BENIN

ECONOMIC AND SECTOR WORK (ESW)

PUBLIC FINANCE MANAGEMENT AND DEVELOPMENT CHALLENGES

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The views expressed in this study are those of the author and do not necessarily reflect the views of the Bank, other institutions or individuals mentioned.
# ACRONYMS AND ABBREVIATIONS

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Description</th>
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<tbody>
<tr>
<td>ADF</td>
<td>African Development Fund</td>
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<tr>
<td>AfDB</td>
<td>African Development Bank</td>
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<tr>
<td>ASTER</td>
<td>State Accounting Software Package</td>
</tr>
<tr>
<td>ASYCUDA</td>
<td>Automated System of Customs Data Entry, Control and Management</td>
</tr>
<tr>
<td>CAPOD</td>
<td>Development Policy Formulation and Analysis Capacity Building Project</td>
</tr>
<tr>
<td>CET</td>
<td>Common External Tariff</td>
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<tr>
<td>CFAF</td>
<td>African Financial Community Franc</td>
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<tr>
<td>CSP</td>
<td>Country Strategy Paper</td>
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<tr>
<td>ECOWAS</td>
<td>Economic Community of West African States</td>
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<tr>
<td>GDP</td>
<td>Gross Domestic Product</td>
</tr>
<tr>
<td>GPRS</td>
<td>Growth and Poverty Reduction Strategy</td>
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<td>GPRS III</td>
<td>Growth and Poverty Reduction Strategy for the 2011-2015 Period</td>
</tr>
<tr>
<td>GTC</td>
<td>General Tax Code</td>
</tr>
<tr>
<td>GUFE</td>
<td>Business Registration One-stop Shop</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>INSAE</td>
<td>National Institute of Statistics and Economic Analysis of Benin</td>
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<tr>
<td>ITIN</td>
<td>Individual Taxpayer Identification Number</td>
</tr>
<tr>
<td>LOLF</td>
<td>Organic Law on Appropriation Acts</td>
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<tr>
<td>MDGs</td>
<td>Millennium Development Goals</td>
</tr>
<tr>
<td>MUA</td>
<td>Million Units of Account of the AfDB</td>
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<tr>
<td>NGO</td>
<td>Non-Governmental Organisation</td>
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<tr>
<td>OECD/DAC</td>
<td>Organisation for Economic Cooperation and Development / Development Assistance Committee</td>
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<tr>
<td>PAAGFP</td>
<td>Public Finance Management Improvement Action Plan</td>
</tr>
<tr>
<td>PAGFPACAF</td>
<td>Public Finance Management and Business Climate Improvement Support Project</td>
</tr>
<tr>
<td>PAREF</td>
<td>Economic and Financial Reform Support Programme</td>
</tr>
<tr>
<td>PEFA</td>
<td>Public Expenditure and Financial Accountability</td>
</tr>
<tr>
<td>PEMFAR</td>
<td>Public Expenditure Management and Financial Accountability Review</td>
</tr>
<tr>
<td>RISP</td>
<td>Regional Integration Strategy Paper</td>
</tr>
<tr>
<td>RMR</td>
<td>Road Maintenance Royalty</td>
</tr>
<tr>
<td>SGRFP</td>
<td>Comprehensive Public Service Reform Strategy</td>
</tr>
<tr>
<td>SIGFIP</td>
<td>Integrated Public Finance Management System</td>
</tr>
<tr>
<td>SIGMAP</td>
<td>Computerized Public Procurement Management System</td>
</tr>
<tr>
<td>TFPs</td>
<td>Technical and Financial Partners</td>
</tr>
<tr>
<td>UA</td>
<td>AfDB Unit of Account</td>
</tr>
<tr>
<td>UNDP</td>
<td>United Nations Development Programme</td>
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<tr>
<td>VAT</td>
<td>Value Added Tax</td>
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<tr>
<td>WADB</td>
<td>West African Development Bank</td>
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<td>WAEMU</td>
<td>West African Economic and Monetary Union</td>
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EXECUTIVE SUMMARY

Over the last decade, Benin has made significant progress in public finance management owing to the implementation of poverty reduction strategies and reforms backed by technical and financial partners, including the African Development Bank. Since the early 2000s, its budget deficit has reduced significantly due to increased revenue and better public expenditure control. Despite these achievements, the analysis of the public finance structure reveals points of vulnerability, namely: (i) heavy dependence of public revenue on re-export trade with Nigeria; (ii) narrow tax base with the predominance of the informal sector, particularly in the hydrocarbons sector; (iii) public expenditure that is more directed towards recurrent expenditure, particularly salaries; (iv) low contribution of domestic resources to capital expenditure and project implementation delays. Overcoming these weaknesses so as to enable the implementation of the ambitious Structuring Investment Programme, which received the international financial community’s backing during the Paris Round Table held in June 2014, is a major challenge for the country. In addition, the entry into force of the ECOWAS Common External Tariff (CET) in 2015 is a new factor that could reduce revenue derived from re-export trade.

In this context, one of the Government’s priorities should remain the still be to broaden the tax base by modernizing and interconnecting financial services, deepening reflection on development taxation and combating the sale of adulterated petrol known as “kpayo” which benefits from a favourable environment marked by the drop in world oil prices and the reduction in the petrol price differential between Benin and Nigeria. Increasing domestic revenue is particularly essential as it would be necessary to create more tax room to support investment programmes and boost external resource mobilization. The second priority thrust in public finance management involves streamlining recurrent expenditure, particularly salaries, and removing bottlenecks in the public expenditure chain. To this end, it is crucial to strictly implement the new Public Procurement Code as well as the decree setting timelines for public procurement bodies and public service delegations and the decree relating to the partial delegation of public contract approval powers to ministers.

The African Development Bank (AfDB) is one of the leading actors in the public finance domain in Benin. Its support should particularly target measures to increase tax revenue, notably by modernizing and computerizing tax and customs services, and to strengthen the public procurement system. Overall, the Bank should assist the Government in designing and implementing a new plan to strengthen public finance management through on-going PEFA and PEMFAR assessments to which it is already providing support.
INTRODUCTION

1. The purpose of this study is to analyse fiscal sustainability in Benin in light of its structure and the country’s development context. The study contributes to the discussion on the implementation of an appropriate public finance management framework to enable the country to address its development challenges while preserving favourable conditions for fiscal sustainability. The study complements the findings of PEFA and PEMFAR 2014 assessments by focusing on the public finance challenges associated with the country’s macroeconomic context.

2. The country’s context is marked by the Government’s desire to implement structuring investment programmes in several economic sectors (transport, energy, health, tourism, agriculture, etc.). This development plan covering the 2014-2018 period, which will cost a total amount of CFAF 6 529 billion or USD 13.8 billion, is based on the Growth and Poverty Reduction Strategy (GPRS) guidelines. It seeks to raise the investment rate to about 27.0% of GDP in 2018, against 19% in 2013. The plan received the international financial community’s backing during the Paris Round Table held in June 2014. In view of its objectives, the plan should be based on an efficient domestic and external resource mobilization strategy to maintain fiscal sustainability. The country’s context is also marked by the entry into force in January 2015 of the ECOWAS Common External Tariff (CET) whose impact on public finance requires an in-depth analysis.

3. The first part of this study analyses the progress made by the country in fiscal stabilization. The second part focuses on the macroeconomic analysis of vulnerability factors which pose a threat to fiscal sustainability. The third part highlights the various key elements of the recent economic context and analyses their impact on public finance management. The last part of the study identifies reform options to enhance fiscal stability and the role of the African Development Bank (AfDB).

1. FISCAL STABILITY: RECENT ACHIEVEMENTS

4. The overall and primary budget balances experienced a downward trend in the early 1990s and stabilized in the -4%-0% of GDP bracket in the early 2000s. After the restoration of democracy in 1990, the public finance structure continued to be based on the socialist model with huge, but steadily shrinking public budget deficits. The overall budget deficit fell from an average of 8.9% of GDP during the 1990-2000 period to 3.8% between 2001 and 2013 (see Graph 1.a²). During the last decade, the public budget deficit remained below the West African Economic and Monetary Union (WAEMU) average³, but still remains above the average in sub-Saharan Africa (see Graph 1.b).

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¹ These are respectively the assessment of Benin’s Public Finance Management System performance using the PEFA methodology and the Beninese Government’s Public Expenditure Management and Financial Accountability Review (PEMFAR) backed by AfDB, the European Union and the World Bank. These studies seek to assess public finance management systems using a standard framework and to identify reforms to ensure that the Public Finance Management System complies with international standards.

² In Graph 1.a, the difference between the primary balance (using a narrow definition) and the one (using a broad definition) is that the former does not include capital expenditure financed with external resources, which is not the case with the second.

³ An average of 5.35% of GDP in WAEMU between 2004 and 2013 and 1.7% of GDP in sub-Saharan Africa, according to IMF data.
Overall budget deficit stabilization in Benin in the last decade reflects the progress made in revenue collection, but also a more prudent expenditure execution. The increase in the tax ratio from 11% in 1990-2000 to 15.5% between 2001 and 2013 led to an improvement in public revenue. This trend is attributable to the increase in revenue derived from re-export trade and the initiation of various reforms, particularly within the framework of the implementation of growth and poverty reduction strategies to improve the quality and efficiency of public administration. These reforms sought notably to: (i) update and simplify the General Tax Code (GTC); (ii) broaden the tax base by expanding the Individual Taxpayer Identification Number (ITIN); (iii) modernize and interconnect customs units; and (iv) continue the computerization of various services and the multiplication of revenue collection windows.

Public expenditure increased from 17.9% of GDP from 1990 to 2000 to 21.6% of GDP from 2001 to 2013 due to the expenditure incurred within the framework of the implementation of strategies to reduce poverty. It rose dramatically between 2007 and 2009 due to expenditure to curb food and financial crises, on the one hand, and measures taken in 2009 to transfer contract workers to the public service and pay bonuses and allowances to GPRS priority sector (health, education, etc.) employees. However, since then, expenditure has stabilized following the decision to freeze recruitment into the public service. The decline in expenditure is also due to the drop in capital expenditure, as will be discussed in the second part.

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5 According to World Bank estimates, the share of grants in public expenditure rose from 27% in 2006 to 30% in 2007 and 2008.
7. With budget deficit stabilization, Benin is one of the countries having achieved good performance regarding compliance with first-order WAEMU convergence criteria\(^6\). According to the 2014 report of the WAEMU Multilateral Surveillance Commission, Benin met the overall balance to nominal GDP ratio criterion with an average of -1.6% against a minimum of -3.0% between 2010 and 2014. Benin is also the only WAEMU country that met this criterion during the entire 2010-2014 period. The country also satisfies the second first-order budget criterion relating to debt. The public debt to GDP ratio was 27.4% in 2014, well below WAEMU’s 70% threshold. Benin has been able to maintain a low debt level, thus contributing to fiscal sustainability, thanks to debt cancellations, notably under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI), as well as to a decrease in public budget deficit and better debt management.

8. On the whole, the public finance situation has improved owing to the poverty reduction strategies and reforms implemented with the support of technical and financial partners, including the AfDB. Despite this overall satisfactory trend, a more in-depth analysis of the public finance structure shows vulnerability points which should be examined and addressed by the authorities if they wish to maximize the contribution of public finance to the country’s development efforts. These key points of vulnerability of public finance are analysed below.

2. PUBLIC FINANCE VULNERABILITY FACTORS

9. Benin’s public finance structure reflects that of the economy which is characterized by a vibrant transit and re-export trade, the predominance of the informal sector and the significant influence of the public service. The detailed analysis of the public finance situation reveals the following main weaknesses.

2.1 Heavy Dependence on Customs Duties

10. The analysis of public revenue shows the historic dominance of customs revenue over internal revenue (Graph 2), reflecting Benin’s position as a re-export and transit trade corridor with neighbouring countries. The customs revenue to tax revenue ratio, which has been 53% on average over the last decade, is the largest among WAEMU countries after Togo. This ratio increased in 2012 and 2013. This dependence on customs duties is not problematic per se. However, the vulnerability factor lies in the fact that the amount of customs revenue is greatly influenced by re-export trade, particularly with Nigeria. The goods re-exported account for almost half of customs revenue. With a little more than 37% of the volume of imports and 47%\(^7\) of customs revenue in 2012, the main products re-exported (rice, meat, edible offal and second-hand clothing) play a significant role in the Beninese economy\(^8\).

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\(^6\) These first-order criteria concern two budgetary criteria, namely: the budget balance, including grants (commitment basis) to GDP ratio ≥ -3% (which also applies to the ECOWAS convergence framework); public debt to GDP ratio ≤ 70%; and the annual average inflation rate ≤ 3%.

\(^7\) Source: Ministry of Economy and Finance.

\(^8\) It should be stated that these imports effectively pass through the formal channel and are cleared through customs. However, they are re-exported through informal channels.
11. The re-export trade, which is mainly carried out through informal channels, is facilitated by trade-restricting measures on certain consumer products (cereals and second-hand clothing) taken by Nigeria to boost its local production. Lower customs tariffs in Benin encourage the supply of products to the Nigerian market through Cotonou, which is facilitated by the porous nature of their 700-kilometre common border. The re-export trade and, hence, the ensuing Beninese public revenue, depend on the type and effectiveness of trade policy measures adopted by the Nigerian Government. This vulnerability is clearly illustrated by the more than 30% decline in revenue derived from re-export trade between 2002 and 2004 following the tightening of trade restrictions implemented by the Nigerian Government.

12. In addition, the entry into force of the ECOWAS CET in January 2015 poses a serious risk to revenue derived from re-export trade. The narrowing of the price gap could lead to a decline in re-export trade and the resulting public revenue. This issue will be examined in detail in part three.

2.2 Low Tax Revenue Mobilization

13. The tax ratio, which measures the tax revenue to GDP ratio, remains low, despite the progress made to increase tax revenue over the last two decades. Structurally, this ratio has remained below the WAEMU and ECOWAS\textsuperscript{9} minimum convergence thresholds of 17% and 20%, respectively (see Graph 3.a). Compared to other WAEMU countries, Benin ranks third in terms of tax ratio, behind Senegal and Côte d’Ivoire (see Graph 3.b).

14. The conclusions of the 2014 PEFA Report\textsuperscript{10} on Benin show that the tax system continues to be affected by the great discretionary powers of taxation authorities, inefficient redress mechanisms and penalties, inadequate dialogue between the private sector and taxation authorities, and the incomplete Individual Taxpayer Identification Number (ITIN) database (see Box 1).

\textsuperscript{9} This criterion is no longer included in the ECOWAS simplified convergence criteria adopted in 2014. However, it remains a target in WAEMU.

\textsuperscript{10} Interim Report on Benin’s Public Finance Management System Performance Assessment using the PEFA 2014 Methodology, October 2014.
15. The analysis of the internal tax revenue structure shows that 53% of revenue is collected from the non-trade services sector (banks, telecommunications and transport) and 33% from the secondary sector (industry and public works and civil engineering), whereas both sectors combined account for only 37% of GDP. The State hardly collects tax revenue from the agricultural sector which is dominated by smallholder farms, but it accounts for 35% of GDP. Trade (16% of GDP) is also only partially taxed due to the predominance of the informal sector.

<table>
<thead>
<tr>
<th>Box 1: PEFA 2014 Assessment of Tax Revenue Mobilization Indicators</th>
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<tr>
<td>Indicator</td>
</tr>
<tr>
<td>PI-13. Transparency of taxpayer obligations and liabilities</td>
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<td>PI-14. Efficiency of taxpayer registration and tax, levy and customs duty assessment measures</td>
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<tr>
<td>PI-15. Effectiveness in collection of tax payments</td>
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</table>

16. The predominance of the informal sector in the country and the difficulties that taxation authorities have taxing this sector are, indeed, a source of public finance vulnerability. The informal economy in Benin accounts for 65% of GDP, against 42% on average in sub-Saharan Africa. The informal sector employs 95% of the workforce and more than 9 out of 10 (97%) enterprises are operating in the informal sector. Ninety-six per cent of economic units in urban areas and 99% in rural areas\(^{12}\) are in the informal sector. Thus, Benin, like many African countries, is grappling with the predominance of the informal sector, which contributes to the narrow tax base. The predominance of the informal sector does not only represent a huge loss for the State, but is also a source of unfair competition with the formal sector which is taxed. The State has embarked on the gradual formalization of the informal sector, notably through the registration of sector actors in the ITIN database, tax exemptions during the first year of operation for newly-established businesses, the establishment of taxation centres in major markets and the dissemination of tax regulations. However, the impact of these measures is still limited.

2.3 Significant Revenue Shortfall Due to “Kpayo” Trafficking

17. Benin’s peculiarity with respect to other countries in the region in particular and African countries in general is that besides a large informal sector, it has a petroleum products distribution sector that is mainly dominated by illegal and informal activities. In fact, adulterated petrol known as “kpayo\(^{13}\)” smuggled out of Nigeria represents more than 80% of Benin’s consumption of petroleum products. This trafficking is caused by disparities in pump prices in both countries and, to a lesser extent, by Benin’s poor coverage in formal filling stations. This trade causes health and environmental problems as well as a huge loss for the State which does not collect the taxes on petroleum products it ought to due to the informal nature of the trade.

18. A fast estimate shows a significant loss of revenue. The loss is estimated using the model below:

Assuming that:

- \(Q_{I0}\) = the quantity of petrol sold in the informal market
- \(Q_{I1}\) = the quantity of petrol sold in the informal market which would pay taxes if the State could tax the informal sector
- \(t\) = the tax rate per litre of petrol
- \(e\) = price elasticity of demand for petrol
- \(P_0\) = the price of petrol sold in the informal market prior to the introduction of taxes
- \(P_1\) = the price of petrol sold in the “informal”\(^{14}\) market if the State could tax the informal market
- \(RS\) = Revenue shortfall

Therefore:

\[ RS = t \cdot IQ_1 \quad (1) \]

Where the formula is used with the price elasticity of demand to calculate \(IQ_1\), the revenue shortfall in partial equilibrium can be estimated as follows:

\(^{12}\) Source: Benin’s Economic Growth Recovery Plan, February 2012.
\(^{13}\) Meaning “fake” in the ‘goun’ local language.
\(^{14}\) If the State could tax petrol sold in the informal market, the market would no longer be informal and the price structure would be different, but for reasons of clarity and simplification, we will maintain the term informal market, even after the levying of tax.
\[ RS = t^*IQ_0*(1+e^*[(P_1-P_0)/P_0]) \]  

Assuming that all the taxes on prices in the informal market are collected, the increase in informal market prices \([(P_1-P_0)/P_0]\) after the levying of tax will be equal to the tax rate. This data is used to calculate the revenue shortfall using equation (2).

An IMF study estimates price elasticity at between -0.2 and -0.4\(^\text{15}\). The revenue shortfall can be estimated using 2011 data on the quantities of petrol sold in the informal market and this market price in 2014\(^\text{16}\), the values of the price elasticity of demand for petrol estimated by the aforementioned IMF study and the petrol tax rate. Table 1 shows the results of this estimate. The calculation shows that the annual revenue losses due to this illegal trade would be between CFAF 15 billion and CFAF 17 billion (more than 2% of tax revenue). The calculation does not take into account the huge losses of revenue derived from the activities of oil companies (turnover and payroll taxes, etc.).

### Table 1

**Assessment of the impact of “Kpayo” trafficking on public revenue**

<table>
<thead>
<tr>
<th>Sales volume in the informal market (in millions of litres)</th>
<th>Baseline situation (2011)</th>
<th>Assumption price elasticity of Kpayo (-0.2)</th>
<th>Assumption price elasticity of Kpayo (-0.4)</th>
</tr>
</thead>
<tbody>
<tr>
<td>QI(_0) = 112.2</td>
<td>QI(_1) = 112.2* (1-0.2* (160/400)) = 103.22</td>
<td>RS = 160* 103.22 = 16.516</td>
<td>RS = 160* 94.248 = 15.079</td>
</tr>
<tr>
<td>Public revenue shortfall on the basis of t = tax of CFAF 160 per litre of petrol (in CFAF billion)(^\text{17})</td>
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<td></td>
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</tbody>
</table>

Sources: National data, IMF and author’s calculation.

19. The scale of this loss has a serious impact on Beninese public finance. For instance, it deprives the Government of revenue that could be used to replenish the Road Fund which finances road maintenance operations. The road maintenance royalty (RMR) that is levied on petroleum products helps to replenish the Road Fund in many ECOWAS member countries, enabling them to comply with the Community Directive (ECOWAS and WAEMU)\(^\text{18}\) on the harmonization of road maintenance strategies in member countries. This Directive requires each country to establish a financially autonomous Road Fund. Benin’s Road Fund which is essentially replenished by the State budget and toll revenue is therefore financially weak, thus affecting road maintenance quality\(^\text{19}\).

2.4 High Payroll

20. Public expenditure is characterized by a high payroll which represents about 45% of government tax revenue, against the 35% maximum threshold fixed within the framework of the WAEMU convergence criteria. The payroll to tax revenue ratio dropped significantly from more than 90% in the early 1990s to 32% in 2007. This decrease reflects the country’s transition to a market economy and the implementation of growth and poverty reduction strategies, including voluntary and targeted retirement programmes and the transfer of public entities to the private sector.\(^\text{16}\) By way of comparison, Côte d’Ivoire’s Road Fund which is largely replenished by the RMR was CFAF 70 billion in 2013, while Benin’s Road Fund is less than CFAF 4 billion.

\(^{15}\) Third review of Benin’s programme backed by the IMF Extended Credit Facility, April 2012.

\(^{16}\) Informal market price: \(P_0 = \text{CFAF 400/litre.}\)

\(^{17}\) Estimate Based On The December 2014 Price Structure.

\(^{18}\) Directive No. 11-2009-CM-WAEMU of 25 September 2009 to harmonize road maintenance strategies in WAEMU Member States.

\(^{19}\) By way of comparison, Côte d’Ivoire’s Road Fund which is largely replenished by the RMR was CFAF 70 billion in 2013, while Benin’s Road Fund is less than CFAF 4 billion.
sector. Since 2008, however, this ratio has again exceeded the 35% maximum threshold fixed within the framework of the WAEMU convergence criteria (see Graph 4). This upward trend was particularly driven by the measures taken in 2009 to transfer contract employees to the public service and the continuous increase in permanent public employees’ index points\(^{20}\). The total number of public employees, therefore, rose from 40,523 in 2005 to 70,000 in 2010. In 2011, the Government and trade unions agreed on a 25% increase in the index point from 2011 to 2014. The proportion of bonuses and allowances included in the payroll is rising. The proportion rose from 5.77% in 2001 to 14.1% in 2010. According to a study on the wage plan\(^{21}\) carried out by the Government, many bonuses are paid to public employees in violation of the instruments in force. Whereas the General Rules and Regulations of the Public Service provides for 16 bonuses, the said study identified 64 in the payroll. The payroll represents about 50% of recurrent expenditure, against an average of 37% for sub-Saharan Africa.

21. **Despite the efforts made by the Government to control the Public Service workforce, the payroll to GDP ratio in Benin is still the highest in WAEMU.** During the 2009-2013 period, Benin’s ratio was 7.3%, against an average of 6.1% in all WAEMU member countries. The payroll to tax revenue ratio is the third-highest with an average of 44%, behind Guinea-Bissau (74%) and Côte d’Ivoire (46%)\(^{22}\). An IMF study titled “Wage Policy and Fiscal Sustainability in Benin” carried out in 2010 had already drawn the attention of the authorities to the risks associated with the increase in the payroll. This study concluded that if the payroll continued to increase at the same rate as between 2000 and 2009 “it will compromise Benin’s debt and fiscal sustainability in the medium-to-long term by generating excessive fiscal deficits or by crowding out growth-enhancing public investment. A fiscal policy guided by targets set in order to maintain debt sustainability, in tandem with population growth will leave only little space for civil service pay increases”\(^{23}\). The implementation of the Comprehensive Public Service Reform Strategy (SGRFP) should therefore be a major priority to support efforts to streamline the payroll so as to contribute to the sustainability of public finance on the one hand, and to improve the efficiency of public administration on the other hand.

\(^{20}\) This index point is used to calculate the indexed or basic salary, which is obtained by multiplying the index point value by a coefficient known as the salary index assigned to the incremental position of each grade.

\(^{21}\) Study on the Beninese Public Service Wage Plan: Final “Inventory” Report, March 2012.

\(^{22}\) Côte d’Ivoire and Guinea-Bissau experienced political instability and conflicts, which may explain, to some extent, their high wage bill. On the other hand, Benin, which enjoyed political stability throughout the period, was therefore able to better control its wage bill.

2.5 Relatively Low Capital Expenditure

22. Benin’s public investment level is low compared with other WAEMU countries. The average public investment rate (Public Investment/GDP) over the last ten years stands at 6.5%, against an average of 7.3% in WAEMU (Graph 4). Benin has recorded the lowest public investment rate over the last five years in the WAEMU zone, coming after Côte d’Ivoire. The low public investment rate stems from the still limited domestic resources allocated for investments, on the one hand, and shortcomings in project implementation, on the other hand.

23. Average domestic financing stood at 3.5% of GDP over the period 2004-2013, against an overall average of 4% in WAEMU. In addition, there is a tendency to space out or postpone investment spending instead of implementing cuts in recurrent expenditure, particularly salaries, which generally face more resistance at the social and political levels. Shortcomings in project implementation result from the low maturity of investment projects proposed for inclusion in the priority investment programme, frequent changes in investment priorities and the cumbersome public procurement process.

24. The low public investment level points to low public spending effectiveness and inadequate public resource profitability, a situation which negatively affects fiscal sustainability. In fact, the low investment level is a serious impediment to growth and the achievement of development objectives as it prevents the reduction of the country’s infrastructure gap and any significant improvement of access to basic social services. Moreover, various studies have highlighted the obstacle that such low investment level represents in the context of the Beninese economy. Using a computable general equilibrium model, a study conducted by the Government with the support of the Development Policy Formulation and Analysis Capacity Building Project (CAPOD) showed that additional expenses geared towards investments instead of recurrent expenditure produce a much more positive effect on growth in productive sectors. The situation of rural households is also improved when investment spending is prioritized. The same findings are contained in studies carried out by the IMF on the relationship between expenditure composition and economic development in Benin. These studies show that a change in the composition of expenditure in favour of public investment would have beneficial effects on growth, employment and equality of incomes, particularly through its effects on wages and recruitment in the formal private sector. In contrast, an increase in the salary of public servants, even if financed through foreign grants, may lead to lower growth, higher unemployment and greater wage disparities between the various sectors. Low public investment, therefore, does not...


enhance economic growth and increase incomes, a situation which does not help to consolidate the tax base and strengthen fiscal sustainability.

25. The structuring investment programme which the Government prepared and presented to the international community during the June 2014 Round Table is intended to make up for Benin’s insufficient investment, especially public investment. The programme received substantial support from international partners, which is quite encouraging. In addition to this external support, the improvement of the public investment level is contingent on several factors, especially increased budgetary allocation for public investment, greater effectiveness of the investment chain and better programming of investments in relation to priority objectives.

2.6 An Expenditure Chain in Need of Improvement

26. Another huge challenge to be met to ensure fiscal stability remains the improvement of the public expenditure chain. AfDB and the World Bank have, in particular carried out an assessment of Benin’s Public Procurement Process using the OECD/DAC methodology as part of the State of Benin’s Public Expenditure Management and Financial Accountability Review (PEMFAR 2014). The review report noted particularly that although the legislative and regulatory framework governing public procurement complies with international standards, its implementation is not yet totally effective. The weaknesses identified concern notably the abusive use of mutual agreement procedures, non-compliance with quotation procedures, the intrusion of arrangements not provided for by the regulations in force (intervention of the Council of Ministers), rotation of the staff of procurement bodies as well as human resource and financial constraints which affect public procurement reform implementation. In order to step up the efficiency of the procurement system, the Government of Benin issued new decrees in September 2014 aimed at ensuring the partial delegation of contract approval powers to ministers, on the one hand, and setting timeframes for procurement bodies and public service delegations, on the other hand. These decrees have considerably reduced the statutory procurement timeframes. As a result, the maximum deadline for award of a public contract is now eighty (80) days, including statutory timeframes, resulting to time savings of at least fifty-one (51) days. These are important measures which need to be scrupulously implemented in order to ensure a significant reduction of deadlines.

3. EMERGING ECONOMIC ISSUES AND THEIR IMPACT ON PUBLIC FINANCE MANAGEMENT

27. Benin’s current economic context is marked by many issues which will have a significant impact on public finance and involve new revenue mobilization and public expenditure management challenges as well as fiscal management challenges in general. This section reviews these issues and analyses their implications for future public finance management.
3.1 Implementation of Structuring Investment Programmes

28. The challenges faced by the country are basically: (i) infrastructure gaps with a limited road network and energy shortage which has worsened over the last two years owing to the difficulties experienced by supplier countries; (ii) economic and financial governance weaknesses, especially concerning State resource mobilization, budget programming, execution and control and public procurement management; and (iii) the small size and structure of the private sector. These constraints impede the optimal utilisation of the country’s assets, especially its agricultural potential and its position as a sub-regional trade corridor.26

29. To remedy these weaknesses, the Government has prepared an investment plan spanning the period 2014-2018 for a total cost of CFAF 6 529 billion, or USD 13.8 billion. The plan, which includes about one hundred projects, including five flagship projects (see Box 2), seeks to raise the investment rate to nearly 27.0% in 2018, against 19% currently. It received support from the international financial community during the June 2014 round table.

30. For an expressed financing need of CFAF 2 900 billion, commitments made by technical and financial partners and the private sector stand at close to CFAF 6 000 billion (or about USD 12 billion) for the period 2014-2018. Additional resources are estimated at about CFAF 5 000 FCFA billion, that is about USD 10 billion, more than half of which will be public financing. The mobilization of these resources would help to implement the investment programme broken down by year as shown in the provisional schedule described in Table 2.

<table>
<thead>
<tr>
<th>Table 2: Provisional investment programme financing schedule (in CFAF billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>2014</strong></td>
</tr>
<tr>
<td>-----------------</td>
</tr>
<tr>
<td><strong>Investments over the period</strong></td>
</tr>
<tr>
<td><strong>As % of GDP</strong></td>
</tr>
<tr>
<td><strong>Public investments</strong></td>
</tr>
<tr>
<td><strong>As % of GDP</strong></td>
</tr>
<tr>
<td><strong>Private investments</strong></td>
</tr>
<tr>
<td><strong>As % of GDP</strong></td>
</tr>
</tbody>
</table>

Source: Government authorities and author’s calculations

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31. In the Multi-year Budgetary and Economic Programming Document 2015-2017, the estimates are slightly less ambitious, with notably an overall investment rate which expected to rise from 19% in 2014 to 26% in 2017, and a public investment rate which would increase from 6.7% in 2014 to 11.3% in 2017.

32. **Despite this determination to raise the investment level, the contribution of domestic resources to investment is expected to remain unchanged at 3.5% of GDP between 2015 and 2017, still below the WAEMU average.** This implies that any increase in investments will be largely due to external resources.

33. This situation has two major disadvantages. Firstly, while it is true that the investment programme has received support from the international community, it is also common knowledge that the mobilization of these resources may take longer than expected, as it largely depends on donors’ strategic considerations and economic and financial situation as well as conditionalities. Secondly, this strategy of increasingly relying on external resources is more likely to impact the country’s external debt, especially in an international context of decreasing concessional resources. The country’s debt is still low according to the last debt sustainability analysis carried out by the IMF in 2012. However, faced with the need for substantial investments, the Government is bound to resort to non-concessional resources which may weigh on debt sustainability (Box 3). Greater mobilization of domestic resources could reduce this risk.

34. **Therefore, it is important for the Government to increase the share of domestic resources allocated for investments.** In addition to the fact that this helps to better ensure the stability of investment resources and reduce the debt risk, it is also a strong signal to partners about the determination of the Government to implement the programme. Moreover, greater allocation of domestic resources for investment would contribute to reducing delays in the mobilization of national counterpart contribution which is often an impediment to the mobilization of external resources from some partners, including the AfDB.

**Box 3: Benin’s Public Debt Strategy 2014-2018**

As at 31 December 2013, Benin’s outstanding public debt, including Treasury bonds, stood at CFAF 1 144.01 billion, or about USD 2.4 billion, of which CFAF 756.48 billion as external debt and CFAF 387.53 billion as internal debt. The public indebtedness ratio (outstanding debt/GDP) is 27.4%, against a WAEMU 70% threshold. In accordance with WAEMU directives, Benin prepares a yearly public debt strategy paper which is appended to the Finance Law. In this connection, the current public debt portfolio analysis, notably cost and risk indicators, helped to test four (4) debt strategies using a Medium-term Public Debt Management Strategy (MTDS) formulation tool developed by the World Bank and the International Monetary Fund (IMF).

The strategy adopted for the period 2014-2018 recommends to combine the use of external loans from traditional donors (ADF and IDA) and new partners (less concessional) and the mobilization of additional resources on the domestic market (WADB loans) and the issuing of long-maturity government bonds. However, faced with the scarcity of concessional external resources and the need to finance development, the State could contract limited amounts of non-concessional loans to finance profitable projects within the limit of accumulation of non-concessional debt to be defined with the IMF. There should therefore be a period of downward trend in the weighted average grant element of the external debt portfolio. However, the public indebtedness ratio should not increase considerably.

35. To increase budgetary allocation for investments, it is necessary to meet two major challenges, namely to significantly increase State revenue and control recurrent expenditure, particularly the payroll. Concerning the reduction of the payroll, it is necessary to speed up implementation of the administrative reform for a more efficient and results-based administration and ensure a streamlined and transparent allocation of bonuses.

36. These findings are consistent with the results of a recent IMF study on investment expansion and the role of Government in Benin\(^28\). Based on the DSGE model\(^29\), the study concludes that to preserve fiscal sustainability during the investment scale-up period, the Government must continue to implement the stability policy and increase tax rates. The study also highlights the importance of reducing inefficiency in tax revenue collection, which will mitigate the role of tax rise and increase the debt reduction rate after the investment expansion phase.

37. Moreover, the promotion of public-private partnership (PPP), as provided for in the Investment Programme (see Box 2), will contribute to enhancing the leverage effect of public resources. To that end, it is important for the country to complete the establishment of an institutional and legal framework for PPPs and strengthen dialogue between Government and the private sector\(^30\).

3.2 Entry into Force of the ECOWAS Common External Tariff (CET)

38. The ECOWAS Common External Tariff (CET) entered into force on 1 January 2015 (see Annex 1 for a more detailed CET presentation). The application of the ECOWAS CET will bring about significant changes in terms of relative prices. For WAEMU non-member countries, it will lead to a substantial drop in their protection level while tariff protection will increase slightly in WAEMU member countries.

39. In the specific case of Benin, calculations made by the Ministry of Economy and Finance show that the ECOWAS CET nominal protection rate is 15.63% for customs duties, against 13.55% for WAEMU CET. This average pricing increase is linked to the reclassification of the ECOWAS CET and the establishment of the fifth band taxed at 35%.

40. This more protective tariff could generate additional resources for public finance and constitute a factor in increasing production. It offers the country the opportunity to develop growth sectors such as agriculture and agri-business for which Benin has potential and which could benefit from the expansion of the West African market. In that regard, the implementation of the Agricultural Sector Revival Strategic Plan (PSRSA) which mainly targets four sub-sectors (maize, rice, pineapple and cashew) as well as the continuation of reforms aimed at improving the business climate are of prime importance.

41. In the short term, however, the ECOWAS CET may have a negative impact resulting from a decline in re-export trade. In fact, re-export trade fuelled by the price differential should naturally decline with the reduction of this differential, or even be abolished after five years of progressive adjustment. As such, according to simulations carried out by the

\(^{28}\) Investment Scaling-up and the Role of Government: the Case of Benin; Matteo F. Ghilardi and Sergio Sola; IMF working paper WP/15/69, March 2015.

\(^{29}\) Dynamic stochastic general equilibrium model.

\(^{30}\) The Government has prepared and submitted to Parliament a law laying down the PPP institutional and legal framework.
Beninese Ministry of Economy and Finance, customs revenue will be on a downtrend (-30%) with the decline in re-export trade. In contrast, duties and taxes whose trends depend much more on the level of domestic activities (internal VAT, other indirect taxes and direct taxes) should increase in very small proportions. On the whole, however, the decrease in customs revenue should drag overall public revenue downward (-13%).

42. It is true that given the period of progressive adjustment to the CET which should span five years and the risk that Nigeria may take a longer time to apply the CET, the decline in re-export trade may not be felt during the initial years. All the same, it is essential for the Government to anticipate this decline especially by broadening its tax base and continuing efforts at making the Port of Cotonou more competitive and attractive.

3.3 Drop in Oil Prices: An Opportunity to End Petrol Smuggling and Improve Public Revenue Collection?

43. Besides the implementation of the Structuring Investment Programme and the ECOWAS CET, it can be said that the current context is also marked by a sharp drop in global oil prices (40% drop between June and December 2014) which seems to be a good opportunity to end the illegal trade in adulterated petrol. We have shown earlier on that this trade was driven by a significant petrol price differential between Benin and Nigeria. However, as shown in Graph 6, price gaps narrowed in December 2014 and is expected to increase in 2015 with the Nigerian Government’s decision to reduce subsidies on petrol prices over the period 2015-2017 following the drop in oil prices.

44. It should be recalled that after the measure to abolish subsidies taken by Nigeria in January 2012, the population in Benin temporarily abandoned “kpayo” for filling stations until the Nigerian Government partially resumed subsidies. However, unlike in 2012, the lifting of subsidies in Nigeria will have limited effect on the population owing to the general drop in petrol prices, as well as the progressive lifting of subsidies over the 2015-2017 period. This could even lead to the maintenance of price stability at the pump, or even a drop (certainly less sharp than in Benin), depending on world oil price trends. The Nigerian Government could face less resistance than in 2012. For the Beninese Government, it offers an opportunity to revive the fight against the illegal sale of petrol and to develop the hydrocarbons sector which is a major State revenue provider.

4. REFORM OPTIONS FOR GREATER FISCAL STABILITY

45. In light of the analysis we have just made on the structure and vulnerability factors of public finance in Benin, and developments in the economic context, reform options, some of which the Government has already embarked on, have been identified below to enable the country to lay the foundations for sustainable and inclusive growth.
Broadening the tax base is one of Government’s major challenges

46. The purpose of broadening the tax base is to enable the country to increase its resources and reduce the vulnerability of such resources to re-export trade. We have seen that this vulnerability could increase with the entry into force of the CET. Increased internal revenue is all the more important given the need, as underscored, to provide a little more tax room to support investment programmes. The State must, therefore, resolutely continue to implement financial services strategic orientation plans, namely: extension of the Individual Taxpayer Identification Number (ITIN) and the fight against tax fraud and evasion; and the modernization of financial services. Concerning the modernization of financial services, the Government needs to fine-tune the approach consisting in interconnecting the IT systems of the various financial services (SIGFIP, ASYCUDA, SIGMAP, ASTER, etc.) and decentralized entities in order to enhance revenue centralization and improve the expenditure chain. However, it is important to complete the reflections on the implementation of a development taxation to boost economic growth. In particular, it is necessary to develop a comprehensive taxation strategy for the informal sector, including the agricultural sector, and provide tax incentives geared towards economic growth poles and the development of SMEs and SMIs. A think-tank on development taxation was established in 2008 but its findings are still to be implemented.

47. Moreover, the entry into force of the ECOWAS CET has given the Government the opportunity to broaden its production base, especially in the agricultural and agri-business sectors which could benefit from the West African market and contribute to increasing tax revenue. To that end, special focus should be on accelerating the implementation of PSRSA and reforms aimed at improving business climate.

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31 In fact, the public finance information system is not integrated and not adapted to the new Organic Law on Appropriation Acts (LOLF) adopted in 2013.
(ii) *The fight against the illegal sale of “kpayo” should also contribute to increasing tax revenue*

48. The sale of this petrol is certainly a source of revenue for a number of youths, but it nevertheless remains an illegal activity and a source of revenue loss for the State, with significant negative impacts on the environment and health. The reduction of petrol prices and changes in the structure of subsidies in Nigeria open a brief vista of circumstances conducive to the development of new solutions which could extend beyond the simple fight against an illegal trade to ensure the development of a scheduled comprehensive programme leading to an outcome favourable to all the parties concerned. In this quest for solutions, the Government could also examine the possibilities of reducing the tax on petroleum products. This would make “legal petrol” more attractive. The negative effect of reduced taxes on income could be offset by the positive impact resulting from increased sales in filling stations. The exemption of imported new equipment and materials as well as local materials for the construction of filling stations, sidewalk stations and petrol and gas tanks from import duties and taxes and VAT should also be continued. Less resistance could be expected from the population compared with previous attempts\(^{32}\) to fight against kpayo, as the action would be part of a structured programme and the ex-ante negative impact of a decline in the illegal trade in petrol on transport fares and inflation would be offset by a drop in pump prices in filling stations.

49. The experience of other countries could offer valuable hints, notably Colombia which is also facing a similar situation in its border regions with Venezuela, and which has established a vocational retraining programme for vendors of smuggled petrol, while trying to absorb the trade into formal distribution networks. Therefore, it would be necessary to integrate more youths involved in the sale of kpayo into youth employment programmes initiated by the Government. Those who will remain in the sector will have to be encouraged to join formal economic units or group themselves into entities (common interest groups, associations, NGOs, etc.) capable of operating in a more formalized setting.

(iii) *Streamlining Recurrent Expenditure, Especially Salaries, and Eliminating Bottlenecks in the Public Expenditure Chain*

50. By adopting the new Organic Law on Budget Laws in July 2013 in compliance with the WAEMU directives, Benin embraced the Programme Budget (PB) practice to better articulate budgetary allocation and public policies implemented as well as improved investment programming. The Government is working with the support of some partners on the implementation of programme budgets for the 2015 financial year. However, In addition to this new budgetary approach, the improvement of the expenditure chain requires a more efficient public procurement system. This is all the more indispensable as, in accordance with the Paris Declaration on Aid Effectiveness, development partners, including the AfDB\(^{33}\), strive to increasingly rely on the National Public Procurement System for the operations they finance. It is crucial to strictly apply the mechanism of the new Public Procurement Code as well as the decrees setting timeframes for public procurement bodies and public service delegations, and the mechanism relating to the partial delegation of public contract approval powers to ministers. It is

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\(^{32}\) The last attempt was in 2013.

\(^{33}\) In this connection, AfDB intends to soon sign a Letter of Agreement with the Government of Benin on the use of national competitive bidding procedures for Bank-financed operations
also crucial to modernize the public procurement system and build the capacity of contracting authorities. The operationalization of the overall public service reform strategy is another priority for controlling the payroll.

**AfDB’s Role in Benin’s Fiscal Reforms**

51. AfDB is one of the Beninese Government’s major partners in the implementation of policies aimed at strengthening public finance management. The amounts committed by the AfDB in the public finance governance and management sector in Benin over the last ten years stand at close to UA 110 million (about CFAF 80 billion). These funds, which were used to finance four budget support projects and two institutional support projects, have contributed to achieving progress in the area of public finance management. In particular, the reforms backed by the Bank-funded Economic and Financial Reforms Support Programme (PAREF) over the period 2012-2013 notably focused on the broadening of the tax base with the extension of the Individual Taxpayer Identification Number through the issuing of individual taxpayer identification numbers at border posts, the interconnection of customs units and the adoption of a new customs code. The previous programmes helped especially to prepare and adopt the Action Plan for Improving Public Finance Management 2009-2013, build the capacity of internal and external audit institutions and reduce delays in the passing of Settlement Bills by Parliament. Concerning public procurement, the Bank supported the adoption of the new Public Procurement Code which complies with international standards and is financing the Computerized Public Procurement Management System (SIGMAP) under the ongoing Public Finance Management and Business Climate Improvement Support Project (PAGFPACAF). This software which was launched in January 2015 will contribute to reducing delays and strengthening transparency in public procurement procedures.

52. In spite of this progress, there are still major challenges, as pointed out earlier on. As such, support for the strengthening of public finance management remains a focus area in the Bank’s on-going strategy in Benin through its Pillar 2 on good governance promotion. The Bank worked in conjunction with the Government, the European Union and the World Bank in assessing the public finance system’s performance using the PEFA methodology and in a State Public Expenditure Management and Financial Accountability Review (PEMFAR). The findings of these works, which were validated in April 2015, will serve as a basis for preparing a new phase of the plan to improve public finance management.

53. AfDB intends to remain one of the major players in the preparation of this plan and its implementation. Given the Bank’s commitment during the June 2014 round table to support the country financially and technically, it will have to pay special attention to measures aimed at increasing tax revenue, notably through the modernization and computerization of tax and customs services and the continuation of its support for the public procurement system. It seems to us that these two issues are critical in enabling the country to meet the challenges related to the implementation of its investment programme, on the one hand, and to mitigate the risks related to the entry into force of the ECOWAS Common External Tariff (CET), on the other hand.

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34 They are the three GPRS support programmes (PASCRP I 2004-2005; PASCRP II 2006-2007 and PASCRP III 2009-2010); the Economic and Financial Reforms Support Programme (PAREF) 2012-2013; and the two institutional support projects (the Audit Institutions Support Project and the Public Finance Management and Business Climate Improvement Support Project).

CONCLUSION

54. In this study, we sought, from a macroeconomic perspective, to highlight the major points of vulnerability of public finance management in light of recent developments in Benin’s economic context. We are concluding with the need for Benin to consolidate efforts at broadening its tax base in order to increase tax revenue and reduce its dependence on re-export trade with Nigeria. This is all the more necessary as the entry into force of the ECOWAS CET may, in the long run, significantly reduce re-export trade. In this connection, special attention should be paid to the fight against the illegal sale of kpayo which, in addition to the health and environmental risks that it represents, causes substantial public revenue losses. This fight should be part of a scheduled comprehensive programme which blends measures for vocational retraining and integration of actors of this illegal trade into formal channels, on the one hand, and actions aimed at attracting the private sector to the hydrocarbons distribution sector, on the other hand. The drop in oil prices and changes in the structure of subsidies in Nigeria provide an opportunity to start this fight. Another finding of this study is the need for the Government to redirect public spending towards investments through improved control of recurrent expenditure, especially salaries, and better preparation and implementation of investment projects. This is necessary for the implementation of the Structuring Investment Programme.

55. The above conclusions could be expounded to shed more light on public finance management reforms. Further analyses which could be carried out on this issue relate notably to a more detailed analysis of the structure of taxes and recurrent expenditure. This analysis would, among other things, seek to better circumscribe the taxation and exemptions structure that best suits development objectives, besides broadening the tax base, on the one hand, and identify the types of recurrent expenditure, besides the payroll, which the State could adjust to widen its investment margin while preserving social safety nets. These detailed analyses could constitute avenues for reflection in future studies.
ANNEX 1

ECOWAS COMMON EXTERNAL TARIFF
(Source: Ministry of Economy and Finance and Benin’s privatization programmes)

At their summit held in Niamey, Republic of Niger, in 2006, the ECOWAS Heads of State and Government decided to extend the WAEMU Common External Tariff (CET) to all ECOWAS member countries, subject to some readjustments to tariff lines. This decision sought to provide ECOWAS with a customs union with a view to negotiating the Economic Partnership Agreement with the European Union. The ECOWAS CET adopted at the summit of ECOWAS Heads of State and Government held in Dakar on 25 October 2013 entered into force on 1 January 2015. The ECOWAS CET classification adopted, marked by the introduction of a fifth band at 35%, is as follows:

<table>
<thead>
<tr>
<th>Category</th>
<th>Product</th>
<th>Customs Duty</th>
</tr>
</thead>
<tbody>
<tr>
<td>0</td>
<td>Essential corporate assets</td>
<td>0%</td>
</tr>
<tr>
<td>1</td>
<td>Goods of primary necessity, raw materials, capital goods, specific inputs</td>
<td>5%</td>
</tr>
<tr>
<td>2</td>
<td>Intermediate products</td>
<td>10%</td>
</tr>
<tr>
<td>3</td>
<td>Final consumption goods and all other products not mentioned elsewhere</td>
<td>20%</td>
</tr>
<tr>
<td>4</td>
<td>Specific goods for economic development</td>
<td>35%</td>
</tr>
</tbody>
</table>

This tariff structure takes into account the product’s processing level, the principle being that the more the product is processed, the higher its classification category (tariff graduation principle).

In addition to duties and taxes proposed by the CET, there are the Import Adjustment Tax (IAT) which will enable States to progressively adjust to the CET during a five-year period, and the Supplementary Protection Tax (SPT) which seeks to correct any crowding out of local products by imports. The products targeted by these two taxes are those of the agricultural, manufacturing and industrial sectors. The cumulative ceiling of these two taxes is 70% and limited to 3% of tariff lines.

In the case of Benin, the implementation of the ECOWAS CET will lead to a slight increase in customs revenue compared with the WAEMU CET. The most significant increase will be in the agri-food industry with 2.75 percentage points compared with the WAEMU CET. However, Benin’s industrial fabric is still weak to be able to win shares in the regional market with the implementation of the ECOWAS CET. The country must, therefore, pursue its reforms aimed at promoting agri-business through PSRSA\(^{37}\) and improving the business environment in order to increase its production potential and derive maximum benefit from the CET. In the short term, it would be necessary to limit the risk of a fall in revenue related to a probable decline in re-export trade by stepping up efforts to increase tax revenue mobilization.

\(^{36}\) The products of the 5\(^{th}\) band include: (i) poultry, meats and meat preparations; (ii) yoghurts and cheeses; (iii) Irish potatoes and onions; (iv) cereal flour and refined vegetable oils; (v) pastas and biscuits; and (vi) alcoholic and non-alcoholic beverages. Other products are still being discussed. They include liquid or condensed milk, raw and refined sugar, fruit juices and tomato paste. The average tariff protection of these lines in the WAEMU CET stands at 19.72%.

\(^{37}\) For agricultural products which PSRSA intends to promote (rice, maize, livestock and fishery products), the nominal protection rate should increase with the introduction of the ECOWAS CET.
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