

AFRICAN DEVELOPMENT FUND



AFRICAN DEVELOPMENT BANK



BENIN - HIPC APPROVAL DOCUMENT
COMPLETION POINT UNDER THE ENHANCED HIPC FRAMEWORK *

NB : This document contains errata or corrigenda (see Annexes)

ACRONYMS AND ABBREVIATIONS

ADB	:	African Development Bank
ADF	:	African Development Fund
CSP	:	Country Strategy Paper
DSA	:	Debt Sustainability Analysis
HIPC	:	Highly Indebted Poor Countries
IDA	:	International Development Association of the World Bank
IMF	:	International Monetary Fund
NGO	:	Non Governmental Organization
NPV	:	Net Present Value
PRGF	:	Poverty Reduction and Growth Facility
PRSP	:	Poverty Reduction Strategy Paper

TABLE OF CONTENTS

	Page
1. Introduction	1
2. HIPC Qualification	1
3. HIPC Costs	2
4. Assistance Delivered during the Interim Period	3
5. Bank Group Involvement in the PRSP Process	3
6. Proposed Delivery Modality	4
7. Proposed Financing Arrangements	5
8. Recommendations	5
Annex 1 - AFRICAN DEVELOPMENT BANK - HIPC Debt Relief Schedule	i
Annex 2 - AFRICAN DEVELOPMENT FUND - HIPC Debt Relief Schedule	ii
Annex 3 - COMPLETION POINT DOCUMENT FOR BENIN - IMF/ World Bank	iii

HIPC APPROVAL DOCUMENT FOR BENIN: Completion Point under the Enhanced Framework

1. INTRODUCTION

1.1 In March 2003, Benin became the 7th of the 22 RMCs eligible for the enhanced HIPC Initiative, to reach its completion point, under the enhanced HIPC framework¹. As a result, the Boards of Directors of the IMF and the World Bank approved US\$ 265 million worth of debt relief in end 1998 NPV terms for the country under the enhanced HIPC framework. This document presents the justifications for Benin's qualification for HIPC assistance as well as the proposed plan to finance the balance of the Bank Group's share of Benin's costs, which amounts to US \$37.57 million in end-1998 NPV terms, equal to approximately 31.3 percent of the Bank Group's outstanding claims in NPV terms at end-1998².

1.2 Following this introduction, Section 2 of this document summarizes details of Benin's status of policy and reform implementation during the interim period, July 2000 to March 2003. The total debt relief is disaggregated in Section 3 to illustrate the breakdown of HIPC costs to all creditors at the decision and completion points. Section 4 shows the HIPC debt relief assistance delivered during the interim period. The Bank Group's operations are reviewed in Section 5, with particular emphasis on activities related to the progress made in the implementation of the Poverty Reduction Strategy Papers (PRSPs). Section 6 presents details of the proposed delivery modality. The proposed financing plan is presented in Section 7. Finally, recommendations for the Boards' consideration are contained in Section 8.

2. HIPC QUALIFICATION

Policy and Reform Requirements

2.1 Benin reached its decision point in June 2000 and qualified for US\$ 265 million (1998 NPV terms) worth of debt relief assistance³. This reduced Benin's external debt from US\$828 million to US\$583 million in 1998 NPV terms, equivalent to 32.0 percent reduction in the country's outstanding stock of debt at end-1998. In line with the enhanced HIPC framework arrangements, the countries reaching their completion point must fulfill the following three key conditions:

- Satisfactory implementation of the PRSP for at least one year;
- Maintenance of a stable macroeconomic position as evidenced by continued strong performance under a program supported by an arrangement under the PRGF; and
- Implementation of the social and governance reforms monitored under the Initiative and outlined at the decision point.

2.2 With respect to these conditions, the Government of Benin adopted the PRSP in December 2002, and has implemented a system of monitoring and evaluating its poverty programs satisfactorily.

² Ibid., paras 2 and 33, modified by internal AfDB HIPC data sources in PPLB.

³ Benin – HIPC Approval Document – Decision Point under the Enhanced Framework, ADB/BD/WP/2000/106 – ADF/BD/WP/2000/133, 6 October 2000.

Also, Benin's macroeconomic performance has been on track as it has maintained a stable macroeconomic environment, evidenced by satisfactory performance under the IMF's PRGF program. Regarding structural and social sector reforms, Benin has implemented a medium-term expenditure framework (MTEF) for the period 2003-05 and performance indicators were finalized for the 5 ministries of Education, Health, Transport, Rural Development and Environment in December 2002. In addition, the Government has adopted governance reforms in the form of an anti corruption strategy in July 2002.

2.3 A copy of the relevant HIPC completion point document prepared by the Bretton Woods Institutions (BWIs), with more details on the above justification, is attached as Annex 3 to this report for ease of reference.

3. HIPC COSTS

Breakdown of total HIPC Costs among Creditors

3.1 Of the total debt relief of US \$265 million, bilateral creditors will account for US\$ 77 million (29 percent) of Benin's debt relief, while multilateral creditors will deliver the remaining US\$ 189 million (71 percent). The Bank Group's share of debt relief will amount to US\$ 37.6 million (in 1998 NPV terms) which is equivalent to about 20 percent of the multilateral creditors' assistance, and about 14 percent of total creditors' assistance⁴, Table 1 shows a breakdown of the total US\$ 265 million in 1998 NPV terms among the bilateral and multilateral creditors.

Table 1: Breakdown of total HIPC costs in NPV 1998 terms (in US\$ million)

Creditors	Enhanced Framework	Total assistance under the Enhanced Framework at Completion Point
	Decision Point document	
Total creditors	265	265
Bilateral Creditors	76.8	76.8
Multilateral Creditors	188.6	188.7
<i>of which:</i>		
IDA	84.4	84.4
IMF	24.3	24.3
AfDB	37.5	37.6
Others	42.4	42.4

Source: Enhanced HIPC completion point document, IMF/IDA, March 2003, p31, table 7, in 1998 NPV terms.

⁴ In nominal terms, Bank Group assistance under the enhanced HIPC Initiative at completion point amounts to US\$ 46.50 million.

4. ASSISTANCE DELIVERED DURING THE INTERIM PERIOD

4.1 The Bank Group debt relief to Benin during the interim period - July 2000 to March 2003 amounted to US\$ 12.72 million in 1998 NPV terms⁵, This interim relief period lasted for 32 months instead of the scheduled 36 months, indicating satisfactory performance by Benin.

5. BANK GROUP INVOLVEMENT IN THE PRSP PROCESS

5.1 Benin's 2002-2004 PRSP sets medium-term objectives regarding economic growth, improved per capita incomes and human development indicators. It defined sectoral priorities and the strategies to be implemented in order to attain these objectives. The Bank supported the Government during the process of preparing the country's Interim PRSP 2000-2001 by participating in a PBL program through an ADF loan of UA 13.80 million, approved in May 2001⁷, Preparation of the full PRSP was the result of a broad-based participatory process involving the Government, the beneficiaries, civil society, NGOs, the private sector, and the Bank Group among various development partners. One of these seminars was organized jointly by the Bank and the Government on 18-19 April 2002 in Cotonou to solicit development actors views on the major challenges and Benin's medium-term strategic priorities, and the Bank Group's assistance in attaining its development objectives. The discussions on priorities, development strategies and poverty reduction in Benin were based mainly on the PRSP and the Government's Medium-Term Action Programme (GAP) 2002-2006⁸.

5.2 The ensuing program for 2002-2004, which coincides with the ADF-IX period, puts emphasis on priority poverty reduction actions, the objectives of which are in tune with Benin's strategic vision up to the year 2025. This Vision has three main thrusts: to promote good governance, support strong and sustainable growth, and meet social demand. The PRSP also builds on the lessons learned from an extensive experience in poverty reduction initiatives including the 1992 Urgent Social Action Program, the 1994 strategy to address the social dimensions of adjustment, a 3-year Development Plan (1998-2000) and the 1997 Minimum Basic Needs Program.

5.3 Sectoral priorities in the PRSP emphasize rural development and agricultural diversification, human resource development, improvement of economic infrastructure, as well as private sector development. The Bank Group's CSP for 2002-2004 is in line with the thrust and orientation of the PRSP, and proposes to focus Bank operations on the areas of rural development, reinforcement of basic infrastructure and human resource development, while providing support to institution building and good governance, mainly in the area of public finance management. These strategic choices are also in full alignment with the Bank Group Strategic Plan (2003-2007) which emphasizes greater selectivity in operations and targeting of available resources on a limited number of program and

⁵ This is equivalent to US\$ 13.59 million in nominal terms.

⁷ The ADF loan was in support of the budgetary reform program in collaboration with the Bretton Woods Institutions and other development partners (EU, Denmark, the Netherlands and Switzerland).

⁸ See Benin – Country Strategy Paper for 2002-04, ADF/BD/WP/2003/15 dated 16 April 2003, Box 3 on p. 17.

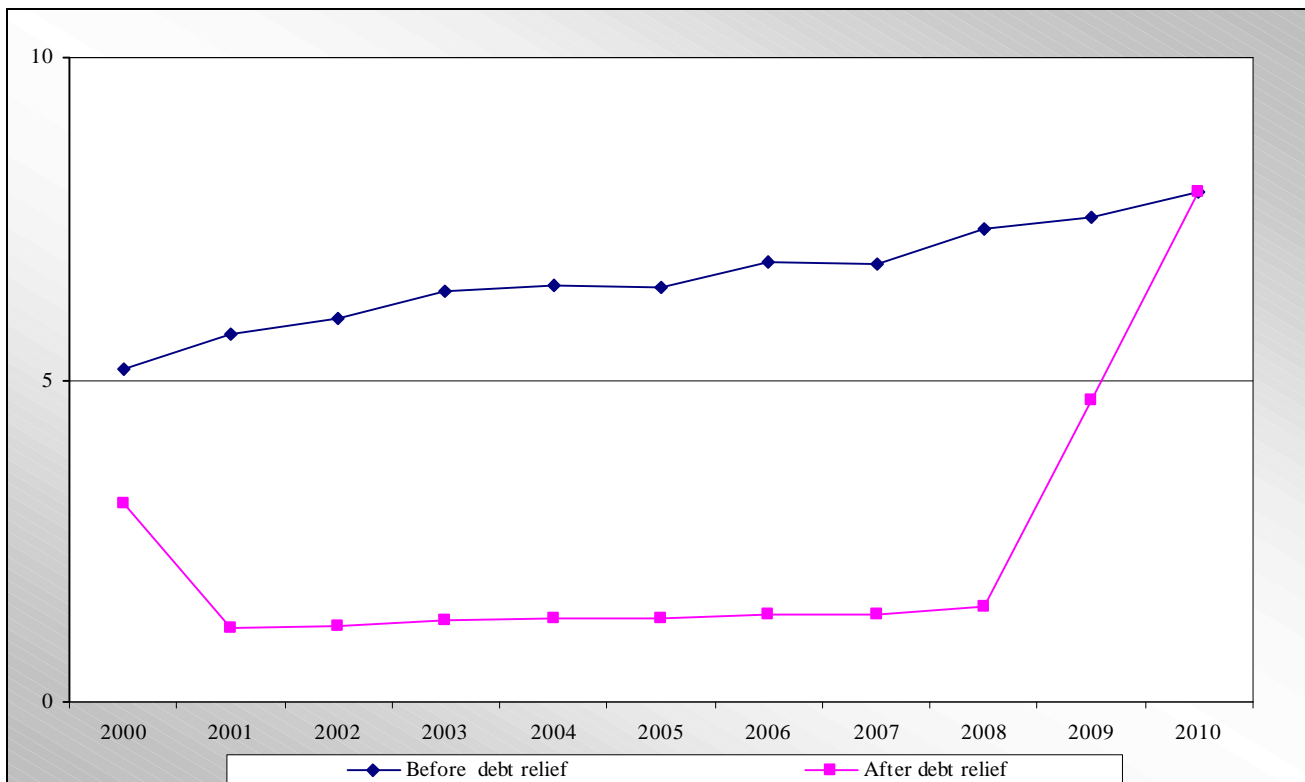
project interventions in ADF-only countries, in 2-3 sectors only, to achieve maximum development impact⁹.

6. PROPOSED DELIVERY MODALITY

6.1 As Benin has reached its completion point, it is proposed that the Bank Group makes a commitment to provide irrevocable debt relief of US\$ 37.57 million in 1998 NPV terms with effect from March 2003. The debt relief would be provided by releasing Benin from up to 80 percent of its debt service obligations to the Bank Group each year, until the entire amount of US\$ 46.5 million in nominal terms is delivered over the next 6 years of an initial 10-year period, until end 2009.¹⁰

6.2 The provision of debt relief, as described, is consistent with the rules of the African Development Bank and the African Development Fund.

Chart A. Impact of Debt Relief on Benin's Bank Group Debt Service Profile
(in million US dollars)



⁹ See Chapter IV of the Strategic Plan for the Bank Group for the 2003-2007 Period (ADB/BD/WP/2002/82/Rev.3/Approved - ADF/WP/2002/97/Rev.3/Approved, dated 18 December 2002). Bank Group Strategic Plan (ADF/WP/2002/97/Rev.3/Approval).

¹⁰ See the HIPC Debt relief Schedule in Annex 2.

Legal Aspects of Debt Relief Operation

6.3 Debt relief for Benin is to be provided, under the enhanced framework of the HIPC Debt Relief Initiative, through the mechanism of debt service relief, in accordance with the terms described in the preceding paragraphs. These terms will be implemented by:

- a Debt Relief Agreement between the Bank Group and the Government of Benin;
- a HIPC Trust Fund Grant Agreement between the Bank Group, the International Development Association (IDA) and the Government of Benin; and
- a Contribution Agreement between the Bank Group and the IDA.

7. PROPOSED FINANCING ARRANGEMENTS

The Bank Group's share of debt relief will be financed as follows :

	<i>Million US\$, in 1998 NPV terms</i>	<i>Percent</i>
Internal Resources	7.51	20
European Commission pledge	15.03	40
Balance with HIPC Trust Fund	15.03	40
TOTAL	37.57	100

8. RECOMMENDATIONS

The Boards of Executive Directors are invited to:

- Note the justifications for Benin's qualification for HIPC assistance at its completion point, under the enhanced framework; and
- Approve the plan to finance the Bank Group's share of HIPC debt relief for Benin, in accordance with the arrangements presented in Section 7.

Annex 1

AFRICAN DEVELOPMENT BANK

HIPC Debt Relief Schedule

*(in US\$ millions)***Benin**Completion
Point Date
March 2003

	TOTAL ADB	TOTAL Debt Relief (ADB/ADF)
2000	0	2.084072
2001	0	4.567132
2002	0	4.770511
2003	0	5.093856
2004	0	5.182667
2005	0	5.158054
2006	0	5.470317
2007	0	5.448111
2008	0	5.883787
2009	0	2.841586
	0	46.500092

Summary

Total Nominal Relief		US\$ 46.500092 m
<i>of which</i>		
	ADB	US\$ 0.000000 m
	ADF	US\$ 46.500092 m
Total NPV Relief		US\$ 37.572054 m
Duration		10 Years

Annex 2

AFRICAN DEVELOPMENT FUND

HIPC Debt Relief Schedule

*(in US\$ millions)***Benin**Completion
Point Date
March 2003

	TOTAL ADF	TOTAL Debt Relief (ADB/ADF)
2000	2.084072	2.084072
2001	4.567132	4.567132
2002	4.770511	4.770511
2003	5.093856	5.093856
2004	5.182667	5.182667
2005	5.158054	5.158054
2006	5.470317	5.470317
2007	5.448111	5.448111
2008	5.883787	5.883787
2009	2.841586	2.841586
	46.500092	46.500092

Summary

Total Nominal Relief	US\$ 46.500092 m
<i>of which</i>	
ADB	US\$ 0.000000 m
ADF	US\$ 46.500092 m
Total NPV Relief	US\$ 37.572054 m
Duration	10 Years

Annex 3

Enhanced HIPC Completion Point Document for Benin - IMF/ World Bank

Annex

BENIN – HIPC APPROVAL DOCUMENT
COMPLETION POINT UNDER ENHANCED HIPC FRAMEWORK

BENIN – HIPC APPROVAL DOCUMENT
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CORRIGENDUM

1. Page 1, the second sentence of Section 2.1 should read "This reduced Benin's external debt from **US\$ 848 million** to US\$ 583 million in 1998 NPV terms,..." instead of from US\$ 828 million.
2. The same sentence above, "This reduced Benin's external debt from **US\$ 848 million** to US\$ 583 million ..." should be preceded by a full-stop and not a comma.