ICR Review

Operations Evaluation Department

Report Number : ICRR10485

1. Project Data :	
OEDID:	C2727
Project ID :	P000111
Project Name :	Third Structural Adjustment Credit
Country:	Benin
Sector:	Other Non-sector Specific
L/C Number:	C27727
Partners involved :	
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2. Project Objectives, Financing, Costs and Components :

Objective and Components : The project had two broadly stated objectives . (1) **To support improved incentives for private sector development** through: (a) further simplification and rationalization of foreign trade taxation, (b) a deeper restructuring of domestic indirect and direct taxation, (c) additional changes in the regulations governing commercial activity, investment and the labor market, and public enterprise divestiture; and (2) **To support improved management of public resources and delivery of public services** by restructuring current expenditures, improving public investment programming and execution, and reorganizing key ministries . Detailed implementation of these objectives were specified as follows . *(i) Maintenance of an appropriate macroeconomic framework* as specified in the PFP. *(ii) Ensure an adequate link between cotton producer prices and world market prices* by reforming ownership and operations of the cotton processing and marketing agency (SONAPRA). (*iii) Liberalize the petroleum sector,* by reforming ownership and operations of the state -owned petroleum company (SONACOP) (iv) *Execute the budget in line with agreed expenditure targets for 1995, and agree on the 1996* budget, with objectives as described in the Letter of Development Policy, including (a) limit salary expenditure to no more than 38 percent of total current expenditure; (b) allocate at least 7.5 percent of the current budget for maintenance and supplies, at least 8.23 percent for non-wage education expenditure, and at least 5.8 percent for non-wage health expenditure; and (c) increase the budget allocation for the Road Fund to at least CFAF 2.5 billion; and (v) agreement on a 1996-98 PIP satisfactory to IDA. **Financing:** IDA credit in two tranches, US$37.2 million, OECF, US$34.6 million, Switzerland, US$21.7 million, Belgium, US$3.2 million, and Denmark, US$3.0 million. Note: The President's Report does not mention cofinancing, but Table 5 in the ICR specifies these cofinancing arrangements . **Costs and Financing :** US$102.3 million of which the IDA credit for US37.2 million disbursed in two tranches. Disbursement pattern of other donor financing not specified, except that the ICR notes that all funds are fully disbursed . The credit was approved on May 23, 1995, became effective on February 2, 1996, and closed on January 29, 1999, two years late.

3. Achievement of Relevant Objectives :

The macroeconomic plan was satisfactorily implemented and GDP grew by 4.6% in 1995, 5.6% in 1996 and 1997 with, however, a decline to 4.4% in 1998. **(1) To support private sector development :** (a) *Foreign trade taxation was simplified and rationalized:* (i) the maximum tariff rate was decreased from 63% to 20% and the number of rates reduced from 16 to 5; (ii) all reference values for customs valuation were eliminated . (b) *Domestic direct and indirect taxes were* restructured: (i a single business tax was introduced to replace the minimum turnover presumptive tax; (ii) a single property tax was introduced to replace four previous taxes; (iii) the tax on wages and salaries was revised by reducing the number of rates to four and the top marginal rate to 40%; and (iv) VAT coverage was extended. (c) *The regulatory framework was improved* with (i) the adoption of a common commercial code and four region-wide business laws, and (ii) Most price controls were removed (except for water, electricity, school books, pharmaceuticals, cement, petroleum and bread). (d) *The divestiture/public enterprise reform program achieved slower progress than foreseen but significant progress was achieved :* (i) Seme oil production platform was privatized as were four small agro-industries. (ii) The SCO cement company and the SSS sugar company were privatized in 1999. (iii) Petroleum sector privatization/liberalization is proceeding on the basis of an agreed plan to sell 55 percent of its capital to private investors and an additional 10 percent to SONOCOP personnel. A bidder has been selected and negotiations concluded. The plan also called for sale of 25 percent of SONOCOP's service stations. Going beyond the agreed plan, SONOCOP has offered for sale 75 percent of its service stations and completed sale of 50 percent of the stations. In addition, 15 private companies have been authorized to import and distribute petroleum products and will purchase SONOCOP facilities for these operations. (iv) Concerning cotton, SONAPRA's monopoly to gin cotton was terminated, and 8 private ginning companies began to operate. Government decided to move beyond SACIII objectives and, by the crop year 2000/2001, fully liberalize sale of all seed cotton. The Bank agreed with the expanded objective and that this should take place before SONAPRA was privatized (as had been envisaged under SACIII), so the Bank waived the SACIII objective of transforming SONAPRA into a mixed capital company. The farmgate price of cotton was increased from 80 CFAF/kg to 200 CFAF/kg, closer to market prices, but the producer's share in SONAPRA's after-tax profits has not been adjusted and represents less than 2 percent of their income. (2) **To support improved management of public resources and delivery of public services,** *overall budget expenditure targets were met, with some exceptions*. Nonwage current expenditure for education increased to 7.8% of the national current budget in 1996, 6.8% in 1997, and 9.3% in 1998. Nonwage current expenditure for the health budget increased as a share of the national current budget to 4.6% in 1996, 5.8% in 1997, and 7.3% in 1998. The road maintenance expenditures increased to CFAF 2.6 billion in 1996, 2.1 billion in 1997, and 2.4 billion in 1998. However, salary expenditure was not limited to 38 percent of total current expenditure, although the share of the wage bill in the budget declined from declined from 54% in 1994 to 48% in 1997 (see Significant Shortcomings, below). The revised 1996-98 PIP was adopted after consultation with the Bank.

4. Significant Achievements :

The macroeconomic framework has been effectively supported. Private sector development is being promote through tax reform, price decontrol, and easing of regulations. The petroleum sector is being liberalized. The budget is more adequately supporting education, health, and rural roads, with expected benefits for poverty reduction over time.

5. Significant Shortcomings :

(a) Privatization has not been completed concerning two hotels and two textile plants (COTEB and SITEX). (b) Concerning cotton, even though the farmgate price was increased, the producers' share in cotton exports has declined from 63 percent in 191-93 to 55 percent in 1996-98. Further, SONAPRRA's after-tax profits have not been adjusted and represent less than 2 percent of producers income. The allocation of seed cotton among private ginning companies remains an administrative decision. (c) Although a new procurement code was enacted in 1996, its provisions are not yet enforced, as its implementation decrees have not yet been issued. (d) The organizational audits of the ministries have been pursued, but with little concrete results so far.

6. Ratings:	ICR	OED Review	Reason for Disagreement /Comments
Outcome:	Satisfactory	Marginally Satisfactory	The formal ICR rating system does not include "marginally satisfactory". However, the ICR does state that the project was "marginally satisfactory".
Institutional Dev .:	Partial	Modest	The ICR rating system does not include "modest", but "partial" is the rating below "substantial" in the ICR rating system, and "modest" is the rating below "substantial" in the OED system.
Sustainability :	Likely	Likely	
Bank Performance :	Satisfactory	Satisfactory	
Borrower Perf .:	Satisfactory	Satisfactory	
Quality of ICR :		Satisfactory	

7. Lessons of Broad Applicability :

(a) When broad support for a large reform agenda is lacking (as in this case, given the split between the executive and legislative branches of government) a series of one-tranche operations, or an operation with floating tranches, would be preferable to the kind of SAL represented by this operation, with many objectives in different sectors. (b) Monitoring and evaluation systems have a high payoff, and the lack of such a system for this operation seems to have been costly. (c) Bank staff continuity helped save a floundering project through good quality dialogue.

8. Audit Recommended? ○ Yes ● No

9. Comments on Quality of ICR :

The ICR gives a great deal of information and its overall judgments are well-grounded in the material provided.