

**PROGRAM INFORMATION DOCUMENT (PID)  
CONCEPT STAGE**

October 29, 2013

Report No.: AB7389

<b>Operation Name</b>	BJ PRSC 9 Poverty Reduction Support Credit
<b>Region</b>	AFRICA
<b>Country</b>	Benin
<b>Sector</b>	Central government administration (60%); General agriculture, fishing and forestry sector (20%); Ports, waterways and shipping (20%)
<b>Operation ID</b>	P132786
<b>Lending Instrument</b>	Development Policy Lending
<b>Borrower(s)</b>	MINISTRY OF FINANCE
<b>Implementing Agency</b>	Ministry of Economy and Finance BP 302 Cotonou Benin Tel: (229) 2130-0217 Fax: (229) 2130-5096 gadsoon@hotmail.com
<b>Date PID Prepared</b>	September 17, 2013
<b>Estimated Date of Appraisal</b>	January 13, 2014
<b>Estimated Date of Board Approval</b>	March 13, 2014
<b>Corporate Review Decision</b>	Following the corporate review, the decision was taken to proceed with the preparation of the operation.

**I. Key development issues and rationale for Bank involvement**

Benin ranks in the lower income group of countries with a per capita income of approximately US\$810. Poverty remains widespread despite moderate growth performance. The poverty rate was estimated at 37.5 percent in 2006, 35.2 percent in 2009 and 36.2 percent in 2011. Raising economic growth and per capita GDP will require that Benin increasingly capitalize on its comparative advantages in agriculture and its position as a regional trading center. Agricultural diversification and improved agricultural productivity is key, as is an improved business environment in order to take greater advantage of Benin's geographic position to serve the Nigerian market and its role as a gateway to land-locked countries to its north.

Unfortunately, the business enabling environment in Benin is weak, the bureaucracy imposes a heavy burden on the private sector, public sector capacity is low, and corruption and rent seeking is widespread. These challenges present as the primary constraints to growth and economic development in Benin. The Government has taken significant steps to remedy these apparent weaknesses and this programmatic series seeks to support this reform effort.

The Government has demonstrated renewed commitment to a substantive reform agenda since earning a second mandate and enjoying a majority coalition in the National Assembly. The Government has implemented difficult reforms at the Port of Cotonou, has proceeded with meaningful anti-corruption efforts, has made progress in strengthening public financial management, public procurement processes in particular, civil service reform has accelerated, and important steps have been taken in improving the business enabling environment.

Furthermore, Benin has demonstrated considerable macro stability over recent years and has an on-track program with the IMF. In light of recent prudent macroeconomic management, a stable outlook, and responsible fiscal and debt management, Bank staff considers the macroeconomic policy framework to provide an adequate basis for the purposes of this operation.

## **II. Proposed Objectives**

The over-riding development objective, in line with Benin's SCRP, is to accelerate real economic growth and reduce the incidence of poverty in Benin by focusing on the following two program objectives or pillars:

- (i) Strengthened public financial management and governance; and
- (ii) Strengthened private sector competitiveness and economic diversification.

## **III. Preliminary Description**

Helping Benin capitalize on its comparative advantages in commerce/trade and in agriculture is at the heart of this PRSC series, as in the CPS. Exploiting these advantages systematically by creating a business environment conducive to investment in the most promising sectors will be essential to facilitate the structural transformation necessary to significantly increase per capita GDP.

Effective and efficient delivery of government services and sound management of scarce resources is central to meeting these objectives and the broader objectives noted in the SCRP. Strengthened public sector governance and improved transparency is critical -- in ensuring that the benefits of growth and increased prosperity accrue to a broad cross-section of the population.

Building on Benin's comparative advantage in agriculture by increasing agricultural productivity will require public investment in complementary hard and soft infrastructure, including rural transportation infrastructure, water management and irrigation infrastructure, and a regulatory and organizational structure that facilitates increased productivity and effective input distribution and marketing of both cotton and non-cotton production. There is also ample opportunity for increased value-added in agriculture, in both food and fibre related processing. However, a weak business enabling environment limits private investment and inhibits the creation and expansion of agriculture related processing industries.

In the trade/commerce and services area, increasing productivity and growth will also require improved infrastructure and a strengthened regulatory environment, particularly at the port and in road, rail and telecommunications services. This will require greater fiscal space to increase

the level of public investment as well as better targeted, prioritized and planned public investment in order to increase its efficiency and effectiveness. Again, investment must be accompanied on the regulatory and government services side by effectively managed port, road and rail systems, a transparent customs administration, efficient border crossings, a transportation services regulatory environment that facilitates the safe, rapid and low-cost movement of goods, and an investment climate conducive to private investment in the sector.

Thus, the strategic vision underlying this PRSC series is to harness Benin's strategic advantages in trade/commerce and agriculture in order to spur shared, sustainable growth and reduce poverty by strengthening public sector management and governance and by strengthening the business environment.

#### **IV. Poverty and Social Impacts and Environment Aspects**

##### *Poverty and Social Impacts*

PRSCs 9 through 11 are expected to have a positive impact on poverty reduction and equity. Strengthening public sector management is expected to enhance the efficiency and effectiveness of public resources, not only in the pursuit of increasing economic performance and economic diversification, but also in the direct delivery of social services. It should be noted that equitable development is an explicit objective of the SCRP, and this series supports this objective through improved public sector management, both in processes and mechanisms, and in enhancing transparency. Improving access to public services, providing more public services, and improving the quality of services delivered can only be achieved through improved performance of relevant ministries, improved efficiency of resource utilization, improved priority expenditure identification and tracking, and through improved transparency and a resultant fairer and more equitable distribution of resources and services.

Focusing on improving public sector efficiency and effectiveness should free up resources for pro-poor and poverty reducing expenditures and will strengthen service delivery. Savings from such gains can be directed toward priority social expenditures or investment spending in pursuit of increased growth and poverty reduction. Supporting improvements in the procurement process is a prime example, where improved bidding processes, increased transparency and reduced opportunities for rent seeking will encourage more effective and efficient government expenditures. This should have a direct impact on improved service delivery to the population, including to the poor, but also an indirect benefit in freeing up scarce resources for broadening the scope and coverage of services.

Efforts to support greater transparency and reduce corruption should reduce capture by elites and favored groups, should lead to more opportunities for more people, to a fairer and more equitable provision of government services, and a fairer and more equitable distribution of government benefits, contracts and awards. Strengthening governance measures, improving transparency and facilitating greater demand side pressure are seen as mechanisms that can lead to a more equitable distribution of the benefits of growth.

Components are also included to improve the business environment, thus helping to promote investment and growth. Initial results from the poverty assessment exercise (2013) note the

strong link between unemployment, underemployment and poverty. Gender-specific results and recommendations from the poverty assessment have also helped inform the policy dialogue process with the Government. This is particularly evident in the area of access to credit where improving such access has an important gender impact – effectively empowering women economically.

The focus on agricultural diversification and strengthening agricultural productivity is important in achieving stated poverty reduction and equitable growth goals. While agricultural growth has contributed strongly to overall growth and is responsible for a majority of livelihoods among the poor, growth in the sector has been more far more extensive than intensive, i.e., productivity has shown little improvement. As a result, while production has increased, incomes in agriculture remain low and stagnant. Diversifying production to higher value crops, focusing more on export oriented crops, increasing the level of mechanization and the availability of inputs, including fertilizers as envisioned in the PSRSA and supported by this operation, should raise productivity and hence incomes among the large proportion of the population involved in agriculture.

#### *Environment Aspects*

The activities supported by the proposed operation are unlikely to have significant negative environmental effects. All of the actions supported throughout the operation are policy oriented and none support direct investments, involve civil works or involve policy actions that would lead to significant environmental impact. The prior actions and triggers in the area of PFM are related to budget planning and execution and pose no risk to the environment. Supported actions in the area of public procurement are again process related and do not affect environmental regulations, environmental assessment processes or environmental safeguards around public procurement. Action and triggers related to governance and transparency are similarly not related to environmental matters.

Supported actions and triggers to strengthen economic competitiveness are largely seen as environmentally neutral as well. Supported measures at the port and in trade facilitation are governance and logistics/process oriented and do not impact civil works or activities expected to have an environmental impact. In agriculture, support to the PSRSA is intended to diversify agriculture away from reliance on cotton and toward a more diverse production mix. The PSRSA strategy includes measures to make agriculture more environmentally sustainable and more climate change resilient, however the measures supported under this series are not focused on these issues. As such, the measures supported in agriculture are likewise seen as having a limited environmental impact.

#### **V. Tentative financing**

Source:	(\$m.)
BORROWER/RECIPIENT	0
International Development Association (IDA)	20
Borrower/Recipient	
IBRD	
Total	20

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