key figures

- Land area, thousands of km²: 113
- Population, thousands (2005): 8,439
- GDP per capita, $ PPP valuation (2005): 1,103
- Life expectancy (2000-2005): 53.8
- Illiteracy rate (2005): 56.8
Following satisfactory macroeconomic results during the 1990s, Benin now faces a significant slowdown of growth; the real growth rate was only 3.4 per cent in 2004, while it averaged 5 per cent during the 1990s. With a population growth rate of 3.1 per cent, poverty reduction is inevitably very slow. This slowdown is due to both temporary and structural factors. The year 2004 was characterised by a difficult regional and international environment for Benin’s economy, particularly the maintenance of trade restrictions imposed by Nigeria on exports from Benin and unsatisfactory oil and cotton prices. However, this vulnerability to external shocks is a result of delays in implementing the structural reforms started during the 1990s. The programme signed with the International Monetary Fund (IMF) in August 2005 in the framework of a Poverty Reduction and Growth Facility (PRGF) should allow Benin to re-launch structural reforms while continuing to lay emphasis on priority social sectors. It is nevertheless unlikely that the Millennium Development Goals (MDG) will be attained by 2015, even if significant progress has been made in some social sectors.

The development of the cotton sector is indicative of the difficulties facing Benin in taking up the challenge of medium- and long-term development. The malfunctioning of the new, completely private, regulation system obliged the State to intervene at the end of 2004 in order to organise the harvest and put some order into the way in which the sector worked. Public interventions of this kind and good payment conditions for the previous harvest led to a record harvest of 427 700 tonnes for 2004/05. In 2005/06, payments in arrears to the cotton ginners and the problems encountered by the State in paying out purchase price subsidies to producers discouraged cotton producers, who therefore turned to food crop production, where prices had greatly increased because of the food crisis in the Sahel region. While the cotton sector was one of the spurs to growth in 2004 and 2005, it is likely to act as a brake on growth in 2006, due to a marked decrease in production.

Figure 1 - Real GDP Growth and Per Capita GDP
($ PPP at current prices)

Source: IMF and INSAE data; estimates (e) and projections (p) based on authors’ calculations.
The problems encountered by the port of Cotonou in 2003 continued throughout 2004. Goods traffic was hit by the trade restrictions imposed by Nigeria and by the low competitiveness of the port at regional level. Some improvement should nevertheless be noted in 2005 due to an agreement signed with Nigeria in April 2005 authorising the export of products from Benin, and also due to Togo’s political and economic difficulties, which have resulted in a reduction of activity in the port of Lomé to the benefit of the port of Cotonou. The setting-up of a new system of flow management at the end of 2005 is expected to improve the regional competitiveness of the port and significantly reduce the delays in goods transit.

The presidential election of April 2006 marks a turning point in politics in Benin. Two former presidents, traditionally opponents, are now too old to be candidates, and several candidates have declared their intention to run for election. The challenge of this election is therefore to transform the political stability achieved thanks to the charisma of these former presidents into genuine democratic stability. This is an essential condition if Benin is to achieve more sustained growth.

In this climate of economic instability and political uncertainty, growth is expected to be moderate in 2005, slightly above 4 per cent. It should then gather momentum in 2006 and 2007 and reach 4.7 per cent thanks to the normalisation of trade relations with Nigeria, the resumption of structural reforms, and increased economic activity after the election in April 2006.

**Recent Economic Developments**

Although Benin’s macroeconomic climate showed clear improvement up to the beginning of this decade, Benin’s economy remains fragile and vulnerable to external shocks. This vulnerability is due to the economy’s strong dependence on the cotton sector and trade with Nigeria. The real economic growth rate has continued to decline since 2001, reaching 3.4 per cent in 2004 compared with 3.9 per cent in 2003. It will probably be a little over 4 per cent in 2005, which is slightly higher than the rate of population growth.

While the cotton harvest of 2004/05 broke all records, with cottonseed production reaching 427 700 tonnes, results for the year 2005/06 promise to be much poorer (between 250 000 and 320 000 tonnes). The privatisation of this integrated sector has not yet yielded positive results (cf. structural issues). In November 2004 the government had to intervene in order to organise production and to attempt to put some order into the way in which the sector functions. Furthermore, in order to protect producers from the adverse effects of the fall in international cotton prices, in January 2005, the State decided to subsidise the purchase price to producers at 43 CFA francs/kg in order to maintain prices at the same level as the previous year, i.e. 200 CFA francs/kg for the best quality. These State interventions and the satisfactory payments situation of the previous year led to an increase in production of 25 per cent for the year 2004/05. On the other hand, the year 2005/06 suffered from certain problems: the record production for 2004/05 led to tension between the State and producers, as the State had promised to subsidise producers’ purchase prices on a basis of a production of 350 000 tonnes.

The problems encountered in the cotton sector in spite of the excellent harvest of 2004/05 and the food crisis in the Sahel countries benefited food-crop farming, particularly maize: production rose by 25 per cent during the year 2004/05 and reached over 925 000 tonnes. Although Benin is self-sufficient and exports food surpluses each year to the sub-region, a few pockets of food insecurity still exist, especially in the north, as well as in some parts of the south. Moreover, massive sales of tubers and cereals at the beginning of the production year undermined the food-provision situation in the rural population, which encountered supply problems during the bridging period because of the continuous sharp rise in food prices. International food aid was therefore sent to the north of the country during the last quarter of 2005 in order to prevent famine among the 20 000 people there.
While the primary sector was the driving force behind growth in terms of volume in 2004 (with a progression of 6.4 per cent), the spin-off effect on the secondary and tertiary sectors was cancelled out by the weak competitiveness of the industrial sector and the reduction in exports and re-exports to Nigeria. The secondary sector declined 0.5 per cent in 2004 contrary to an increase of 3 per cent in 2003. This decline was due to the textile, chemical and food industries, since their production is mostly destined for Nigeria. The tertiary sector only grew 0.4 per cent, compared with 6.4 per cent in 2003; this was also due to the decline in trade and affected all branches of trade, transport, banking and insurance. These trends were reversed in 2005. The decline in cotton production caused a fall in the growth rate of the primary sector to around

Source: Authors’ estimates based on INSAE data.
0.9 per cent. However, if trade relations with Nigeria resume, then this could have a positive effect on growth in the secondary and tertiary sectors. Predicted growth rates are 7.7 and 4.5 per cent respectively, although some figures for the first six months for the secondary sector do not appear to be very encouraging, with a drop in production of 22.3 per cent for the food industry, 21.2 per cent for the textile industry, and 10.7 per cent for the chemical industry (with a substantial fall in the production of industrial gas).

The adverse effects of the increase in oil prices are nevertheless likely to make themselves felt for the year 2005. Even if this increase could generate revenue of 10 billion CFA francs for the State in 2005 through indirect taxes on petroleum products, the overall cost to the economy could still amount to 1 per cent of GDP. Apart from the temporary effect on the economy, the supply of petroleum products faces structural problems which risk being a serious handicap to growth in the coming years. Storage capacity is insufficient at 125,000 tonnes, and storage installations suffer from obsolescence. Petroleum companies have failed to make the investments necessary for the maintenance of existing storage installations, and there is no longer a single working storage depot in the outlying regions. There are chronic petrol shortages at filling stations, and even the airport is affected. In such a situation, the proximity of Nigeria — 12th oil producer in the world and 3rd exporter of the members of the Organization of Petroleum Exporting Countries (OPEC) — has encouraged the appearance of illicit supply networks that provide about 60 per cent of Benin’s fuel consumption. These networks are now firmly in place, but they are a very poor solution to the needs of the population. They depend on a profit confiscation strategy that is traditional in Benin, and they act as a brake on the necessary re-organisation of the legal supply system for petroleum products.

The effects of these problems with Nigeria and with cotton have led to the stagnation of private consumption and a decline in private investment. If the reduction in the budget deficit also held back growth, the improvement in the balance of trade had the opposite effect. Detailed analysis of demand composition shows that public investment increased by 11.2 per cent in 2004, compared with 8.2 per cent in 2003. The increase will be smaller in 2005, 7 per cent, as a result of the poor rate of implementation of
Table 1 - Demand Composition (percentage of GDP)

<table>
<thead>
<tr>
<th></th>
<th>1997</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005(e)</th>
<th>2006(p)</th>
<th>2007(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gross capital formation</td>
<td>18.5</td>
<td>18.5</td>
<td>20.3</td>
<td>20.6</td>
<td>20.9</td>
<td>21.5</td>
<td>21.8</td>
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<tr>
<td>Public</td>
<td>5.1</td>
<td>7.4</td>
<td>7.5</td>
<td>8.1</td>
<td>8.2</td>
<td>8.3</td>
<td>8.4</td>
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<tr>
<td>Private</td>
<td>13.4</td>
<td>11.1</td>
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<td>12.5</td>
<td>12.7</td>
<td>13.2</td>
<td>13.3</td>
</tr>
<tr>
<td>Consumption</td>
<td>85.8</td>
<td>90.3</td>
<td>89.8</td>
<td>87.9</td>
<td>91.0</td>
<td>91.0</td>
<td>89.9</td>
</tr>
<tr>
<td>Public</td>
<td>13.2</td>
<td>12.3</td>
<td>12.6</td>
<td>12.1</td>
<td>12.9</td>
<td>12.8</td>
<td>12.8</td>
</tr>
<tr>
<td>Private</td>
<td>72.6</td>
<td>78.0</td>
<td>77.2</td>
<td>75.9</td>
<td>78.1</td>
<td>78.2</td>
<td>77.1</td>
</tr>
<tr>
<td>External sector</td>
<td>-4.4</td>
<td>-8.7</td>
<td>-10.1</td>
<td>-6.6</td>
<td>-11.9</td>
<td>-12.5</td>
<td>-11.7</td>
</tr>
<tr>
<td>Exports</td>
<td>27.2</td>
<td>22.2</td>
<td>21.0</td>
<td>20.0</td>
<td>17.5</td>
<td>16.9</td>
<td>16.5</td>
</tr>
<tr>
<td>Imports</td>
<td>-31.5</td>
<td>-31.0</td>
<td>-31.1</td>
<td>-28.6</td>
<td>-29.5</td>
<td>-29.4</td>
<td>-28.2</td>
</tr>
</tbody>
</table>

Source: INSAE data; estimates (e) and projections (p) based on authors’ calculations.

Macroeconomic Policies

Fiscal Policy

As a member of the West African Economic and Monetary Union (WAEMU), Benin is obliged to comply with eight convergence criteria. Budgetary performance in 2004 was distinguished by the fact that while compliance with first-level convergence criteria was achieved, this was true only for one second-level criterion. The wage bill to fiscal revenue ratio even deteriorated because of the insufficiency of fiscal revenues in 2004 and the increase in the wage bill as a result of the satisfaction of public servant union demands. Similarly, the tax burden has marked time since the year 2000, fluctuating between 14 per cent and 15 per cent. This development is closely linked to the rate of Value Added Tax (VAT), which has declined since the end of the 1990s. While the rate of VAT against GDP was 6.6 per cent in 1999, it was only 6.2 per cent in 2004: domestic VAT has continued to increase, accounting for 2.3 per cent of GDP in 2004, while VAT collected at customs accounted for a declining share of GDP, falling to 3.9 per cent in 2004. This change is a reminder of the dependence of Benin’s economy on Nigeria. Nigerian imports of Beninese products make up part of Benin’s customs duty tax base and VAT, because the products are in the hands of consumers before being dispatched fraudulously into Nigeria. The high duties and import bans on many consumer goods in Nigeria have in fact encouraged the practice of importing them into
Benin and then fraudulently re-exporting them to Nigeria.

The year 2004 was marked by significant budgetary tensions with regard to both revenue and expenditure, and this created the need for halfway budgetary repositioning. Initial forecasts had predicted that revenue would be 380.4 billion CFA francs, but it only amounted to 351.4 billion. These mediocre results are primarily due to the difficulties of collecting customs revenue. Whereas direct and indirect taxation increased by 6.5 per cent and showed results of 102 per cent, customs revenue was only 163.1 billion CFA francs, compared with an initial forecast of 188.7 billion. In spite of all the steps taken by the customs authorities to improve duty collection — especially the setting-up of ASYCUDA++, the reinforcement of the fight against fraud at the borders, and the stricter management of transit systems — the uncontrolled increase in exemptions (24.9 billion CFA francs compared with only 7.9 billion in 2003) cancelled out the efforts made in this respect.

Although most expenditure in 2004 was in line with forecasts, the wage bill rose uncontrollably to 118.3 billion CFA francs, compared with a predicted 114.1 billion. This overspending was due to the satisfaction of demands in certain categories, particularly the increases in salary awarded to permanent government officials and the increase in the rate of family allowances. In addition, there was frequent recourse to emergency budgetary management procedures in 2004 because of exceptional events: organisation of the junior league football African Cup of Nations (ACN), dispatch of troops to Côte d’Ivoire, settlements linked to the border dispute with Niger, and changes in the running costs of various institutions due to decentralisation. Expenditure within the framework of the Poverty Alleviation Strategy, for its part, reached 102 billion CFA francs, where it had originally been planned at 140.1 billion.

Adjustments made during this financial year enabled the government to contain the deterioration in the primary balance and to maintain the same overall balance. However, the budgetary situation remained precarious in 2005, and the discrepancies that had appeared in both expenditure and revenue led to the need to revise the budget framework in May in order to allow conclusion of a PRGF agreement with the IMF in August 2005. Total revenue should reach 392.8 billion CFA francs, which is an increase of 11.8 per cent compared with 2004. At the end of August 2005, however, the implementation rate was only 57.4 per cent. In spite of the difficulties in collecting taxes and duties, reform of the tax system has been postponed until after the presidential election. With regard to expenditure, the government has been obliged to make budget cuts because of initially unplanned expenditure, that is, the granting of allowances to teachers and health workers (9.4 billion CFA francs) and payment of a subsidy to cotton producers (19 billion CFA francs). Emergency procedures were put into place to provide a bridging loan for the National Company for Agricultural Promotion (SONAPRA), advance funding for agricultural production, the payment of arrears to the Benin Electricity and Water Company (SBEE), and the settlement of a dispute on behalf of the Postal and Telecommunication Office (OPT). Consecutive budget cuts have not spared priority government ministries, which have seen their funding diminish by 2.4 per cent compared with funding initially allocated. Their budget share is expected to diminish from 55 per cent in 2004 to 52.3 per cent in 2005. In addition, with the approach of the election, the time is unsuitable for controlling expenditure, and at the end of 2005 and the beginning of 2006, there were new discrepancies. Hence both the primary balance and the overall balance deteriorated in 2005 and 2006, but these might improve in 2007 if measures envisaged for collecting taxes and duties, currently frozen because of the election, are rapidly implemented in 2006. An improvement in the implementation rate of expenditure allocated in the framework of Poverty Reduction Strategy Papers (PRSP) ought nevertheless to curb this reduction in budget deficits.

Unlike other countries in the WAEMU, Benin has not resorted to the emission of Treasury bills and bonds to finance its budget deficit. For Benin, external financing has remained the principal means of financing budget deficits.
The results of implementing the third objective of the PRSP concerning the strengthening of good governance and institutional capacity were hence poorer in 2004 than in 2003 with respect to public finance management. The delays in concluding public contracts were exceptionally long, there were low rates of expenditure implementation, and recourse to emergency procedures to allow expenditure increased.

**Monetary Policy**

Monetary policy at regional level is essentially the responsibility of the Central Bank of West African States (CBWAS) and aims to guarantee sufficient official reserve levels and to control inflation. At the end of December 2004, the net external assets of the monetary institutions were valued at 244.2 billion CFA francs, a clear reduction of 45.8 billion compared with the same period in 2003. Assets are expected to fall further during 2005. Credits to the economy increased by 22.1 billion CFA francs, to 273.1 billion. Due largely to a good food-crop harvest, price rises remained moderate in 2004, with an inflation rate of 0.9 per cent. The inflation rate is expected to be much higher in 2005, around 4.7 per cent. Prices of food products increased by 8 per cent during the first six months of the year, while prices of housing, water, electricity and other fuels rose by 7 per cent, and transport prices by 4.6 per cent. The inflation rate is expected to be lower in 2006 as tensions in the food products market come to an end, and to fall below 3 per cent in 2007, changes in oil prices permitting.

**External Position**

Benin maintains special economic and trade relations with Nigeria. Apart from the sociological and historical reasons for this, these relations are closely linked with Nigeria’s trade and monetary policy. The last three years have been marked by Nigeria’s policy of restricting imports from Benin, Togo and Ghana. In August 2003, Nigeria banned the import of 44 categories of products from these three countries. Among these 44 banned products are rice, poultry meat and cooking oils, which make a significant contribution to Benin’s exports. Large financial trading companies hence suffered a slow-down of their activities. Furthermore, the tougher stance adopted by Nigeria on controls of banned products and the threats of complete border closures at the beginning of 2004 had a negative effect on Nigerian demand for Beninese products. However, after the end of 2004, dynamic informal trade networks somewhat weakened the effects of these bans, and trade relations with Nigeria eased in 2005: a bilateral agreement was signed in April 2005 allowing Beninese companies to export products made in Benin into Nigeria, but prohibiting re-exportation. Twelve production companies were therefore able to obtain authorisation to export textiles, cooking oils and building materials.

Although 2004 was difficult insofar as trade relations with Nigeria were concerned, it also showed an improvement in Benin’s external position. The overall

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<table>
<thead>
<tr>
<th>Total revenue and grants*</th>
<th>1997</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005(e)</th>
<th>2006(p)</th>
<th>2007(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax revenue</td>
<td>12.6</td>
<td>14.4</td>
<td>15.1</td>
<td>14.5</td>
<td>14.6</td>
<td>14.7</td>
<td>15.0</td>
</tr>
<tr>
<td>Grants</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
<td>0.0</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Total expenditure and net lending*</th>
<th>1997</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005(e)</th>
<th>2006(p)</th>
<th>2007(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Current expenditure</td>
<td>11.3</td>
<td>13.2</td>
<td>13.9</td>
<td>13.9</td>
<td>14.8</td>
<td>14.6</td>
<td>14.6</td>
</tr>
<tr>
<td>Excluding interest</td>
<td>9.7</td>
<td>12.5</td>
<td>13.3</td>
<td>13.6</td>
<td>14.6</td>
<td>14.4</td>
<td>14.5</td>
</tr>
<tr>
<td>Wages and salaries</td>
<td>4.7</td>
<td>4.6</td>
<td>5.2</td>
<td>5.5</td>
<td>5.6</td>
<td>5.5</td>
<td>5.5</td>
</tr>
<tr>
<td>Interest</td>
<td>1.6</td>
<td>0.8</td>
<td>0.6</td>
<td>0.3</td>
<td>0.3</td>
<td>0.2</td>
<td>0.1</td>
</tr>
<tr>
<td>Capital expenditure</td>
<td>6.5</td>
<td>6.1</td>
<td>6.7</td>
<td>6.9</td>
<td>7.0</td>
<td>7.1</td>
<td>7.2</td>
</tr>
</tbody>
</table>

| Primary balance                   | 2.5  | -1.5 | -1.3 | -1.6 | -2.3    | -2.6    | -2.4    |
| Overall balance                    | 0.9  | -2.3 | -1.9 | -1.9 | -2.6    | -2.7    | -2.5    |

---

Table 2 - Public Finances (percentage of GDP)

*a. Only major items are reported.

Source: IMF and Ministry of Finance and Economy data; estimates (e) and projections (p) based on authors’ calculations.
deficit in the balance of payments represented 6.5 per cent of GDP in 2004, compared with 10.1 per cent in 2003. This improvement was largely due to favourable results in the capital account and in financial operations, particularly as regards international development aid and debt remission, but it was also due to a reduction in the current account deficit. The year 2005 has been characterised by a deterioration in the balance of trade linked to the resumption of imports “for Nigeria”, and by the difficulties of accounting for informal re-exports. This deterioration will become more apparent in 2006 because of mediocre cotton exports.

At the end of 2004, external debt represented 52.3 per cent of GDP, and debt service 13.3 per cent of exports with 83.3 per cent of external debt consisting of multilateral loans. Debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative represented 0.64 per cent of GDP in 2004.

### Structural Issues

From the beginning of the 1990s, Benin has launched far-reaching economic reforms. Liberalisation of the economy and privatisation of state-owned enterprises were the first issues to be tackled. The process of liberalising state-owned enterprises has met with mixed success, and the public-service nature of some of their activities has made this a complex process.

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**Table 3 - Current Account** (percentage of GDP)

<table>
<thead>
<tr>
<th>Year</th>
<th>1997</th>
<th>2002</th>
<th>2003</th>
<th>2004</th>
<th>2005(e)</th>
<th>2006(p)</th>
<th>2007(p)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Trade balance</td>
<td>-5.7</td>
<td>-8.2</td>
<td>-7.8</td>
<td>-6.4</td>
<td>-9.4</td>
<td>-10.2</td>
<td>-9.4</td>
</tr>
<tr>
<td>Exports of goods (f.o.b.)</td>
<td>17.6</td>
<td>16.0</td>
<td>15.2</td>
<td>14.2</td>
<td>12.2</td>
<td>11.5</td>
<td>11.3</td>
</tr>
<tr>
<td>Imports of goods (f.o.b.)</td>
<td>-23.3</td>
<td>-24.2</td>
<td>-23.0</td>
<td>-20.6</td>
<td>-21.6</td>
<td>-21.7</td>
<td>-20.7</td>
</tr>
<tr>
<td>Services</td>
<td>-3.6</td>
<td>-2.9</td>
<td>-3.4</td>
<td>-2.0</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Factor income</td>
<td>-1.3</td>
<td>-0.5</td>
<td>-0.5</td>
<td>-0.5</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current transfers</td>
<td>4.4</td>
<td>5.6</td>
<td>1.6</td>
<td>2.4</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Current account balance</td>
<td>-6.2</td>
<td>-6.1</td>
<td>-10.1</td>
<td>-6.5</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Source:** CBWAS data; estimates (e) and projections (p) based on authors’ calculations.

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**Figure 5 - Stock of Total External Debt** (percentage of GNI) and Debt Service (percentage of exports of goods and services)

**Source:** IMF and World Bank.
Recent Developments

In 2004, the OPT was separated into two distinct bodies: Benin Telecom plc (Société Bénin Telecom S.A.), and Benin Post Office plc (Poste du Bénin S.A.). The process of privatising Benin Telecom plc is planned for completion in the next few months. Nevertheless, difficulties remain: because the process was taking an excessive amount of time, the consortium of companies negotiated an amendment to the contract, and the national regulatory council for the sector has still not been set up. Splitting up the SBEE into two distinct companies was undertaken in 2003 and 2004. Several market research firms were hired to manage the granting of the SBEE concession. This process should have been completed in October 2005, but has fallen behind schedule for several reasons: delays in voting the law governing national electricity legislation, a delay in publishing the decree relating to the national regulatory body for the sector, and finally, negotiations with the workers in the newly formed SBEE. With regard to the agricultural sector, the privatisation of the remaining units of SONAPRA is under way, and also the process of privatising the industrial branch of the National Timber Bureau (Office national du bois – ONAB) is continuing and the results of negotiations with the Canadian buyer in this regard have been accepted by the government. However, other privatisation processes and granting of concessions have been slower, especially those relating to the COTEB-Parakou textile company and the Benin-Niger Railway (Organisation commune Bénin-Niger des chemins de fer et des transports – OCBN). Moreover, given the inconclusive experience of the new, wholly privatised, regulatory system in the cotton sector, there are doubts as to whether Benin private economic players are able to regulate the sector sufficiently well for it to contribute to the country’s development. The industrial infrastructure is still at a very early stage: it consists of a few agro-industrial and textile units and fails to take advantage of the opportunities offered by the vast Nigerian market.

Cotton represents 80 per cent of the country’s export earnings and forms 12 per cent of GDP. The organisation of this sector has undergone vast changes over the last fifteen years. The present institutional framework dates from the year 2000. Now in the hands of the private sector, the cotton sector is managed by the Cotton Inter-professional Association (Association Interprofessionnelle de Coton – AIC) that groups together all the categories of professionals (producers, cotton giners, distributors of produce) and the State. The final stage of the reform, that is, the privatisation of the remaining ginning factories belonging to SONAPRA as four separate units, is under way. In July 2005, a draft agreement was signed with buyers for units 1, 2, and 4. The final transfer price is still under negotiation, and is expected to be set according to the cost of overhauling production tools with a discount calculated on the basis of depreciation costs over one year. The government has confirmed that it would like to dispose of the final unit when the transfer of the other three units has been completed.

The new regulatory system that has been set up is malfunctioning in several ways, and this is a problem which does not look as though it will be readily resolved. Some of the players have not yet shown any respect for the rules by which a vertically integrated private sector should be run. Many players lack professionalism, and this undermines the sector, as does the dispersal of the various categories into a number of different structures with a view to defending individual interests. Producers were initially grouped under the Producer Union Federation of Benin (Fédération des unions de producteurs du Bénin – FUPRO), but are now spread over five different groups. Also, some ginning companies have left the Ginners Association of Benin (Association professionnelle des égreneurs du Bénin – APEB), and dissent within the Professional Association of Input Distributors (Groupement professionnel des distributeurs d’intrants agricoles – GPDIA) led to the creation of a second association.

During the year 2004/05, in spite of the solidarity agreement between giners, two cotton giners refused to take part in ginning operations. The government therefore intervened in order to re-allocate ginning
quotas. Others fell behind with payments to the Group
Securing Payments and Debt Recovery (Centrale de
sécurisation des paiements et du recouvrement – CSPR),
whose main function is to guarantee the security of
payments for input credits and payments involved in
purchases and sales of cotton. Finally, fertiliser deliveries
were very late. In spite of all these events, the year
2004/05 showed a record production of 427 700 tonnes
of cottonseed, due to the satisfactory payment of
producers in the preceding year and to various
government measures, notably the purchase price
subsidy to producers of 43 CFA francs/kg.

In an effort to address the sector’s structural
problems, the government and the AIC signed an
outline agreement in February 2005: this agreement
set out the responsibilities of each player in the sector,
and also made provision for the setting-up of a
consolidation fund. In spite of a “government crusade”
in the countryside to encourage producers to plant,
2005/06 is nevertheless likely to show a considerable
fall in production to between 250 000 and
320 000 tonnes, mainly because of payment arrears to
producers amounting to 12 billion CFA francs, but also
because of high prices for food crops. The arrears were
due to the difficulties encountered by the government
in paying out the agreed subsidy for a record production
of 427 700 tonnes, and the bankruptcy of an
unscrupulous cotton ginner, who fled the country
without paying producers for cotton produced.

The competitiveness of Benin’s cotton production
is put under strain by political costs encountered at
several levels in the sector, and the authorities’ slide into
mercenary behaviour prevents the implementation of
long-term strategies for cotton, and indeed for
agriculture as a whole. Hence the diversification of
agriculture seems not to be a priority; it also comes up
against land problems, including rural tracks that are
inadequate for opening up producer regions, and the
lack of small-scale conversion plants that could respond
to Nigerian demand.

Benin’s banking sector was further consolidated in
2004 and 2005. The situation of three banks that had
been placed under provisional management was restored
to normal in 2005. Prudential ratios were respected,
except with regard to the structure of the portfolio: short-
term resources represented 51.4 per cent of the resources
of Beninese banks. Outstanding debts increased slightly,
but remained at a low level (7.6 per cent). In spite of the
arrival of five new banks in two years, the Beninese
banking sector has remained highly concentrated, with
three banks holding a total of over 75 per cent of deposits.

In spite of the healthy prudential situation of the
banking sector, financial intermediation has remained
limited. Credits to the economy represented 14.5 per
cent of GDP in December 2004. In the first six months
of 2005, deposits grew by 3 per cent, and loans by
0.8 per cent. Fifty per cent of loans were granted to about
30 companies, mostly in services (39 per cent) and
trade (34 per cent). In an economy of trade and services
such as this, the role of the banking sector in
development financing is marginal, and its main activity
consists of granting commercial short-term loans (64 per
cent of loans). The scarcity of long-term resources and
the small number of bankable projects hold back
business investment financing.

The intermediation ratio M2/GDP (money
supply/GDP) remained unchanged, at around 32 per
cent. Cotonou is the second financial centre in the
WAEMU in terms of the availability of liquidities.
Financial intermediation at regional level could therefore
prove to be a future path for Benin’s economy to follow,
thanks to the country’s political stability and the
importance of formal and informal commercial activities.

Microfinance, which has an essential role to play
in the fight against poverty, experienced continued
growth in 2004 and 2005. Risks remained limited,
and outstanding debts represented barely 12 per cent
of the portfolio of microfinance institutions. However,
the regional stock exchange for stocks and shares (Bourse
régionale des valeurs mobilières – BRVM) attracted
few investments and was little-used.

**Transport Infrastructure**

Transport infrastructure has a vital role to play in
the economic and social development of the country.
In Benin, it was designed to facilitate the distribution and sale of income-generating products, mainly cotton, to promote goods transit towards neighbouring countries, and to facilitate trade between towns and rural areas. The formal transport sector contributes approximately 7 per cent of GDP, but its indirect contribution to the creation of value added is much greater.

The country possesses a road network totalling about 19,000 km. The graded network, made up of inter-state roads, trunk roads, and roads and tracks linking the main departmental centres, accounts for 6,076 km. Only 1,810 km of the road network are asphalt-covered, and these are mostly transit routes. The Cotonou-Niamey corridor, which is 1,056 km long, competes with the Lomé-Niamey corridor, which is slightly longer. The average cost of transporting a container to Niamey is $2,200 starting from Cotonou and $3,160 starting from Lomé. The cost per kilometre is lower in Benin ($2.08) than in Togo ($2.56), and slightly lower than the regional average. The rural track network and inter-urban links are nevertheless inadequate, and many geographical areas remain isolated. The present decentralisation process has created strong demand for the improvement of internal services. Maintenance of rural tracks has become the responsibility of the districts. In the framework of the programme to fight against corruption, illegal roadblocks (set up by police, gendarmerie, customs officials and even local authorities) have decreased slightly.

The port of Cotonou is the life-blood of the country’s economic activity. The port is presently managed by an autonomous port authority, the Port autonome de Cotonou (PAC), but in 2006 management will be handed over to a private company made up of all of the private and public port operators. Public holdings should make up 51 per cent of capital, with a blocking minority of 30 per cent in the PAC. The initial loading/unloading capacity of the port was about 2.3 million tonnes per annum, but in 2004 the port handled 4 million tonnes of goods, which represented a fall of 7 per cent compared with the previous year, mainly due to Nigeria’s import ban on 44 products. Hence the present facilities are outdated, and the port of Cotonou is one of the least competitive in the sub-region. The main problems faced by the economic operators are: silting-up, limited platform size, and malfunctioning of many of the port services. The completion of a “one-stop shop” type of reform at the end of 2005 is expected to lead to a substantial reduction in the time required for exporting goods from the port. An extension to the port is planned, including the construction of a dry dock in the outskirts of Cotonou. However, the idea of constructing a second port has been abandoned by the authorities for the moment. Finally, river and lagoon transport is still in its infancy, although this has potential for opening up some areas and developing tourism.

Benin possesses one international airport and five airfields. Even allowing for the geographical configuration of the country, internal links are inexistent. The runway at the international airport will in future probably become too short for jumbo jets. A project for building a new airport to the north of Cotonou is under consideration, but this will probably not be implemented in the short term. The national civil aviation authority (Agence nationale pour l’aviation civile – ANAC) and the national meteorological office (Direction nationale de la météorologie – DNM) are still not operational.

Benin possesses a single railway line which stretches for 438 km and runs into Niger. It is controlled by the Benin-Niger Railway (OCBN). Goods traffic volume is very low, due to a break in trans-shipment at Parakou where goods have to be transferred onto lorries. Rail transport therefore finds itself in fierce competition with road transport from Cotonou. The extension and rehabilitation of this mode of transport in the south-north corridor has been held back by energetic lobbying by road haulage contractors and by a “wait-and-see” policy on the part of the Nigerian authorities.

Transport sector policy was defined in 1996 through close collaboration between the government and the private sector. This policy aimed primarily at increasing resources through cost-recovery from payments by travellers, to make a gradual transfer of government
functions to the private sector, to improve the safety of goods and persons, and to adopt measures to protect the environment. However, results have fallen short of expectations. An updated strategy document is planned for completion at the beginning of 2006, and the guiding principle of this document will be to keep the transport sector a separate issue from the fight against poverty.

Although there are two pilot projects aimed at promoting the participation of the population in financing the upkeep of rural tracks, almost all of the financing for road infrastructure comes from the road fund (Fonds routier – FR) and from the partners in development. The FR was created in 1996 and is a legal entity possessing financial autonomy. It is the only government instrument that exists for financing road network maintenance. It obtains its revenue as follows: 75 per cent from designated taxes calculated as a fixed percentage of several taxes levied at customs at the port of Cotonou (VAT on imports, road tax, fuel taxes, and vehicle tax); 15 per cent from resources earned (tolls, taxes on bascule bridges); and 10 per cent from government subsidies. FR is a first-generation entity in that resources flow through the Treasury, and the private sector is not involved in its management.

Financing of the extension/rehabilitation and maintenance of road infrastructure is failing. The resources of the FR are mainly used for routine maintenance, and financing of rehabilitation expenditure is only possible when resources have been carried forward from previous years. However, external financing also makes a contribution to the construction and rehabilitation of the road network. Since 2003, the situation of the FR has deteriorated because of arrears in Treasury payments amounting to 1.225 billion CFA francs in 2004, and 4.45 billion in the first six months of 2005. Only half of the network benefited from routine maintenance in 2003 and 2004. In addition, investment programmes are dispersed throughout different government bodies — the Ministry of Public Works and Transport (MTPT), the Ministry of Agriculture, Breeding and Fishery (MAEP), and the Ministry of State in charge of Plan, Prospective and Development (MECPPD) — and the MTPT is unable to co-ordinate them. The majority of maintenance contracts are concluded with small and medium-sized businesses whose performances are mediocre due to their lack of organisation and low financial capacity, and due to the lack of public works equipment. The transformation of the former Directorate of Public Works Equipment (Direction du matériel de travaux publics – DMTP) into a hiring company (Société de location du matériel des travaux publics – SLMTP) has not fulfilled the requirements for reliable equipment, and so, in an attempt to overcome these shortcomings, some highly labour-intensive road works have been carried out on a pilot basis.

Political and Social Context

The advent of democracy in Benin has been an example for the whole sub-region: since 1990, presidential and parliamentary elections have been free, and in 2002 the democratic process expanded to include the first municipal elections. Since then, the country has embarked upon a vast programme of decentralisation that should result in the transfer of capacity and of means of action to the districts. Seventy-five of the 77 districts have a district development plan. (Cotonou does not have one.) However, the decentralisation process faces several difficulties: the division of responsibilities between mayors and district prefects has created tensions, and adequate running of the districts is seriously handicapped by the shortage of human resources available. In 2004, five mayors had to resign on account of bad management, and in 2005, eleven are under close surveillance. Lastly, financial transfers to the local authorities have been lower than commitments. At the end of August 2005, road taxes and VAT amounting to 10 billion CFA francs had not yet been returned to the districts.

Benin was one of the first African countries where the transition to multiparty politics was peacefully achieved, at the parliamentary elections of March 1991. Today the country is at a new political turning point. Partly because of the decentralisation process, civil society is taking an increasing part in the political debate. However, the departure, for reasons of age, of Mathieu Kerekou and Nicéphore Soglo, who have been
sharing power since 1990, has revealed the fragility of this democracy. The very open democratic process has raised concern and contains the risk of a break-up of national unity. Over 25 candidates have declared their intentions to run for election in the presidential election of April 2006. The population has lost much faith in the electoral system in recent years, and none of the candidates can claim to be representative at national level. Regional candidacies have weakened the electoral process and destroyed political debate. Although the electoral process is transparent — terms and laws are respected, and, for example, the Constitutional Court quashed the election of the autonomous national electoral commission (Commission électorale nationale autonome – CENA) in October 2005 because it was unrepresentative – the democratic process is becoming weaker: many associations lobbying for candidates have been exploiting the present crisis, and it has become common practice to offer monetary payments for rallying crowds. An occasional press has appeared, consisting of over a hundred titles published in support of one candidate or another. The independent traditional press has kept quiet, and is waiting for matters to quieten down after the presidential election. In a regional context in which the nation state is being more and more called into question (with crises in Côte d’Ivoire, Togo, Nigeria…), the coming election is high-risk. It marks the end of a political system. If the political stability achieved due to the charisma of the two former presidents is transformed into true democratic stability, the country could rapidly find itself on the way to lasting economic growth. Otherwise, especially if the new political class is unable to transcend regional divisions, the country could slide into a period of political instability and sluggish growth.

At the same time, improvement in private and public governance has been slow. Corruption is a blight which continues to hamper the competitiveness of the Beninese economy. Eighty per cent of the 400 companies which were formally questioned in the survey on the investment climate considered corruption to be a very serious obstacle to their development. Private companies cannot count on the judicial system to enforce their rights against the government or in the case of disputes over the implementation of commercial contracts. However, private companies also contribute to this mediocre business climate. It is not uncommon for companies to present several different sets of tax documents, one for the tax authorities, and another for the banks. The PRSP includes provisions for several types of action to moralise political and economic life (a watchdog for the fight against corruption, government reforms, decentralisation…)

The fragile economic situation and the mediocre business climate are not conducive to the improvement of the employment situation. The labour market in Benin is characterised by the early age at which children start work (in Cotonou, 14.1 per cent of children between 10 and 14 are working), by the discrepancy between the expectations of young people and real employment prospects (the rate of unemployment of graduates of technical colleges and universities is twice that of non-graduates), and by the predominance of the informal sector (80.3 per cent of the country’s employment). Employment appears to be growing at only 1 per cent per annum, which is much lower than the rate of growth of the active population. The participation rate, which is more or less the same for men and women, is 59.9 per cent, but the rate of underemployment is 69.2 per cent. In such conditions, it seems difficult to hope for any significant reduction in poverty in Benin, especially as public expenditure in the framework of the PRSP has given poorer results than were hoped for.

The year 2004 was the second year of implementation of the PRSP. Progress in poverty reduction has nevertheless been slow. In 2004, Benin had 7.2 million inhabitants, 50 per cent of whom were under 16 years of age. Life expectancy at birth was 59.2 years, and was slightly higher for women than for men. The percentage of the population living below the poverty line was 28.5 per cent and this rate was higher in rural than in urban areas. Twenty-two per cent were even living in extreme poverty and suffering from food insufficiency, which was more acute in children under 5 years old. In 2004, the infant mortality rate was 66.8 per 1 000, and the rate of infant and child mortality was 105.1 per 1 000, both slightly lower than in 2003.
In 2004, only 39 per cent of the population used the health services, a figure which reflects the discrepancy between supply and demand for medical care and which also reveals the existence of barriers preventing access to health care, for example, spurious charges. Many health centres are badly equipped and are short of qualified staff. People therefore reserve their use of the health system for specific types of care: for example, in 2004, the coverage rate for pre-natal consultations was 91.2 per cent, but the rate fell to 40.7 per cent for post-natal consultations.

The country's health situation is characterised by the predominance of malaria, acute respiratory infections, and gastro-intestinal infections. In 2004, malaria represented 37 per cent of reasons for consultation. Although Benin is a country of transit, its HIV virus epidemic is relatively moderate, with a prevalence rate of 2.2 per cent. The male population is more affected, the sex ratio being 1.7 men to 1 woman. The population aged between 20 and 39 represents 57 per cent of total cases. The strategy in the fight against the spread of the HIV virus is essentially based on a policy of prevention and partial coverage of the cost of care. Nevertheless, the United Nations Children's Fund (UNICEF) has predicted that the number of AIDS orphans will have practically doubled by 2010.

Drinking water supply in rural areas has improved. Between 2002 and 2004, the access rate grew from 35 per cent to 39 per cent, and it is expected to reach 42 per cent in 2005. On the other hand, the situation with respect to hygiene and basic sanitation is cause for preoccupation. Diarrhoea is the third cause of infant mortality. In 2002, only 52.1 per cent of households had latrines and 81.5 per cent dumped their refuse outside elsewhere. In 2004, only 0.5 per cent of the budget of the Ministry of Public Health (MSP) was allocated to action in this area. The number of districts with access to electricity went up from 756 in 2003 to 825 in 2004.

Although health improvement is a priority objective, the Ministry of Public Health was not spared from the budget cuts of 2004, when its initial funding was reduced by 5.4 per cent. In addition, the budget implementation rate was only 65 per cent in December 2004. Health policy has given some positive results in the reduction of infant mortality, the diminution of the prevalence of the HIV virus in pregnant women, and the malaria mortality rate. However, budget restrictions constitute an obstacle to the removal of constraints of a more structural nature: insufficient basic social services, inadequate human resources (in terms of both quantity and quality) to run the systems, and the scant use of services made by the poorest members of the population because of the fairly substantial costs to be met by patients.

The literacy rate in Benin has remained low, at around 42 per cent in 2004. Nevertheless, national statistics for the 2003/04 school year corroborate the positive trends of recent years. The gross primary enrolment rate went up from 94 to 96 per cent between 2002/03 and 2003/04, the gross primary admission rate went up from 104 to 106 per cent, and the pupil/teacher ratio went down from 53 to 50. However, the education system has remained generally poor: primary completion rates have continued to stagnate at around 50 per cent, and the repetition rate was around 20 per cent. There were significant regional and gender imbalances. The gap in the gross enrolment rate for girls and boys was 24 points, compared with 32 points three years ago. The ministries responsible for education have also suffered budget cuts, but most importantly, the implementation rate, excluding salary expenditure, was low. The Ministry of Primary and Secondary Education (MEPS) submitted an implementation rate of 47 per cent for ordinary expenditure at the end of August 2004, and 37 per cent at the end of August 2005. The rate for capital expenditure was only 19 per cent.

Sustained improvement of the educational system's effectiveness could suffer as a result of this mediocre budget performance.

Although in principle Benin respects the rules of law of the International Labour Organization (ILO) on child labour, it remains a hub for child trafficking in West Africa. The US Department of State has placed Benin in second position for states in which this trafficking still continues. According to UNICEF, each year several thousand minors from remote areas, most of whom are girls, become victims of well-organised
networks and are sent to work in farms and mines in Cameroon, Gabon and Nigeria. It is hard to see how such practices could be eradicated when they depend on the socio-economic hardship of poor rural households.

Lastly, at the end of June 2005, Benin absorbed almost 25,000 Togolese refugees, following the disturbances that occurred after the presidential election in Togo.