Benin

key figures

• Land area, thousands of km^2	113
• Population, thousands (2004)	6 918
• GDP per capita, \$ (2003)	528
• Life expectancy (2000-2005)	50.6
• Illiteracy rate (2004)	58

Perspectives économiques en Afrique 2004/2005
www.oecd.org/dev/pea

Benin

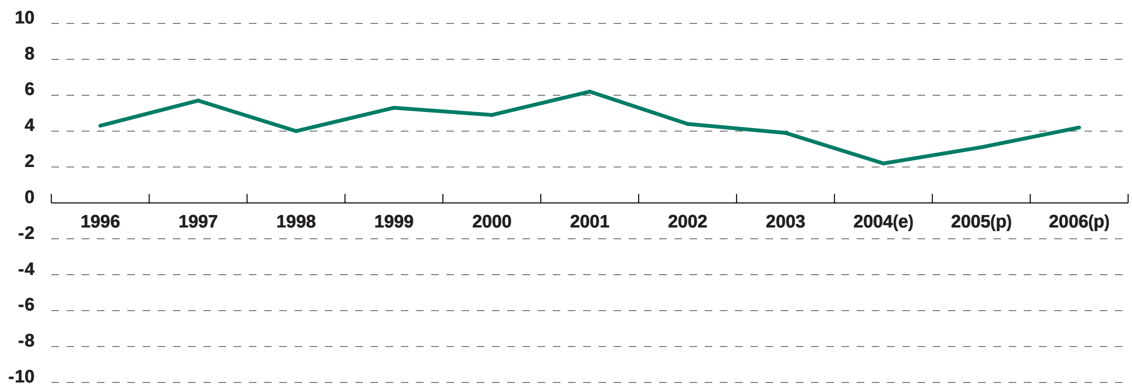
BENIN'S MACROECONOMIC RESULTS have been satisfactory since the early 1990s, with annual growth averaging five per cent and inflation under control, accompanied by stable politics and great freedom of expression that is an example to the rest of Africa. But the mainstays of the economy have recently shown signs of fragility, slowing economic activity in 2003 and 2004.

Benin is very dependent on trade with neighbouring Nigeria and was badly hit when the Nigerians stepped up import restrictions at the end of 2003. This happened as Cotonou port, the country's main trading centre, was becoming less competitive. Unlike the ports of Tema (Ghana) and Lomé (Togo), it has not benefited from the diversion of trade from Abidjan because it has cumbersome procedures for getting goods out of the port and high official (and unofficial) tariffs. The country's through-roads are also slowed by numerous police checkpoints.

The cotton sector, which provides income for more than two million of the country's 6.8 million people and is Benin's main export, has been in major crisis since 2002 because of sector reforms begun in the early 1990s when world prices were low. Underhand behaviour by some in the sector is threatening the new structure of the industry and disrupting operations. Recent harvests have been much poorer than expected and have not exceeded 330 000 tonnes. As a result, national growth was held down to an estimated 2.2 per cent in 2004 and the revenue shortfall is cutting into the national budget and the government's development plans.

Worsening trade relations with Nigeria and crisis in the cotton sector threaten the economy.

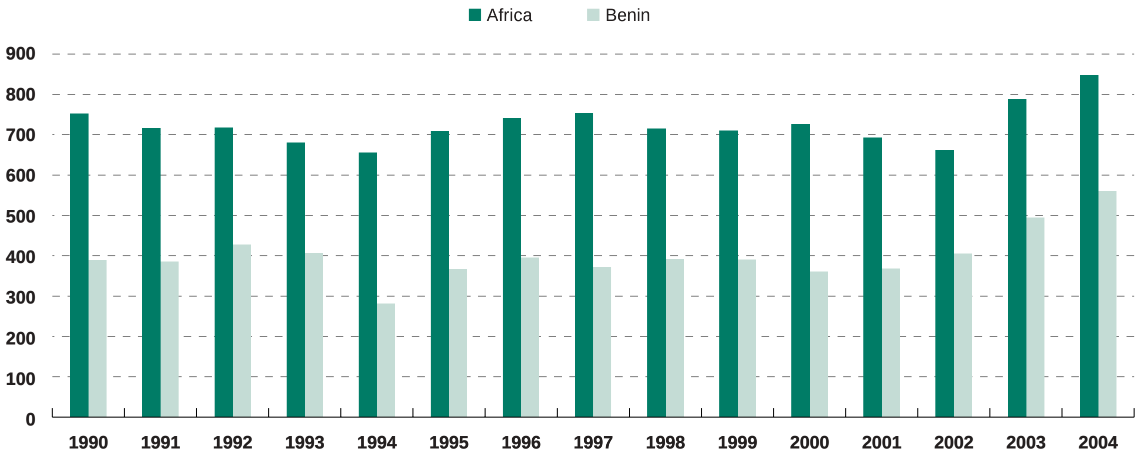
Figure 1 - Real GDP Growth



Source: *Institut National de la Statistique et de l'Analyse Economique(INSAE)* data; estimates (e) and projections (p) based on authors' calculations.

The outcome of the presidential election due in March 2006 is uncertain since neither President Mathieu Kerekou nor his main opponent can run again because they will be too old. The business sector is adopting a wait-and-see attitude that hinders structural reform and depresses the economy. Growth of 3.1 per cent is expected in 2005 and 4.2 per cent in 2006, below the average of the past decade.

Figure 2 - GDP Per Capita in Benin and in Africa (in current dollars)



Source: FMI.

Recent Economic Developments

The economy is largely dominated by the informal sector, which occupies 95 per cent of the workforce, according to the 2002 census. The primary sector's added value is virtually 100 per cent informal, that of industry more than 60 per cent and of tradable services 74 per cent. This makes it hard to assess their performance but helps explain why they can withstand external shocks. The cotton harvest was disappointing in 2004 and the country was hit by import restrictions imposed by Nigeria. Growth over the year was estimated at 2.2 per cent.

Agriculture has had problems since 2002 that have prevented it being the motor of growth it previously was. The primary sector grew an average 5.5 per cent a year between 1993 and 2002, but only 2.4 per cent in 2002 and 3.4 per cent in 2003, mainly because of problems in the cotton sector. Growth was slightly better in 2004, mostly thanks to a good food crop harvest.

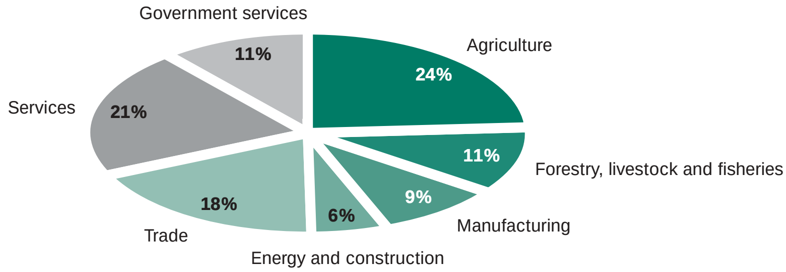
Apart from some areas of food shortage in the north, Benin has major food resources that make it self-sufficient. Cassava is the leading food crop, with more than 2 million tonnes grown each year, but the 2004/05 harvest is expected to be down 9 per cent on the previous very good years. Cereals output is chiefly maize, production of which is expected to amount to 928 000 tonnes in 2004/05, up 25 per cent on the previous year. Some of it is exported to the region, especially Nigeria, while other grains and tubers are consumed locally.

Cotton is a mainstay of the economy and its harvesting and processing contributes about 13 per cent of GDP and occupies 300 000 farms and two million people out of a total population of 6.8 million. Cotton also represents three quarters of all goods exports. The government launched a reform programme in the early 1990s to open up the sector and privatise the state firm that has long handled all operations (providing inputs, gathering the harvest, ginning and marketing).

However, it proved difficult[1] to realise and, together with very low world prices, disrupted the sector and produced poor harvests. After a peak of 412 000 tonnes of cottonseed in 2001/02, production fell back to about 330 000 tonnes in 2002/03 and 2003/04. Operators in the industry think this can be improved on and ginning capacity of 587 000 tonnes has been installed, well above actual production.

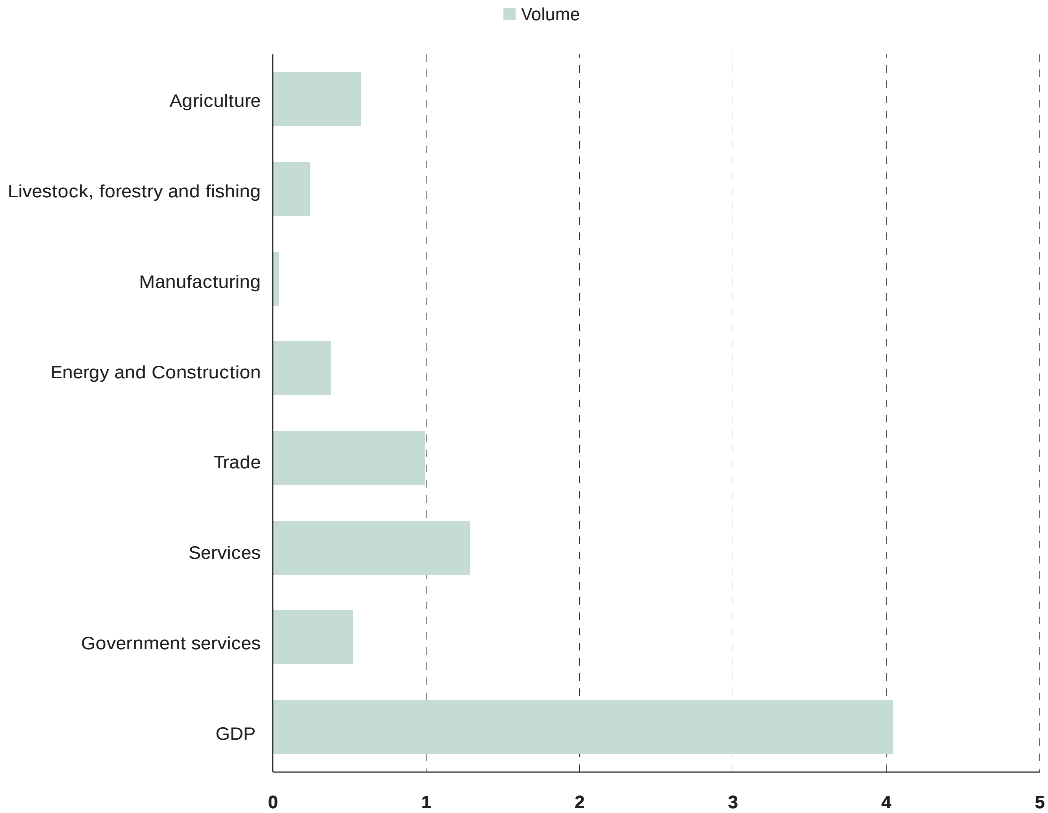
1. See section on Structural Issues.

Figure 3 - GDP by Sector in 2003 (percentage)



Source: Authors' estimates based on INSAE data.

Figure 4 - Sectoral Contribution to GDP Growth in 2003 (percentage)



Note: National accounts include harvests of the year n/n+1 in the GDP of the year n, so the result of the 2003/04 harvest is carried over here.
Source: Authors' estimates based on INSAE data.

Prospects for cotton in 2005 are mediocre. The 2004/05 season began in an atmosphere of distrust and seems to be facing the same problems as in previous years – some of the inputs were supplied outside official procurement channels and also late. The harvest is thus expected to be the same as in 2003/04.

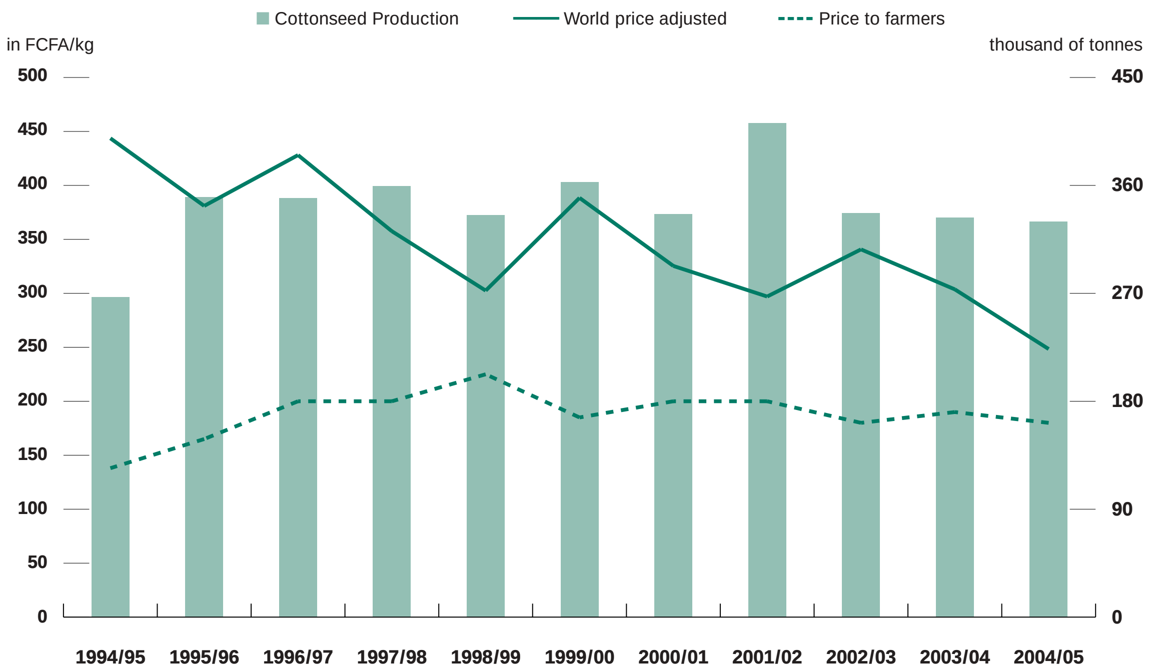
The price to growers is also uncertain. Despite a timetable for setting an interim price in March-April 2004 and a final one, related to world prices, in October-November, the final price to growers (200 CFA francs/kg) was not announced until the end of December, demonstrating the difficulty of reaching a decision when the world price is low and budget resources limited.

As in the 2001/02 season, the government pledged to subsidise the sector despite the problem of finding the money and the risk of worsening disruption if operators are not made to comply with the rules. The approach of a presidential election in early 2006 is not conducive to firmness, however, and makes a substantial increase in production unlikely as long as the sector reform is not sorted out.

Declining cotton production since 2002 has slowed down manufacturing (chiefly ginneries and textile factories), which had virtually zero growth in 2003 and contracted more than 1 per cent in 2004.

The services sector, especially commerce, has been hit by Nigerian restrictions on imports from Benin, the problems of Cotonou port and the country's less competitive situation with the stronger euro. The sector slowed down substantially, with the average 6 per cent growth between 2001 and 2003 falling to about 3 per cent in 2004.

Figure 5 - Cotton production and prices in Benin



Source: INSAE.

Table 1 - Demand Composition (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Gross capital formation	**17.6**	**19.7**	**18.5**	**20.3**	**18.2**	**18.7**	**18.8**
Public	6.1	6.8	7.4	7.5	7.0	7.2	7.2
Private	11.5	12.9	11.1	12.8	11.2	11.5	11.6
Consumption	**86.0**	**88.9**	**90.3**	**89.8**	**91.5**	**92.8**	**92.5**
Public	13.5	12.2	12.3	12.6	12.8	14.0	13.5
Private	72.5	76.6	78.0	77.2	78.8	78.9	79.0
External sector	**-3.5**	**-8.6**	**-8.8**	**-10.1**	**-9.7**	**-11.5**	**-11.2**
Exports	26.5	22.3	22.2	21	19.5	16.9	16.4
Imports	-30.0	-30.9	-31.0	-31.1	-29.3	-28.4	-27.6

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

Growth in 2003 was driven by public and private investment which levelled off in 2004 due to the government's budget problems and the depressed business climate. After Nigeria's import restrictions, Benin's imports (which are mostly for re-export) and exports declined. Better relations with Nigeria and the lifting of many of the measures may restore a normal level of exports to Benin's big West African neighbour in 2005. However, mediocre cotton harvest prospects rule out any significant rise in exports and the external balance will probably decline.

Macroeconomic Policies

Fiscal and Monetary Policy

Benin's macroeconomic policy is mostly constrained by limited budget resources. Though the country complied with six of the eight convergence criteria set by the West African Economic and Monetary Union (WAEMU/UEMOA) in 2002, it has not managed to achieve basic fiscal balance and the tax burden is far below WAEMU's target of 17 per cent of GDP. Tax collection is rising but the customs service is weakened by fraud (under-valuing of imports and improper exemptions).

Recurrent strikes persuaded the government to grant bigger pay rises than planned in 2002 and 2003. Social spending and public investment remained well below targets and the country's needs. The government also has to face major external fluctuations. The very low world cotton price in 2002 persuaded the government to boost subsidies to growers.

Spending on parliamentary elections in 2003 exceeded the budget. But the rise in world oil prices only had a very small effect on public finances because Benin imports electricity from Ghana and Côte d'Ivoire (mostly hydro power) and smuggling of oil products from Nigeria is widespread.

Despite its problems, Benin has very good relations with the Bretton Woods institutions because of its good management of the budget deficit (held below 4 per cent of GDP between 1996 and 2002). So, since completion of the three-year International Monetary Fund (IMF) poverty reduction and growth facility (PRGF) in March 2004, the government has been negotiating for a new programme to cover 2005-07.

Current expenditure in 2003 was nearly 14 per cent higher year-on-year and 6 per cent over budget. Expenditure totalling 34.8 billion CFA francs was deducted from the 2004 budget to cover the overrun. Budgeted operations had a 17 billion CFA francs revenue shortfall at the end of first-quarter 2004, due to a sharp fall in customs receipts (40 billion CFA francs over the year, according to the economy and finance ministry) because of a fall in port activity after Nigeria's restrictions on Beninese imports and a general

Table 2 - Public Finances (percentage of GDP)

	1996	2001	2002	2003	2004 (e)	2005 (p)	2006(p)
Total revenue and grants[a]	**17.9**	**17.8**	**17.3**	**18.5**	**18.3**	**18.5**	**18.2**
Tax revenue	11.8	13.5	14.4	14.9	13.2	14.4	14.2
Oil revenue	3.7	2.5	1.0	2.0	3.4	2.4	2.3
Total expenditure and net lending[a]	**18.2**	**19.3**	**19.6**	**21.1**	**20.5**	**21.8**	**21.3**
Current expenditure	12.2	11.9	13.2	14.2	14.0	15.2	14.6
Excluding interest	*10.0*	*11.0*	*12.5*	*13.6*	*13.6*	*14.8*	*14.2*
Wages and salaries	4.8	4.4	4.6	5.0	5.2	5.7	5.6
Interest	2.3	0.8	0.8	0.6	0.4	0.4	0.4
Capital expenditure	5.9	7.4	6.2	7.0	6.5	6.7	6.7
Primary balance	**1.9**	**-0.6**	**-1.5**	**-2.0**	**-1.8**	**-2.9**	**-2.7**
Overall balance	**-0.3**	**-1.4**	**-2.3**	**-2.6**	**-2.2**	**-3.3**	**-3.1**

a. Only major items are reported.
Source: IMF and Ministry of Economy and Finance Data; estimates (e) and projections (p) based on authors' calculations.

economic slowdown that reduced direct and indirect tax revenue.

The stronger euro also boosted the price of Benin's exports compared with Nigeria's in 2003 and 2004, making them less competitive. Trade recovered somewhat from second-quarter 2004 but tax revenue for the year was expected to be 13.2 per cent of GDP in 2004, substantially down from the 2003 figure of 14.9 per cent, though it was made up for by a big rise in grants, from 2 to 3.4 per cent of GDP.

As a result, the government decided to make budget cuts totalling 30 billion CFA francs in 2004, involving all ministries and causing disruption in the spending chain. Investment was reduced and also spending under the Heavily Indebted Poor Countries (HIPC) Initiative. Primary expenditure (budgeted current and capital spending) was estimated at the end of September 2004 as 234.5 billion CFA francs, well below the planned 250.9 billion. Budgeted spending was down 0.6 percentage points of GDP in 2004 year-on-year because of less capital spending.

The budget suffers from persistent under-implementation of capital spending, while current spending, especially for wages and salaries, exceeds targets. This is unlikely to change in 2005 and 2006 since the government has promised civil service trade unions, which staged several strikes in autumn 2004, that it will pay 200 billion CFA francs of salary arrears (resulting from a 1987-92 promotions freeze) and increase salary scales. This may have a long-term effect on public finances because the payments will be partly direct and partly through long-term treasury bonds. The 2005 and 2006 budgets will also have to pay for the March 2006 presidential election.

So the budget deficit is expected to worsen to 3.3 per cent of GDP in 2005 and 3.1 per cent in 2006, mostly due to increased current spending while tax revenue should remain steady. Better capital spending implementation will require greater use of external funding. In the 2003 budget, 72.6 per cent of planned capital spending was implemented, but only 59.3 per cent of scheduled external funding was used (only 40.3 per cent for grants), compared with 92.3 per cent of domestic funding.

The government has taken steps to boost tax collection and streamline public spending. These include the creation of a public spending monitoring system, compulsory use of a one-stop government payments centre, co-operation between the customs and tax departments and computerisation of their systems as a mean of combating tax evasion. Reform of procurement procedures and internal monitoring has begun and reduction of dependence on customs revenue is being considered as part of economic opening-up. The aim is to collect more taxes from the extensive informal sector.

Despite pressure to increase wages and higher petrol prices, inflation is under control in Benin, as in other WAEMU countries, because of the stronger euro and good food crop harvests, Inflation fell from 4.2 per cent in 2001 to 2.5 per cent in 2002, then to 1.5 per cent in 2003 due to lower prices of food, beverages and tobacco. This was offset by sharp rises in the cost of "housing, water, electricity and other fuel" (5.1 per cent) and transport (9.8 per cent) under the impact of higher oil prices.

Inflation was still under control in 2004, when it was only 0.1 per cent, though strong demand for food products from neighbouring Sahel countries whose crops were hit by locusts slowed the fall in food prices. Inflation should be around 2.5 per cent in 2005 and 2006, below the WAEMU convergence criterion of 3 per cent.

External Position

Benin has a structural trade deficit because of the scale of its food imports and the informal nature of re-exports (imports are counted but exports are not well measured). Remittances by Beninese abroad are too small to make up for the trade imbalance so that the current account balance has a deficit of between 3 and 8 per cent of GDP.

Benin remains mostly dependent on cotton exports and on re-exports to Niger and Nigeria, which combined account for two-thirds of the country's goods and

Table 3 - Current Account (percentage of GDP)

	1996	2001	2002	2003	2004(e)	2005(p)	2006(p)
Trade balance	-5.2	-7.2	-8.2	-8.6	-8.5	-9.8	-9.5
Exports of goods (f.o.b.)	18.0	15.0	15.9	14.2	13.5	11.4	11.0
Imports of goods (f.o.b.)	-23.2	22.1	-24.2	-22.8	-21.9	-21.1	-20.5
Services	-2.6	-1.8	-1.7	-1.8			
Factor income	-1.9	-0.5	-0.5	-0.5			
Current transfers	4.9	6.5	4.5	4.8			
Current account balance	**-4.9**	**-3.0**	**-5.9**	**-6.2**			

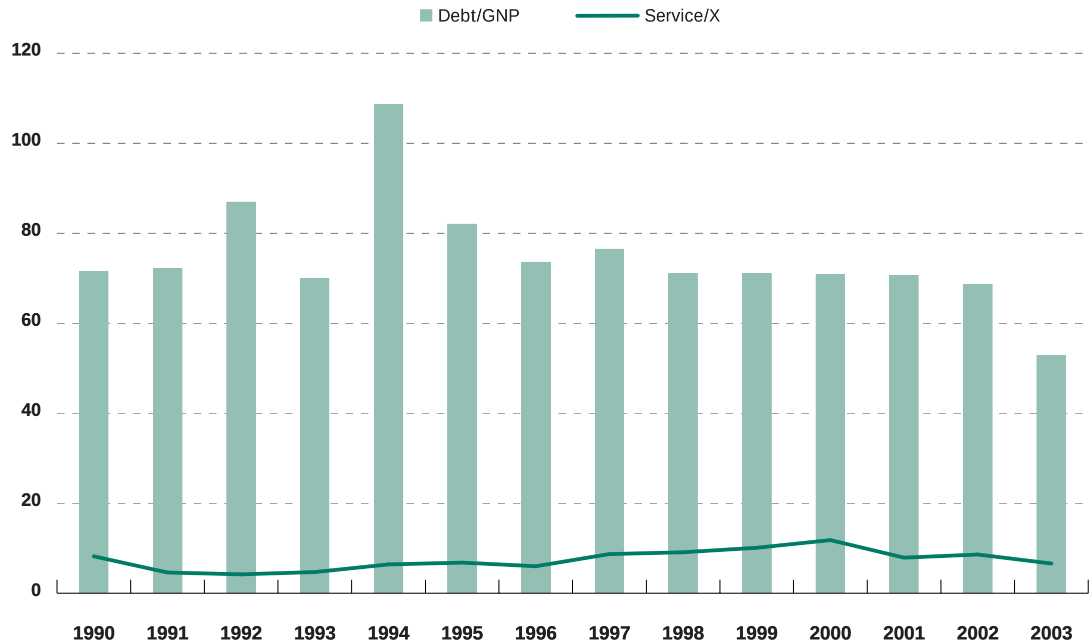
Source: BCEAO data; estimates (e) and projections (p) based on authors' calculations.

services exports. The government is trying to reduce dependence on cotton by expanding agricultural exports to cashews (processed and packed in India), palm oil and shea butter. But diversification is going slowly.

Exports to Nigeria are mostly informal and trade consists of a large amount of re-exports and informal exports (and re-exports) that amount to about 6 per cent of GDP. The re-exporting is due to importers trying to get round Nigeria's tight trade restrictions and customs duties averaging 37.2 per cent, compared with Benin's 14.6 per cent. The closeness of Lagos (130 km) is also a major factor, as well as security problems and congestion at its port of Apapa.

Nigeria expanded its list of banned imports at the end of 2003 from 28 to 44 kinds of product and tightened border controls, which cut activity at Cotonou port by 20 per cent between January and April 2004 year-on-year. The Nigerians lifted the ban on Beninese-made goods in 2004 after discussions but maintained a ban on re-exports. The sharp drop in imports to Benin in early 2004 was followed by a recovery, suggesting traders had found new informal ways to get

Figure 6 - Stock of Total External Debt (percentage of GNP) **and Debt Service** (percentage of export)



Source: World Bank.

their goods into Nigeria. Despite the low level of imports since 2003, Benin was unable to improve its trade balance because of sluggish exports, especially of cotton, so that the balance's percentage of GDP remained steady in 2004.

Little short-term improvement is expected because, apart from Benin's problems with Nigeria, Cotonou port, through which 90 per cent of the country's trade passes, is inefficient. With an annual capacity of 4 million tonnes, it is West Africa's fifth biggest, after Lagos (Nigeria), Abidjan (Côte d'Ivoire), Tema (Ghana) and Dakar (Senegal). Traffic increased substantially between 1998 and 2002, but businesses complained of delays in unloading and customs processing and of high costs whether in the form of tariffs or corruption and red tape. They also drew attention to the number of police roadblocks at the port and all along the country's through-roads.

Port activity has slowed since 2003 and more and more goods have entered the country by other means. The significant growth of Lomé and Tema as alternative ports to Abidjan has jolted Benin's political and economic decision-makers into awareness of the problems of Cotonou's port. Apart from the extra charges which businesses cite as an obstacle to the port's development, tighter application by Benin of WAEMU's common external tariff may have hurt Cotonou, to the advantage of Lomé. Benin's major focus on Nigeria, to the east, may also have lost it opportunities to the west.

Benin's external debt was 832.6 billion CFA francs at the end of December 2003 (about 40 per cent of GDP), 82 per cent of it due to multilateral creditors. The amount has fallen substantially since 2001 thanks to about 55.3 billion CFA francs of debt relief obtained under the HIPC Initiative since the country reached decision point in July 2000 and completion point in March 2003.

Structural Issues

Benin began to energetically open up its rigidly state-controlled economy in the early 1990s and then in the middle of the decade launched a profound reform of the cotton sector, handed some port operations over to the private sector and began divesting public service companies. But the reforms have stalled in recent years.

The government chose to privatise the cotton sector completely, though still with an entirely vertical structure and run by an association of growers, inputs suppliers, ginners and the government. Sonapra, the state cotton firm in charge of all production and marketing, was gradually transferred to the private sector from 1992. First to go was haulage of cottonseed, then distribution of inputs. Sonapra's monopoly of ginning was ended in 1995. Licences were granted to three firms for collecting and ginning and five more were granted in 1997 and 1998.

Since 2000, Sonapra's monopoly for marketing cottonseed has been abolished and management of input supply handed to the private sector (the inputs supply and management co-op, Cagia, was given the task of choosing among the tendered bids). The price to the grower has been negotiated since 2001 between producers' associations and ginneries belonging to the cotton profession association, AIC. But the last stage of the reform, privatising Sonapra's remaining ginneries, was delayed and only three of the four lots scheduled for sale have been divested so far under widely contested conditions.

The reforms have been hampered by low world prices, poor harvests in recent years and breakdowns in the new regulatory system, which was based on the assumption that everyone would obey the rules and that the government and the courts would ensure that it functioned correctly. But in the 2000/01 season, some input distributors who had not been chosen by tender sold their products, some of them of poor quality, to "rebel" growers who produced nearly 10 000 tonnes of cottonseed (out of a total production of 330 000 tonnes) in the 2003/04 season.

Some ginneries also refused to pay the 40 per cent deposit for their future purchases of cottonseed to the state debt recovery and secure payments body, CSPR. These dissident ginners handled 60 000 tonnes of cotton during the 2003/04 season (including the 10 000 tonnes from the rebel growers). The CSPR's financial stability is vital, as it repays bank loans for inputs with the deposits from the ginneries and also pays growers after deducting the cost of the inputs. With some ginners not paying their deposits and Sonapra's late payments, the CSPR was unable to pay growers on time and in early December 2004 it still owed them 1.2 billion CFA francs for the 2003/04 season.

The government seems reluctant to do much about the rebels. The dissident ginners appear to have got public money to divert cotton to their factories. Despite their conduct, they were nevertheless among the bidders chosen to take over Sonapra's ginneries. The July 2004 national cotton conference that was meant to settle the disputes was rejected by growers and the CSPR as unrepresentative. The commerce ministry's effort in the autumn to manage the deposits of the ginners directly was criticised because the account that was to receive the money was not transparently managed.

This refusal to obey the rules by some of the parties involved could spur others to leave the system altogether. The prospect of bigger profits, at least in the short term, could persuade other ginners to refuse to pay the CSPR and so buy cottonseed without paying for the inputs to produce it. The resentment of some growers towards the bodies supposed to pay them may lead them in turn to refuse to pay the 10 CFA francs tax to maintain industry support structures.

All these problems leave the cotton sector less competitive, with input debts unrecovered and vital functions which have to be paid for by an increase in the charges borne by those who stay in the system. They also cause growers to switch to other crops, using fertilisers meant for cotton. In the longer term, the fragility of the system also risks affecting spending on research and development, leading, ultimately, to a reduction in cotton quality.

To tackle the loss of competitiveness of the port of Cotonou in relations to its direct rivals(especially Lomé), the government has announced a economic revival plan based on improving customs procedures, fighting corruption, removing illegal checkpoints on roads leading from the port and streamlining the one-stop office there. Removal of checkpoints from through-roads will be studied with circumspection, however, because of the rise in crime it could engender.

Studies are being carried out into the construction and franchising of a second deep-water port to relieve congestion at the existing one. A reform was also launched in the late 1990s to open the present port to private management and a feasibility study has been completed. But the port's strategic importance, especially for customs revenue, makes any change a delicate matter. Strong trade unions and hesitant political leadership, as shown by the change in port director in autumn 2004 after only six months, have so far blocked the reform. The authorities have also been thinking for some years of installing a duty-free zone.

The government has said for several years it wants to privatise public services such as telecommunications and electricity but little has been done. The post and telecommunications office (OPT) was split into two operations in May-June 2004, Benin Télécom and La Poste du Benin. The plan is to open up the capital of Benin Télécom in 2005 to a strategic partner, who will be offered a capital stake of up to 40 per cent, as well as to local investors and employees. The state will keep 15 per cent of the capital.

The former state electricity firm SBEE has already been divided up and a consultant is evaluating its assets. The government plans to complete the public service reforms by the end of 2005 but this deadline is unlikely to be met as, at the end of 2004, the regulatory authority was still not in place.

Benin has clear comparative advantages (political stability, physically strategic position and modern ports and roads) but its business climate is not very suited for growth of the private sector. The country has drawn less foreign direct investment than other WAEMU members, except during the privatisation period of the early 1990s, according to UNCTAD (the UN Conference on Trade and Development).

It says complicated bureaucracy, confusion over the roles of the promoting bodies (such as the chamber of commerce and the one-stop shop), the weak legal system (lengthy procedures and lack of trained and independent judges) and poor governance all seriously obstruct private enterprise. Costly procedures are also very discouraging. Setting up a business costs roughly twice the per capita average annual income, according to the World Bank.

Financial intermediation is still very limited in Benin, as in other WAEMU countries. The penetration ratio (M2/GDP) has been no more than 32 per cent over the past three years. Loans to the private sector were only 12 per cent of GDP in 2002. The financial system comprises eight commercial banks, two leasing companies, eight insurance firms and over 100 formal-sector micro-credit institutions. The insurance sector has grown considerably since 1995 but is still small. No local stock exchange exists and very few firms use the regional one, the BRVM.

Three banks dominate what is a relatively concentrated banking market. All banks except one are privately-owned and most are foreign. The sector is generally solid and the banks have recently improved their profitability and compliance with prudential ratios (except for risk concentration). The proportion of non-performing portfolios (5.4 per cent) is one of the region's lowest, but though commercial banks hold more than 90 per cent of the financial sector's funds, their customers are few and mostly in urban areas.

Micro-credit has boomed nationwide over the past decade, especially in the poorest regions where banks are few, and the sector managed to reduce its non-performing loans from 8 per cent in 1999 to 5 per cent in 2003. But 2004 and 2005 have been difficult for the sector because of the problems in the cotton sector, in which very many customers work.

The strengthening of the financial sector has not been matched by growth of funding for small and medium-sized enterprises (SMEs). Benin is the only WAEMU country with an agreed definition of an SME (drawn up in 1997),[2] but current data on the sector is lacking. A 1997 survey said nearly half of all 666 SMEs counted were in commerce and the rest in construction, pharmacy, restaurants and other services. Only 17 per cent were in industry.

A 1999 follow-up study by the ministry of industry and SMEs of 692 micro-enterprises[3] said they were mostly informal since 80 per cent of them were not registered by any public body and 97 per cent were not in the official business register. Most (72 per cent) were in agro-food.

The financial sector crisis in the 1980s wiped out all the special facilities for funding SMEs. The commercial banks were held to strict prudential ratios guaranteeing the viability of the sector. So despite over-liquidity, the banking system provided SMEs with very little funds. The dearth of long-term funding was a major block to firms wanting to invest. Banks also did not have suitable means to assess the solidity of SMEs in the absence of a dependable legal structure (no commercial courts, few property guarantees and problems with activating them in the case of default).

So the commercial banks rely on trust and increase their loans to customers gradually as they prove their reliability. They also give credit for commercial orders. Leasing was introduced by the Bank of Africa (BOA) in 1995 but is very little used because of recent problems formal sector firms have had trading directly with Nigeria, notably where frozen foods are concerned.

SMEs therefore mostly turn to micro-credit institutions, whose customers increased by 75 per cent between 1998 and 2002 to reach half a million (about 15 per cent of the workforce), while total savings deposits

2. Defined as any legally-constituted (officially-registered) business that keeps regular accounts, is not a subsidiary of a multinational company and has between 5 and 50 permanent employees, share capital of between 1 and 50 million CFA francs or investments of between 5 and 500 million CFA francs.

3. Firms with share capital of 1 million CFA francs or less (or investments of less than 5 million) and with up to five permanent employees.

rose by 160 per cent (to 32 billion CFA francs – $51 million – on 31 December 2002) and loans by 250 per cent (to 46 billion CFA francs – $69 million). In this way, despite its small size, Benin has more micro-credit institutions than any other WAEMU member country.

The average savings account size has changed little over the years and is around 220 000 CFA francs ($352), but the size of loans rose 44 per cent in five years to an average 315 000 CFA francs in December 2002 (133 per cent of per capita GDP).

Two parallel networks have developed – friendly societies, led by the savings and mutual agricultural credit federation Fececam, which turns savings into loans, and direct credit institutions, which get funds on the financial market and from government and funding agencies, through the micro-enterprise development support project, PADME, and the SME support association, PAPME.

Micro-credit is expensive (about 2 per cent monthly interest) and funding goes mainly to agriculture and commerce, leaving out craft industries. So a large section of the population continues to use the old system of tontines[4] to save and start up businesses. Micro-credit institutions also have their own funding problems, though the sector is slowly becoming more professional.

Micro-credit in Benin, a Robust Sector Funding SMEs: Fececam and Papme

Fececam (The Federation of Savings and Mutual Agricultural Credit Banks) groups institutions that make loans on the basis of collected savings. At the end of September 2004, it had 101 offices throughout the country (including a score in urban areas), 420 000 adherents, 31.5 billion CFA francs in deposits and 24.5 billion CFA francs in loans to some 90 000 borrowers, mostly farmers, livestock owners and traders.

Fececam specialises in rural loans of between 100 000 and 2 million CFA francs over about eight months at 2 per cent monthly interest. Security for loans is the existence of solidarity groups. In urban areas, it makes loans to traders who provide material security (plots of land, lorries and houses) for loans over 200 000 CFA francs.

Fececam has an overall collection rate of 89 per cent (95 per cent for loans to traders), with big variations according to the state of agriculture. Fececam has trouble converting the short-term funds it collects into long-term deposits, partly because the long-term savings deals it offers are not much taken up. It also complains about the ineffective legal system, which makes it impossible to recover small debts, makes loans more expensive and thus seriously limits the funding of SMEs. Strengthening risk protection for micro-finance users, an experiment that has been suspended for lack of funds, would certainly reduce the danger of defaults.

Papme (Association for the Promotion and Support of SMEs) was set up in 1993 as a project backed by the government and the World Bank and became an economic association in July 1999 with the objective ultimately of raising money on the capital market and so becoming more independent. It originally encouraged the growth of SMEs but since 2000 has focused on access to funding.

Papme has 25 offices around the country but most of its activity is in urban areas. It uses mainly external funding but since 2003 has been developing means to collect savings (standard, demand and time deposits). It has extended its range of financial products to include guarantees to firms, money transfers, investment credits and individual loans. It made loans of 21 billion CFA francs in 2003 (to 11 233 customers – 48 per cent more year-on-year), mostly short-term (93 per cent) and to commerce (90 per cent). The collection rate was 95 per cent.

4. Tontines are freely recruited groups of people who on set dates pay in variable sums (from 25 CFA francs to 1 million) and take turns in receiving the total payment. Non-compliance with the rules leads to social exclusion.

The government drafted a special programme in 2001 to promote SME/SMIs between 2002 and 2004 with the aim of boosting their productive capacity. The authorities aim to help the private sector by supporting various micro-credit institutions and setting up a guarantee fund run by PAPME and PADME. The programme will be completed with a fund to promote SME/SMIs through the funding of surveys and assistance, as well as the provision of risk capital and loan guarantees. But these measures and institutions to help SMEs are still not very common and are mostly developed by donors over periods which are sometimes unsuited to the need for long-term development.

Political and Social Context

Benin is politically stable and has held free elections since 1990. Democracy has been accompanied by decentralisation, confirmed in the country's first local elections in December 2002, but lack of trained people and local funding has greatly slowed the planned transfer of responsibilities and resources. President Mathieu Kerekou was elected to a second term in March 2001 while parties backing him won a large majority in parliamentary elections in March 2003.

The next presidential election is due in March 2006, but neither Kerekou nor his main rival, former President Nicéphore Soglo, will be eligible because of the age limit set by the national constitution. Amending the constitution to allow them both to stand is being fiercely debated but this seems increasingly unlikely due to lack of time before the vote. The vigour of civil society, the media and trade unions also makes such a change unlikely.

Despite its political stability, Benin has governance shortcomings, serious corruption and a weak legal system. Transparency International put the country at 77th place on its 2004 worldwide corruption index, with a mark of 3.2, level with Egypt, Mali and Morocco. The country's freedom of expression has highlighted these problems, making comparison with less democratic countries difficult.

The stagnation of Cotonou port, linked to problems in the cotton sector, seems nevertheless to be a sign of serious governance problems. A five-month trial ended in June 2004 with the jailing of officials and judges for forging expenses claims between 1996 and 2000. The authorities, who have adopted an anti-corruption strategy, set up a national corruption monitoring centre in September 2004. The anti-corruption laws exist but they are hard to enforce in a weak legal system that makes punishment little credible. This creates discontent in civil society and fuels protests and strikes.

Benin has made a radical switch since 1990 from a state media monopoly to complete freedom of expression, something quite rare in Africa, and the written press is free and energetic. But its impact is limited since it is mainly directed at an educated elite in a country where barely 40 per cent of people can read. It also seems not to be echoed very much by civil society, the legal system and the government. Employers and trade unions are very active but are mostly interest groups with special demands.

Benin's relations with its neighbours have been dominated since 2003 by problems with Nigeria, starting in mid-2003 with a scandal centred on a businessman from Niger, Tidjani Hamani, living in Benin and accused of handling cars stolen in Nigeria. The Nigerian government accused Benin of not combating cross-border crime and closed the border for a week. Curbs on imports from Benin were greatly tightened in January and March 2004 and Benin is seeking ways to reduce dependence on its neighbour.

The country is one of the main promoters of the World Trade Organisation (WTO) Cotton Initiative to eliminate export subsidies and create a funding arrangement to cover losses.

Benin is small, with 6.77 million inhabitants (47 per cent of them under 14) and a social development level similar to its neighbours. Infant mortality (for children under 5) is 146.4 per 1 000 according to the 2002 census, compared with Ghana (88), Nigeria (127), Togo (131), Burkina Faso (154) and Niger (203). Life expectancy is 50.8, about the same as Togo (50) and Nigeria (51.3). Benin is placed 161st out of 177 countries on the worldwide Human Development Index compiled by the UN Development Programme (UNDP) and, despite improvements in health and education, is unlikely to achieve the 2015 Millennium Goals.

The fight against poverty, spelled out in a poverty reduction strategy paper (PRSP), involves medium-term improvement of the macroeconomic situation, boosting human skills and environmental management, strengthening governance and getting poor people involved in decision-making and production.

But a 2003 progress report on the PRSP's implementation said poverty was only being reduced slowly. It said 28.5 per cent of Beninese were poor in 2002 (29.3 per cent in 1999), that monetary poverty was worse in rural areas (31.6 per cent) than in towns (23.6 per cent). Inequality among poor people worsened between 1999 and 2002 as urban poverty deepened.

A questionnaire for basic welfare indicators for 2003 showed that 22 per cent of people lived in extreme poverty and did not get enough to eat, resulting in 30 per cent of children under five being malnourished in 2001. They also had retarded physical growth which worsened between 1996 and 2001. This is disturbing because the country had good economic growth (5.3 per cent) at the time and because the cotton sector's current problems may make things worse for the rural population.

Malaria is very common, affecting 36 per cent of all ill people in 2003 and 120 people per 1 000. But deaths from it have steadily declined, from 316 in every 10 000 cases in 1996 to 70 in 2002. The government wants to reduce malaria morbidity and mortality 30 per cent by 2005.

The incidence of HIV/AIDS is quite small and stable, as in Ghana. Only 1.9 per cent of pregnant women in Benin were infected in 2002 (2.3 per cent. in Cotonou). The government focused on prevention and limited care of the ill to avoid the disease spreading in a country that is a much-used transit route for outsiders. Tests are free but a basic diagnosis is expensive, at 40 000 CFA francs ($73.50). Adult patients are required to contribute to the cost of their anti-retroviral drugs in proportion to their income, though most pay the minimum (1 000 CFA francs).

Health care is accessible for 82 per cent of Beninese, though it varies widely by province (50 per cent in Littoral, 67 in Zou and 71 in Collines). Many local clinics are not yet up to standard and properly equipped. Health-care workers are in short supply because very many have retired and not been replaced and new ones are not well-trained. Only 35 per cent of the population used the health facilities in 2002, reflecting the inadequate services but also obstacles to access, such as extra charges.

Benin has very low literacy – 42 per cent in 2004. Among its neighbours, Ghana has 75.9 per cent, Togo 62.2, Nigeria 69.4, Burkina Faso 27.5 and Niger 18.2 per cent. The figure reflects poor education of the adult population. The UNDP says 98 per cent of school-age boys are in school but only 57 per cent of girls. Gross primary school enrolment has risen from 55.7 per cent in 1990 to 87 per cent in 2003. But gender disparity remains large and the overall primary enrolment figure nationwide was 95 per cent for boys and 79 per cent for girls.

Only 49 per cent of boys and 35 per cent of girls completed primary education in the 2002/03 school year. The government wants to increase the overall primary completion figure from 46 per cent in 2001/02 to 56 per cent in 2005/06. Its action programme aims to boost enrolment of girls from 65 to 80 per cent in primary and from 10 to 20 per cent in secondary between 2001 and 2006.

Laws that comply with International Labour Organisation norms ban children between 6 and 14 from working, but a quarter of all children (including over 55 per cent of girls) between 6 and 9 had some kind of economic activity in 2002. Some of them (estimated at 10 000 between 1996 and 2000) were trafficked throughout West Africa, where Benin is a centre of the trade. The children were sent to Côte d'Ivoire, Gabon and Nigeria to do domestic labour or work in mines or export agriculture. The situation is hard to tackle because it is part of the country's traditions and arises from the poverty of some parents and weak border controls.