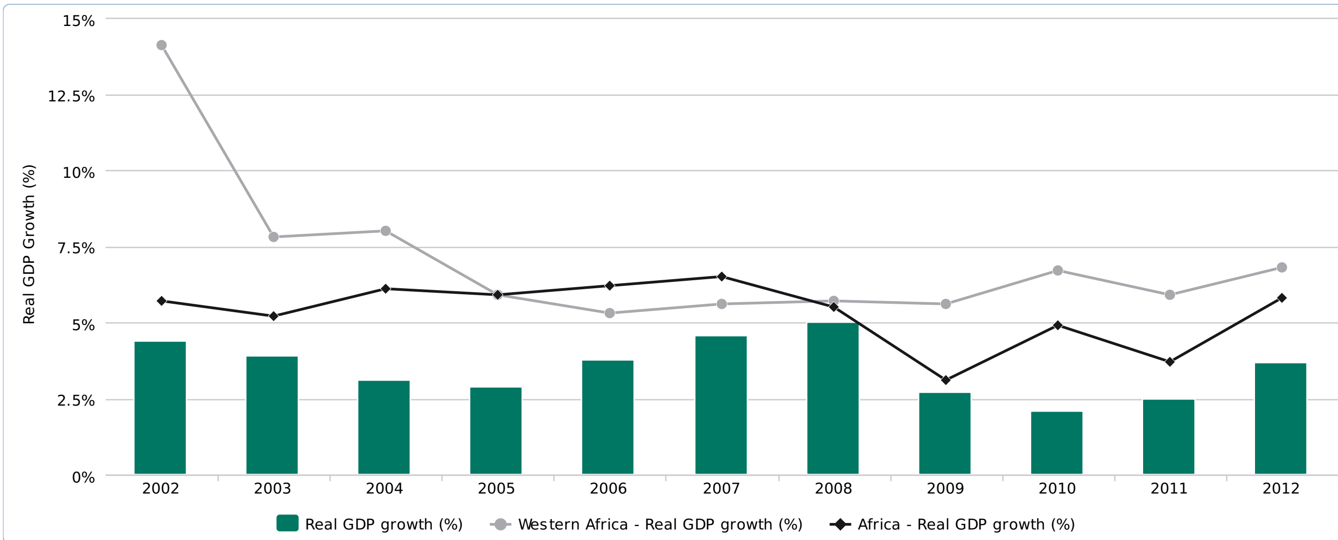
In 2010, the balance of the state's financial operations showed a deficit down from 4.2% in 2009 to 2.6%. Budget execution has been projected to produce an overall deficit of 2.5% in 2011. External accounts currently show a deficit (estimated at 7% of GDP in 2010), explained in particular by a low level of grants. The country's current-account balance is projected to worsen in 2011 to 8%, mainly as a result of a deteriorating trade balance and declining net services and public and private transfers, which will continue to suffer from the impact of the international economic crisis.

These past few years, Benin has established new partnerships with emerging countries such as India, Saudi Arabia, Abu Dhabi, Kuwait and China. The partnership with China is by far the biggest in terms of volume of trade and number of sectors of activity.

In the political arena, preparation of the presidential and legislative elections scheduled for March and April 2011, coupled with claims from professional interest groups, disrupted the functioning of the administration and certain institutions in 2010.

Benin's human development otherwise remains poor, with an overall Human Development Index (HDI) of 0.435 in 2010, which ranks it 134th out of 169 countries. Benin's HDI has, however, risen since 1975 when it stood at 0.312, thanks to efforts in education and health. Notwithstanding, poverty is still a major concern, with highly marked inequalities within the population. In 2009, monetary poverty affected 35.2% of the population versus 33.3% in 2007. The proportion affected by non-monetary poverty, on the other hand, declined from 39.7% in 2007 to 30.9% in 2009. This means that, while intensifying reforms and pursuing efforts to reduce non-monetary poverty further, focus needs to be placed on structural reforms and income-generating activities. The government needs to accelerate and intensify economic, structural and institutional reforms in order to improve on the current 2.5% and 3.5% growth projections for 2011 and 2012 respectively.

Figure 1: Real GDP growth (W)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Table 1: Macroeconomic indicators

	2009	2010	2011	2012
Real GDP growth	2.7	2.1	2.5	3.7
CPI inflation	2.2	2.1	2.2	2.9
Budget balance % GDP	-4.2	-2.6	-2.5	-1.6
Current account % GDP	-7.7	-7.1	-8.2	-7.6

Source: National authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Recent Economic Developments and Prospects

Table 2: GDP by sector (in percentage)

	2005	2010
Agriculture, forestry, fishing & hunting	35.9	35.9
Agriculture, livestock, fishery, forestry and logging	-	-
of which agriculture	-	-
of which food crops	-	-
Mining and quarrying	0.3	0.3
Mining, manufacturing and utilities	-	-
of which oil	-	-
Manufacturing	8.7	8
of which hydrocarbon	-	-
Electricity, gas and water	1.3	1.2
Electricity, water and sewerage	-	-
Construction	4.5	4.8
Wholesale and retail trade, hotels and restaurants	18.7	18.6
of which hotels and restaurants	-	-
Transport, storage and communication	8.5	9.1
Transport and storage, information and communication	-	-
Finance, real estate and business services	2.1	2.2
Financial intermediation, real estate services, business and other service activities	-	-
General government services	11.6	11.5
Public administration & defence; social security, education, health & social work	-	-
Public administration, education, health	-	-
Public administration, education, health & other social & personal services	-	-
Public administration, education, health & social work, community, social & personal services	-	-
Public administration, education, health & social work, community, social services	-	-
Other community, social & personal service activities	-	-
Other services	8.4	8.3
Gross domestic product at basic prices / factor cost	100	100

Source: AfDB Statistics Department; INSAE.

Figures for 2010 are estimates; for 2011 and later are projections.

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Benin has made progress at the macroeconomic level since 1991, thanks to which the economy grew by 4.7%

over the 1991-2002 period. Growth slowed down to an average of 3.4% per year during 2003-05, then recovered to 5% in 2008, only to take a clearly downward turn over the past two years.

This evolution is partly due to the production structure of the economy, which features little manufacturing, and a predominant tertiary sector (47% of GDP), in which re-export activities are a major factor. The tertiary sector is also dominated by port operations and transit trade which represent more than half of the value of the country's exports and constitute one of the state's main sources of revenue. There is very little diversification in the primary sector (38% of GDP), in which cotton is the main cash crop. Another feature of Benin's economy is a secondary sector (15% of GDP) hampered by obsolete production facilities. The informal sector (about 70% of GDP) involves nearly 95% of the working population and plays a major role in income generation.

In 2010, real GDP growth, initially estimated at 3%, has now been estimated at 2.1% versus 2.7% in 2009. This is explained by the combined effects of a sluggish performance in the cotton sub-sector, a slowdown in food crops production, harvest losses due to flooding and poor execution of public investment, all of this occurring in a context of moderate inflation increase (2.1% over the year).

In 2010, there was a slight slowdown in the growth of the primary sector (2.3% versus 2.5% in 2009), despite a 26% increase in cotton production in the previous season. This slowdown in growth, mostly due to the decline in food crops and fisheries, is explained by the poor level of execution of the main agricultural programmes (valley development and mechanisation) and difficulties in the introduction of specific inputs. In addition to these structural problems, crops suffered losses as a consequence of exceptional torrential rainfall in October 2010.

Despite the good results of the energy sector (nearly 12% growth in 2010), growth in the secondary sector turned out negative (-0.4% versus 3.2% in 2009), mainly because of a slowdown in the manufacturing industries (-4%), in particular a decline in cotton ginning.

The tertiary sector grew by 3.0% versus 2.9% in 2009, benefiting from the recovery of the global economy and Nigerian customs measures, which boosted trade between the two countries. In the framework of its fiscal policy, starting in 2008/09, Nigeria adjusted its tariff barriers and introduced embargoes on a number of products (used vehicles, rice, frozen products, etc.). Whenever Nigeria takes measures of this sort, the targeted commodities are diverted to Benin before being transported on to Nigeria.

As for internal demand, final consumption, which amounted to 88% of GDP in 2009, contributed less to growth in 2010 as public administrations made a negative contribution (-0.4 points versus 0.6 points in 2009) owing to significant constraints and budget cuts. The investment level, which amounted to 19% in 2010, declined as public investment fell from 10.1% of GDP in 2009 to 6.1% in 2010. In all, the contribution of investment to growth in 2010 will have been weak because of a fall in public investment and to declining stocks. The contribution of external demand decreased by 0.2 points in 2010 versus a 0.7 point fall in 2009. The improvement was due to a good performance in cotton production, which favoured exports.

In 2011, real GDP is projected to grow by 2.5% thanks to continuing major upgrading work, trade with Nigeria and the vigour of the cotton sub-sector. This modest recovery should be reinforced in 2012 as the major public works programme is boosted after the wait-and-see policy observed during the pre-electoral and electoral years, and public administrations – which are rather politicised and were considerably disrupted by repeated strikes in 2010 – return to work. Support for economic activity should materialise through completion of the installation and commissioning of the Maria Gleta gas-turbine power station and continued modernisation of the Port of Cotonou (extension of the sand trap and construction of new quay berths).

The contribution to growth of the agricultural sector is projected at 0.7 points in 2011 versus 0.6 points in 2010, supported by a reorganisation of the management of the cotton sub-sector, improvements in cotton-ginning factories and planned investment in 2011-12. The secondary sector should report a 0.4 point contribution to growth in 2011, up from 0.3 points in 2010, mainly as a result of increased activity in cotton-ginning factories. In 2011, the contribution of the tertiary sector should rise to 1.1 points, up from 0.7 points in 2010, thanks to good performances in trade activities and other services. Non-commercial services are projected to contribute to growth to the tune of 0.3 points in 2011.

On the demand side, final consumption should report a 2.6% increase in 2011, while investment should increase by 3.4%. Households should continue to benefit not only from the positive fall-out of successive civil-service wage hikes but also from greater income generated by cotton production.

Given its relatively rigid structure and the importance of the informal sector, the labour market should not show major change in 2011-12, with an activity level of 95% among the population of working age. It should nevertheless be stressed that recent statistics on the labour market are hard to access.

According to the most recent studies, covering the 2006-07 period, the labour market is characterised by:

- stability of employment in the informal sector (95.6% of the working population in 2006 and 95.2% in 2007);

- growth in public sector employment (up from 1.9% of the working population in 2006 to 2.9% in 2007) due to new hiring;

- stability of employment in public enterprises (1.1% of the working population in 2006 and 1% in 2007);

- a reduction in employment in formal private sector companies (down from 1.1% of the working population in 2006 to 0.2% in 2007);

- growth in employment (0.4% of the working population in 2006 and 0.7% in 2007) in not-for-profit organisations (non-governmental organisations and civil society).

The official unemployment rate as defined by the International Labour Organization (ILO) oscillates between 1% and 3%, with a significant fall in 2006-07 thanks in particular to the inception of major public works, significant hiring of teachers, and the enrolment of unemployed graduates in military service. Notwithstanding, the most recent available rates for under-employment oscillate between 30% and 50% (53.2% and 29% in 2006 and 2007, respectively).

Growth projections are based on the assumption of a recovery in cotton production, a favourable trend in world cotton prices, a rise in international oil prices to no higher than USD 90 per barrel and growth in trade with Nigeria.

Developments of two types could jeopardise these projections in 2011-12. One type is dependent on the international context and includes such threats as a higher than expected rise in oil prices, a fall in the price of cotton, poor results from trade with Nigeria as a result of circumstantial tariff-barrier-dismantling measures by the Nigerian government, a fall in used-vehicle re-exports to Nigeria and stricter measures to combat smuggling. The second source of uncertainty is related to the domestic economic situation and national productivity. These can be affected by such factors as the political climate after the presidential and legislative elections, new electricity supply problems and the possibility of fresh flooding.

Table 3: Demand composition

	Percentage of GDP (current price)		Percentage changes, volume			Contribution to real GDP growth		
	2002	**2009**	**2010**	**2011**	**2012**	**2010**	**2011**	**2012**
Gross capital formation	18.5	21.2	1.7	3.4	3.7	0.4	0.8	0.9
Public	7.4	10.1	-5	4	4	-0.6	0.4	0.4
Private	11.1	11.1	7.8	3	3.5	1	0.4	0.5
Consumption	90.3	88.1	2.2	2.6	3.2	1.9	2.2	2.8
Public	12.3	12	-3	-1.4	-0.8	-0.3	-0.1	-0.1
Private	78	76.1	3	3.1	3.7	2.2	2.3	2.8
External sector	-8.7	-9.3	-	-	-	-0.2	-0.5	0.1
Exports	22.2	15.8	3.6	3.8	6.3	0.8	0.8	1.4
Imports	-31	-25.1	3.2	4.3	4.1	-1	-1.3	-1.3
Real GDP growth rate	-	-	-	-	-	2.1	2.5	3.7

Source: Data from INSAE; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Macroeconomic Policy

Macroeconomic policy has evolved within the framework of the programme signed with the IMF and, more particularly, that of the extended credit facility approved on 14 June 2010 by the IMF board. In 2010, macroeconomic management was subject to constraints in the form of reduced customs revenues resulting from the international crisis, increased public expenditure consecutive to the inception of major improvement works in preparation for the Community of Sahel-Saharan States (CEN-SAD) summit and from the social measures the government began taking in 2007. In this context, systematic cuts have been the preferred instrument of budget adjustment.

Otherwise, as a response to the 2009 global recession, the government adopted and reinforced recovery measures intended to suppress the effects of the food and energy crises that the country was already suffering. These measures included, in particular: *i)* adoption of an emergency programme to bolster food security; *ii)* provision of funds to purchase buffer stocks of main consumer products as a means of reducing tension on prices; *iii)* lower tax rates and tax exemptions on a number of major consumer goods; *iv)* higher public subsidies for petroleum products; *v)* provision of subsidies for the national electricity utility *Société béninoise d'énergie électrique* (SBEE); *vi)* adoption of a new management framework for the cotton sub-sector and rationalisation of input management; and *vii)* acceleration of the agricultural mechanisation programme.

These measures made it possible to contain the overall price level of basic staples such as energy and petroleum products, rice, oil and maize. Total subsidies amounted to nearly 4% of GDP in 2009, including nearly XOF 24 billion (CFA francs BCEAO) for petroleum products, XOF 59 billion in subsidies for the electricity sub-sector and nearly XOF 16 billion in support for food products. These subsidies have weighed upon public finances, but their effect on cotton production has yet to be felt and production of subsistence crops has not improved enough to do away with food insecurity in the long run. Moreover, successive increases in the price of petroleum and other products that benefited from subsidies in 2008 and 2009 have since been passed on to households anyway because the government's budget margin is too narrow.

Fiscal Policy

Following the reforms begun in 2000, the country adopted the principle of drawing up programme budgets and Medium-Term Expenditure Frameworks (MTEFs). A few of these were first implemented on an experimental basis and were then extended to ministries and public institutions and agencies. Since 2006, Benin's fiscal policy has resulted in a rise in public expenditure due to the inception of major public works and to the government's having met salary demands. After having decreased in 2005 and 2006, it increased by 10.3% and 22% in 2007 and 2008, respectively, mainly owing to operating expenditure, particularly on wages. For financial years 2007/08 and 2008/09, the wage bill increased by 27.5% and 23.8% respectively, thus accounting for more than 7% of GDP.

Tax revenue did not grow accordingly during the same period, however, and the government's yearly goals in terms of tax collection have yet to be reached. The global financial crisis is partly responsible for this but measures to combat fraud and tax evasion also failed to bear fruit. Moreover, structural reforms are running late, particularly the reform of the revenue-collecting agencies which should mark the completion of the fiscal transition. This is partly because there is resistance to change amongst civil servants and partly because corruption is still present at a number of points in the expenditure chain.

As regards the wage bill, the government has begun, with support from its development partners, studies aiming to reinforce reform of the civil service including civil service pay. The history of the wage bill, however, as well as the problem of an ageing administration that will be increasingly solicited in a context of decentralisation, will have to be seriously analysed and negotiated by the different stakeholders.

In 2010, the state's financial operations resulted in an improvement in the overall deficit (2.6% of GDP versus 4.2% in 2009).[1] This was essentially due to poor execution of public expenditure. The deficit was financed for XOF 39.3 billion by internal resources and for XOF 119.2 billion by outside resources. Public expenditure (expenditure and net lending) amounted to XOF 702.2 billion, which represents an 80.1% execution rate in terms of the revised projections in the programme signed with the IMF, which constitutes one of the key tools for monitoring the government's macroeconomic management. Public expenditure thus fell by 13.2% from that in 2009. As a share of GDP, executed expenditure amounted in 2010 to 23.9%, down from 25.9% in 2009.

Current expenditure, which is mostly constituted of wages (34%) and current transfers (31%), amounts to about 60% of public expenditure. Its execution rate in relation to forecasts was 91%. On the other hand, only 55% of projected capital expenditure was executed, mostly as a result of poor execution (47%) of expenditure financed from external resources. Although the reason given to justify the poor execution of investment expenditure was that public projects and programmes had been streamlined, this is not the complete explanation. In addition, tax-revenue collection encountered greater difficulties in 2010, and this was compounded by problems affecting trade with Nigeria and the competitiveness of the Port of Cotonou and the Benin corridor.[2] These circumstantial factors, added to tax fraud and evasion, explain the low level and slow rate of collection of tax revenues observed in 2010. This led to a rationing of expenditure commitments by limiting the ordering parties' access to public-expenditure management software (*Système intégré de gestion des finances publiques* – SIGFIP). Moreover, the major part of budget support (47.3% of external financing in 2010) programmed by the donors (African Development Bank, the Netherlands, the European Union, the World Bank and France) was not released until the last quarter of the year as conditions were not fully met by the agreed deadlines.

Tax revenues are dominated by customs revenues which represent 52% of total tax revenues on average. A large share of tax revenues is constituted by indirect taxes, mainly value added tax (VAT) (45% of total tax revenues). VAT, which is charged at an across-the-board rate of 18%, is applicable to all goods and services without distinction with regards to the consumers concerned except in difficult circumstantial situations.

In 2010, total revenues rose by 4.7% and amounted to XOF 603.0 billion. This represented a recovery rate of 88.4% in relation to revised projections. Only 73% of projected non-tax revenues were collected. The fiscal pressure level stands at 15.8% of GDP in 2010 versus 16.1% in 2009, whereas the wage bill/tax revenues ratio stands at 45%, which is higher than the 35% ceiling set by the West African Economic and Monetary Union (WAEMU). The share of tax revenue devoted to public investments has been estimated at 19% in 2010 versus 44.3% in 2009. Economic problems apart, poor tax-revenue collection is mainly explained by corruption at the point of recovery, fraud, administrative inefficiency and inertia in reform implementation.

Efforts to enlarge the tax base have been hampered by the vigour of the informal sector, as well as by complex procedures and an absence of civic-mindedness. To deal with this situation, the government decided to: *i)* set up taxation at source mechanisms; *ii)* establish an official centre for the facilitation of transfers from the informal to the formal economy; and *iii)* develop taxpayer education. The main tax reform developments in 2010 were extension of the tax base and tax collection via the allocation of individual tax account numbers (*Identifiant fiscal unique* – IFU). In 2011, reform is to be pursued through further extension of the tax base and the introduction of improved land deed and tax management procedures with the objective of speeding up the tax collection process and reducing its cost. It is also planned to have all personnel at the Port of Cotonou covered by a single tax office.

Over the past four years, grants amounted on average to 58% of external financing. For 2010, grants have been estimated at XOF 48.1 billion, which represents a mobilisation rate of 33% collection compared to projections. This is explained by poor aid absorption capacities, failure to meet conditions agreed with donors (often as a result of slow implementation of reform measures) and difficulties in applying donors' procedures. As a share of GDP, received grants amounted to 3.1%, compared with 1.8% in 2008 and 3.2% in 2009. Aid is mainly benefiting transport (18.1%), social development (14.9%), health (14.6%), development administration (11%), human resources development (10.7%), regional development (8.6%), agriculture, forestry and fishing (6.9%), and economic management (6.6%).

In 2011, the budget will be executed within the framework of the 2011-15 Strategy for Growth and Reduction of Poverty (*Stratégie de croissance pour la réduction de la pauvreté* - SCRP) in a context marked by presidential and legislative elections and an expected general deficit equal to 2.5% of GDP. Total expenditure should amount to 24.1% of GDP (XOF 916 billion) in 2011 and 23.2% in 2012, versus 25.9% in 2009. Current transfers should increase 8.3% to XOF 130 billion in 2011 versus XOF 120 billion in 2010. Staff expenditure, including benefits paid to specific categories, recruitment of police and customs officers, and payments to contract personnel, should rise 15.3% to XOF 280.5 billion versus XOF 243.2 billion in 2010.

Outstanding internal public debt decreased in 2010 to XOF 246.9 billion versus XOF 369.4 billion one year earlier thanks to the state's efforts to honour its obligations. Internal public debt represents 10.5% of GDP, versus 11.9% in 2009 and 9.24% in 2007. The main elements constituting internal debt are debenture loans (58.2% of internal debt) and securitised wage arrears.

Table 4: Public finances (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Total revenue and grants	17.2	23.8	21.3	21.7	21.3	21.6	21.6
Tax revenue	14.4	16.9	17.2	16.1	15.8	15.9	15.8
Oil revenue	-	-	-	-	-	-	-
Grants	1	3	1.8	3.2	3.1	3.3	3.3
Other revenues	1.8	3.8	2.3	2.4	2.4	2.4	2.4
Total expenditure and net lending (a)	19.5	23.6	23	25.9	23.9	24.1	23.2
Current expenditure	13.2	16.1	15.7	15.8	15	15.1	14.2
Excluding interest	12.5	14.5	15.3	15.3	14.3	14.2	13.4
Wages and salaries	4.6	5.4	6.1	7.3	6.9	7.4	7.1
Goods and services	3	3.7	3.9	3.2	3	2.8	2.5
Interest	0.8	1.6	0.3	0.5	0.8	0.9	0.8
Capital expenditure	6.1	7.5	5.9	9.7	8.9	9	9
Primary balance	-1.5	1.8	-1.4	-3.7	-1.9	-1.6	-0.8
Overall balance	-2.3	0.2	-1.7	-4.2	-2.6	-2.5	-1.6

a. Only major items are reported.

Source: Data from INSAE; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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Monetary Policy

As a member of the WAEMU, Benin conducts its monetary policy according to the directives of the Central Bank of West African States (CBWAS), the main goal of which is to maintain the rate of foreign-exchange coverage of the currency at a sufficient level to support the economic growth of the union in a non-inflationary environment. In 2010, the WAEMU maintained interest on key rates and monetary-policy instruments at the same level. The repurchase rate and the discount rate remained stable at 4.25% and 6.25% respectively. The bank reserve requirement was lowered, however, for Benin from 9% in 2009 to 7% in 2010. Institutional surveillance of prices, combined with a good supply of food products, helped to keep the inflation rate under the 3% mark, thanks to lower prices for food products and non-alcoholic beverages, housing, water, gas, electricity and other types of fuel, and communications.

In 2010, credits to the economy reached 23% of GDP, up by 8.5% on 2009. The increase was driven by ordinary credit (+8.4%) while credit to the cotton-growing sector stagnated. Reflecting the structure of the economy, almost half of the credits to the economy (46% to 48%) went to the wholesale and retail trades and restaurants and hotels, while an average of 26% was granted to other service categories and about 27% to the production sector. For the most part, the credits were short-term loans which represented an average of 60% of total loans. At the same time, the government's net position *vis-à-vis* monetary institutions has improved after the tension on liquidities observed in 2009.

Net foreign assets (NFAs) came to XOF 781 billion in 2010, up by 11.8% following an increase of the order of 33% of the central bank's NFAs. Money supply showed a stronger upward trend than its counterparts, increasing by 11.4% compared with 2009. The liquidity ratio of the economy has been estimated at 42% in 2010 versus 38% in 2009. This can be attributed to good levels of bank deposits, which showed a estimated growth of 14.3% over 2009, while currency in circulation is estimated to have progressed by only 4.6% year on year, with a ratio of currency in circulation to money supply of the order of 0.24 versus 0.28 in 2009.

External Position

Imports of goods increased by 6.1% in 2010 compared with 9.7% in 2009. This compares with 40% and 10% increases in 2007 and 2008, which reflected the high level of building materials and capital equipment imported as part of the preparations for the CEN-SAD summit. The increase in imports in 2010 was mainly due to purchases of food products, intermediate products, energy products and capital goods. In terms of value, more than one-third of imports were consumer goods. The relative shares of food products and energy products have fallen from one year to the next but those of capital goods and intermediate products have tended to rise since 2006.

Exports stood at XOF 588.3 billion in 2010, up 4.6% from 2009. They consisted mainly of agricultural products, principally lint cotton. The share of lint cotton in the total value of exports (including re-exports), which had reached an average of 50% in the mid-2000s, has declined in the past five years due to difficulties in the sub-sector and declining production.

The other key characteristic of Benin’s foreign trade is the phenomenon of re-exportation, which is particularly present in the informal economy. Benin’s primary trading zone for this kind of trade is the Economic Community of West African States (ECOWAS), with Nigeria the principal destination. More than 40% of Benin’s export products go to Nigeria. The share of imports from Nigeria varies considerably from year to year but stood at 16% in 2009. In informal trade, Nigeria is still the main source country for petroleum products, live animals and food products. Re-export goods are mostly meat and edible offal and vegetable oils. Developments in the import-export trade in goods, combined with a deficit trend in the balance of non-factor services resulting from high freight rate levels on imports, resulted in a deficit in the balance of goods and services estimated at 11.5% of GDP in 2010. This represents a slight improvement over 2009.

Factor and current-transfer revenues showed a negative balance estimated at XOF 14.9 billion in 2010 compared with XOF 11.5 billion in 2009. This result was principally due to the level of interest payments on public external debt. Current transfers, on the other hand, showed a positive balance estimated at XOF 166 billion, compared with XOF 151 billion in 2009, thanks to substantial private and public transfers. The overall current account deficit has been estimated at 7% of GDP, one of the explanations for this being poor mobilisation of grants.

The final balance of payments deficit has been estimated at XOF 15 billion, or 0.5% of GDP, down from 1.5% in 2009.

In 2010, the level of external indebtedness came to 19.4% of GDP versus 16.3% in 2009. In the early 2000s, however, the level was close to 50%. The increase in external debt in 2010 can be attributed to the evolution of multilateral debt, which amounts to more than 80% of total external debt. The increase was maintained at a moderate level, however, through the various relief measures afforded under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), as well as to the cautious approach to debt adopted by the Beninese authorities. Benin has regularly honoured its external debt service obligations, moreover. The ratio of debt service to exports of goods and services stood at 5.1% in 2010 versus 4.1% in 2009, showing the low incidence that external debt service has on export revenues. In relation to tax revenues, the debt service ratio fell to 4.1% in 2010 from 6% in 2009.

Table 5: Current account (percentage of GDP)

	2002	2007	2008	2009	2010	2011	2012
Trade balance	-8.2	-14.4	-13.7	-12.5	-11.2	-12	-11.4
Exports of goods (f.o.b.)	15.9	9.2	9.8	10.6	12	11.5	11.9
Imports of goods (f.o.b.)	24.2	23.5	23.4	23.1	23.3	23.5	23.3
Services	-1.5	-1.3	0.3	-1	-0.3	-0.1	0.3
Factor income	-0.9	-0.2	-0.2	-0.2	-0.2	-0.4	-0.4
Current transfers	4.9	5.6	5.5	5.9	4.5	4.2	3.9
Current account balance	-5.7	-10.2	-8.1	-7.7	-7.1	-8.2	-7.6

Source: Data from INSAE; estimates (e) and projections (p) based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

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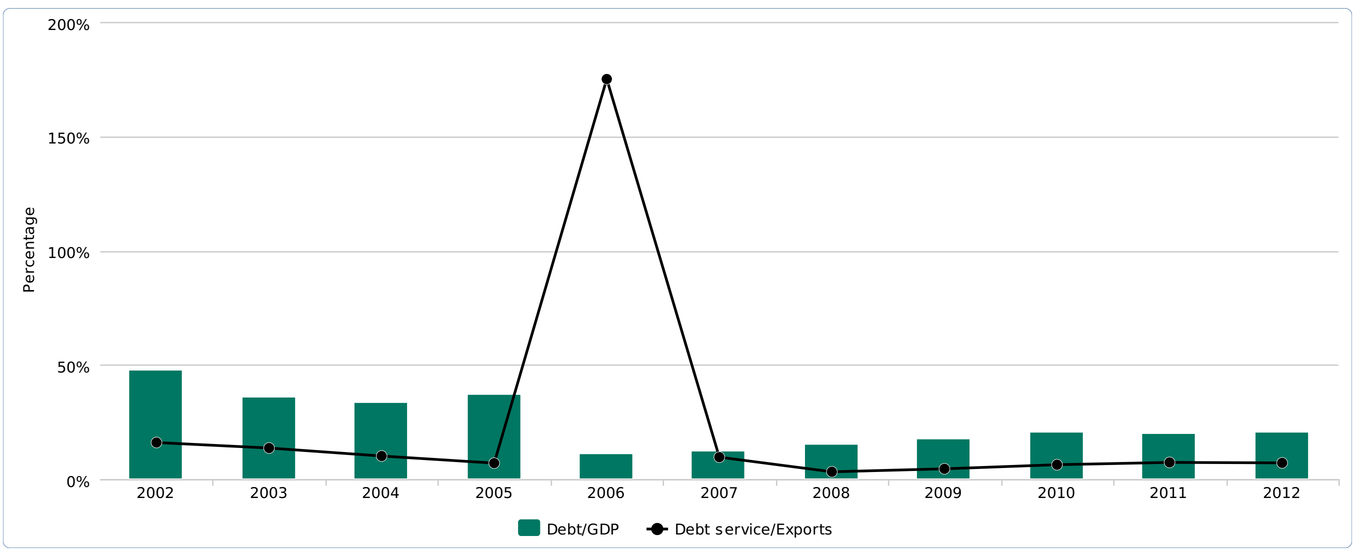
Figure 2: Stock of total external debt (percentage of GDP) and debt service (percentage of exports of goods and services)



Source: IMF and local authorities' data; estimates and projections based on authors' calculations.

Figures for 2010 are estimates; for 2011 and later are projections.

StatLink http://dx.doi.org/10.1787/888932403800

Structural Issues

Private Sector Development

In 2010, implementation of the main reforms continued with, as its ultimate goal, consolidation of the macroeconomic framework and acceleration of growth. The government carried on with its reform of the cotton sub-sector by bringing into operation a new management structure and by transferring to a new mixed capital company, *Société pour le développement du coton* (SODECO), all the industrial assets of state-owned company, *Société nationale pour la promotion agricole* (SONAPRA). Also, in an effort to improve the competitiveness of the Port of Cotonou and the Benin corridor, construction of two new container terminals has been started and a concession agreement signed for the port's main facilities. Work is also continuing to complete installation of a one-stop foreign trade counter at the Port of Cotonou as a means of improving competitiveness and combating fraud.

Similarly, work has started on concession of the former railway company, the *Organisation commune Bénin Niger des chemins de fer* (OCBN). Reforms in the energy sector are also in progress. Ultimately, the national distribution utility SBEE is to be split into two distinct entities, a public asset-holding enterprise and a mixed-economy enterprise for the distribution of electricity. In telecommunications, the process of opening up the capital of public sector operator Bénin Télécoms is continuing.

In the field of administrative and institutional reform, action is under way to strengthen public financial management, improve co-ordination of government action and steer the administrative and institutional reform programme overall. A strategic administrative reform plan was completed in 2010. Other realisations have been the detailed draft of a charter of governance for Beninese development, an outline text for the organisation of a round table of development partners for the financing of administrative and institutional reform and monographs regarding reforms to be carried out in the government's 30 ministries.

Other Recent Developments

Benin’s financial sector consists of 14 credit institutions (12 banks and two financial institutions), the national branch of the regional stock exchange (*Bourse régionale des valeurs mobilières* - BRVM), and three portfolio-management and stock-broking companies. Alongside these institutions, there are about 500 mutual or co-operative savings and credit banks covered by the so-called PARMEC law (passed by the CBWAS as a regulatory framework for microfinance institutions), more than a dozen insurance companies (comprising three life insurance companies, five general insurance companies and eight insurance-brokerages), and several informal structures.

One of the major events in 2010 was the Investment Consultancy and Computering Services (ICC Services) scandal. ICC Services was an informal funding institution promising small investors returns as high as 100%, which used the money of new depositors to pay returns to older depositors. The bubble eventually burst and ICC Services stopped making payments, which created panic among those who had invested their savings in it. A government audit revealed that total deposits amounted to more than XOF 161 billion. There has been no study so far to identify how this situation might have affected the country’s macroeconomic situation even though the deposits amounted to about 5.2% of GDP in 2009, nor to measure the effects of the fraud on the standard of living of the thousands of households involved. In any event, there would have been significant social consequences if the government had not reacted quickly to contain small investors’ anger by setting up a commission of inquiry, sequestering ICC Services' accounts and making some arrests.

In the area of road infrastructure, out of the more than 6 000 kilometres of roads in the road network in 2010, 31% were in disrepair. There are 2 076 kilometres of surfaced roads, representing 0.26 kilometres per thousand inhabitants, and 4 000 kilometres of unmetalled roads. The general goal of the transport sector is to develop and manage the infrastructure and services in order to support economic growth and social well-being.

This policy includes the following goals, which are contained in the strategy for the sector included in the 201-15 SCRP: *i)* ensuring the mobility of persons and goods in satisfactory conditions of reliability, safety, comfort, cost and environmental protection; *ii)* supporting production and contributing to economic growth; *iii)* contributing to the reduction of urban and rural poverty; *iv)* increasing the international competitiveness of Benin’s transport system.

Emerging Economic Partnerships

Over the past six years, Benin has strengthened its ties with new development partners, notably China, India, Saudi Arabia, Abu Dhabi and Kuwait. In all, these new partners contributed XOF 230 billion to its economy in 2005-10 and, in 2010 alone, 7% of GDP. China is the principal emerging partner in terms of volume and range of activities covered. It accounts for 76.5% of this aid, followed by Kuwait (9.8%) and Saudi Arabia (8.4%). China assists Benin in infrastructure (roads, construction and health) and agriculture. Abu Dhabi and Saudi Arabia are active mainly in road infrastructure and construction. Kuwait is involved only in road infrastructure and India in the railway modernisation, fire-fighting equipment and agriculture.

According to information collected by the government services involved in the management of these partnerships, Benin has set up a simple and non-binding operational framework. A request is generally submitted to the funds through which partner countries provide their support, then to their boards of directors. The emerging countries' practices differ from those of traditional partners in several points. They do not always take part in general discussions between the government and its partners. They prefer bilateral co-operation meetings. Their approach seems to be more pragmatic, and they seem eager to place their contribution within a true partnership. Accordingly, they address the investment needs expressed by the country itself, while traditional partners tend to direct their aid to country needs that they themselves have targeted.

The period between the moment when the need is identified and the implementation of a project is much longer with traditional partners. According to an empirical estimate by the public services, such a period is on average five years for traditional partners and one year for emerging-country partners. In addition, the latter seem to be more dynamic in setting up financing. They are quicker to pass from cost evaluation to disbursement of funds and project start-up. This allows projects to achieve their goals completely or partially in line with projections. Partnerships with emerging countries are mainly expected to diversify Benin's production capacities thanks to the development of basic infrastructure, and, in particular, an acceleration of the rate of rural electrification.

Emerging countries have not, however, replaced the traditional partners. They supplement them in areas for which the latter rarely provide aid, such as road infrastructure and other major public works. Through their co-operation with African countries, emerging countries are seeking to increase their influence on the continent. In the sub-region, there is no alternative to their aid as each country has its specific needs. Benin is involved in trade only with China among its new emerging-country partners but it cannot be said that this trade has helped to make it more competitive.

Political Context

Benin has been in the vanguard of democracy in Africa since 1990 when it organised the first national conference that led to the emergence of a multi-party participatory democracy. The country has thus been able to organise, in a peaceful environment and with respect for pluralism, five legislative elections, four presidential elections and two local consultations. At the head of the state, there have been three changes of regime. There have also been changeovers in parliament, where 75% of deputies were renewed in the legislative elections of March 2007. Freedom of the press is recognised and exercised and Benin's civil society has proven to be quite dynamic.

Since 2009, however, claims from certain professions and their political repercussions have paralysed part of the administration and this has had an effect on economic activity. There has also been a power struggle between the government and the parliament, which resulted in 2010 in the latter refusing to ratify international agreements. In December 2009, parliament had set the tone by rejecting the finance bill, judging it to be unrealistic, as was later confirmed by the drastic cuts that marked implementation of the budget. The government was nevertheless forced to legislate by decree, as it had already done to pass the supplementary budget in October 2008.

The political context in Benin was dominated in 2010 by preparations for the presidential and legislative elections scheduled for March and April 2011. In an attempt to improve electoral transparency and sincerity and strengthen the democratic process, the authorities have committed to setting up a permanent computerised electoral roll (Liste électorale permanente informatisée – LEPI). Although the project dates back to 1998, it was never implemented because of the failure of politicians to reach a consensus on it.

Social Context and Human Resource Development

Benin's overall Human Development Index (HDI) rating was 0.435 in 2010. This index has shown an upward trend since 1975 when it was estimated at 0.312. This is due to the efforts made in education and health. Despite this progress, Benin is still ranked 134^{th} out of 169 countries in the HDI. Monetary poverty still affects a significant part of the population and has been growing worse in the past few years. According to the authorities and on the basis of a 2010 survey on household living conditions (*Enquête modulaire intégrée sur les conditions de vie des ménages* – EMICoV), the poverty rate rose to 35.2% of the population in 2009, compared with 33.3% in 2007 and 37.4% in 2006. The 2009 results showed major disparities according to gender and region, moreover. Non-monetary poverty, on the other hand, has declined - from 42% in 2006 to 39.7% in 2007 and 30.9% in 2009. This reflects progress made in education, health and access to safe drinking water. These results are an incitation to further effort but with greater emphasis on income-generating activities in future.

In primary education, the gross enrolment rate rose from 92.9% in 2006 to 109% in 2009, when the enrolment rate for girls alone was 104%. If these efforts are pursued, Benin could achieve the Millennium Development Goal (MDG) relating to universal access to primary education.

Benin has also accomplished significant efforts in the field of health. These have led to an increase in health services, which explains the country's relatively low morbidity rate. The level of use of health services grew from 45.6% in 2007 to 46.1% in 2009, while pentavalent vaccination increased to 98% of children up to 11 months in 2009, compared with 96% in 2007. According to national health statistics, malaria is still the country's most widespread disease. In 2008, it was the cause of nearly 40% of requests for treatment at health institutions among the population at large and of 43.5% of requests concerning children under 5 years old. It is also the principal cause of hospitalisation, representing 20.1% of admissions among the population at large and 34.6% among children under 5 years old (2008 data). The fight against other priority diseases such as tuberculosis has had some success thanks to state financing.

The national infant-child mortality rate was 136 deaths per thousand live births in 2006 on the basis of a reference period covering the ten years preceding the demographic and health survey. Compared with 2001, it had declined by 15%. In the maternal health field, substantial efforts have been observed in prenatal care. The proportion of childbirths assisted by qualified health staff (physician, midwife or nurse) reached 78.6% in 2009, which improved on the 74% figure recorded in 2006, thus contributing to a reduction in birth-related health risks. Notwithstanding this improvement, Benin will have to increase its efforts if it is to achieve the MDGs related to child and maternal health by 2015.

Although sanitation problems are still acute in Benin, access to safe drinking water has gradually become a reality. Assuming public policies are maintained, the MDG target for 2015 could be achieved. In 2010, the level of access to safe drinking water has been estimated at nearly 64% for the country as a whole but with major variations between different social categories.

Notes

1. The goals agreed upon with the IMF in the extended credit facility (ECF) framework, although already lower than the government's yearly objectives, set yearly revenues and expenditure at XOF 1 184.7 billion and XOF 1 191.1 billion, respectively: these have had to be lowered more than once.

2. Since 2009, to address the crisis, Nigeria has taken measures to dismantle tariff barriers and at the same time, has liberalised imports through its port of some initially forbidden products. This situation has diverted traffic from the Port of Cotonou.