

INTERNATIONAL DEVELOPMENT ASSOCIATION
AND
INTERNATIONAL MONETARY FUND

BENIN

**Poverty Reduction Strategy Paper
Joint Staff Assessment**

Prepared by the Staffs of the International Development Association (IDA) and the
International Monetary Fund (IMF)

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I. OVERVIEW

- 1. The Poverty Reduction Strategy Paper (PRSP) prepared by the Government of Benin builds on the strategy laid out in the interim Poverty Reduction Strategy Paper (I-PRSP) presented to the Boards of the International Development Agency (IDA) and the International Monetary Fund (IMF) in July 2000.** The document is the result of broad-based consultations at all stages of its development. The PRSP describes these consultations, provides a diagnosis of poverty in Benin, and presents the government's objectives and priority measures for reducing poverty over the next three years.
- 2. The staffs have determined that Benin's PRSP contains a credible poverty reduction strategy.** The main strengths of the PRSP are: (i) the comprehensiveness of the strategic framework; (ii) an effort to make explicit the linkages between policy actions and result indicators; and (iii) a detailed and comprehensive medium-term expenditure framework in line with strategic priorities.
- 3. The PRSP suffers from important shortcomings** that the authorities will need to address during the first year of strategy implementation, so as to sharpen the poverty focus and make the strategy fully operational. First, the poverty diagnosis did not benefit from a full analysis of the impact of past policies on the poor, and methodological weaknesses have precluded a definitive analysis of key determinants of poverty, as well as of the evolution of key quantitative poverty indicators over the past decade. Second, the strategy for private-sector-led growth proposed in the PRSP needs to be further developed and made more coherent. Third, in many instances, the document lacks sufficient indications about the government's implementation plans, including as to how the fiscal decentralization strategy would ensure better public service delivery. Fourth, the PRSP does not address sufficiently the shortcomings in implementation capacity that have in the past undermined the government's efforts to reduce poverty. The authorities have begun to work on some of these issues, both by detailing their implementation plans and improving the poverty analysis.

II. PARTICIPATORY PROCESS

4. The authorities developed a broad-based participatory process at the national and regional levels that capitalized on the lessons learned from previous experiences.¹

Three preparatory workshops were organized with civil society representatives and the private sector at the beginning of the process to raise awareness within the country about the PRSP's objectives, the process, and the expected inputs from the various stakeholders. In addition, three national thematic workshops were organized on strategic issues, and two rounds of regional workshops were conducted, respectively, in 2001 and 2002 to identify sectoral priorities at the regional level and establish poverty profiles.

5. The PRSP consultations that took place at the regional level included civil society as well as members of parliament. Through the regional workshops, various nongovernmental organizations (development associations, women's organizations, professional associations, and religious institutions), including some involved in implementing development projects, provided their perspective on the main causes of poverty and actions to address them. These regional workshops also included representatives of both the central and local administration, as well as traditional chiefs.

6. Members of the National Assembly and external donors also provided input into the PRSP process.

Toward the end of the process, a special workshop was held to gather comments on the draft PRSP. The Economic and Social Council, an independent body in charge of providing advice to government on its economic and social policies, was also consulted and provided feedback. With donor support, a federation of civil society organizations, Espace Liberal, drafted a comprehensive contribution to the PRSP that was made public in October 2001 and discussed with the authorities. Staffs from IDA and the IMF, as well as from other major development partners, provided comments on the draft PRSP to the government in March 2002. The draft document was approved by the Cabinet of Ministers in September 2002, finalized in December 2002, and submitted to the National Assembly for information. A comprehensive dissemination plan was designed, which includes widespread circulation of the document, media coverage, and public workshops at the national and local level (departmental and municipal) to inform the public and implementing agencies about the content of the strategy, the objectives and expected results, and the sectoral programs.

7. The poor and vulnerable groups did not participate directly in the consultation process,

but their perceptions and concerns were partly reflected during regional workshops by development associations and NGOs that implement poverty-focused projects. Food security, access to water resources, affordable health care, access to education, and access to productive inputs in the rural sector emerged as the major issues of priority for the poor and are reflected in the PRSP.

8. The PRSP emphasizes that a participatory process will be used for implementing, as well as monitoring and evaluating, the poverty reduction strategy, with a view to promoting ownership by beneficiaries. The first municipal elections in

¹ Including various sectoral roundtables, the 1992 Urgent Social Action Program, the 1994 strategy to address the social dimensions of adjustment, a Three-Year-Development Plan (1998-2000), the 1997 Minimum Basic Needs Program, and a UNDP-sponsored Long-Term Perspective Study.

December 2002 were an important step toward greater participation and empowerment at local levels. Also, the participatory and consultative mechanisms proposed for monitoring and evaluation at national, departmental, and municipal levels should significantly enhance ownership and accountability. Monitoring committees, including representatives of civil society and elected local governments, will be set up at the municipal and the departmental levels. They will convene at least once each trimester and report to the National Commission for Development and the Fight against Poverty (CNDLP).

III. POVERTY DIAGNOSIS

9. **The poverty diagnosis is much more comprehensive than that presented in the I-PRSP, although the staffs do have concerns about the methods used to calculate the head count estimates.** Since the presentation of the I-PRSP, efforts have been made to improve the knowledge base on poverty and social development. The poverty profile presented in the PRSP is based on new information from the 1999-2000 household surveys and the 2001 Demographic and the Health Survey (DHS). The incidence of income poverty was calculated nationally and at the departmental level. Compared with the mid-1990s, the latest official data indicate that poverty incidence increased significantly in rural areas and decreased in urban areas. The incidence of nonmonetary poverty (defined as the inability to satisfy basic needs)² was also estimated using a composite indicator derived from the 1996 and 2001 DHSs. The incidence of nonmonetary poverty is higher than the incidence of income poverty and increased from 43.4 percent in 1996 to 49 percent in 2001.

10. However, major methodological weaknesses³ need to be addressed in order to establish robust income poverty estimates. Moreover, there are no reliable data on trends in inequalities, and, as a result, the PRSP does not assess the distributional impact of growth and past policies. The staffs welcome the authorities' intention (as indicated in the action plan to improve the PRSP) to establish a reliable baseline for measuring income poverty in 2003, using a revised methodology.

11. **The PRSP does, however, provide a useful and comprehensive overview of trends in basic needs and in core development indicators,** including basic social services, nutrition, water, and sanitation. The staffs welcome the disaggregation of data by habitat (rural/urban), gender, and region. Quantitative analysis is complemented with information from the regional consultations about the poor's perceptions of poverty and its

² Non-monetary poverty is defined in the Benin PRSP as the inability to satisfy basic needs, and poverty incidence estimates are based on five social indicators calculated from DHS surveys: (i) infant mortality; (ii) the illiteracy rate; (iii) the lack of access to basic health services; (iv) the lack of access to safe water; and (v) the child malnutrition rate.

³ The methodology used in the household surveys raises concerns about the treatment of the nonfood expenditure share in the calculation of the poverty line, the division of Benin into 12 agro-ecological zones, and the comparability of poverty statistics across urban and rural areas and across time. Although the National Statistical Institute has conducted a sensitivity analysis showing that the estimates of poverty incidence vary significantly with the methodology used in surveys, the government has not revised its methodology for the most recent household surveys conducted in 1999 and 2000.

determinants. As part of the comprehensive program to improve monitoring and evaluation capacity, the PRSP presents an action plan for 2003-04 to refine the poverty diagnosis that includes carrying out the following: (i) a national household survey on living conditions that would address the methodological weaknesses identified in past household surveys (see para.10); (ii) an annual Core Welfare Indicators Questionnaire (CWIQ), starting in 2003; (iii) participatory poverty assessments; and (iv) the establishment of a poverty map and departmental poverty profiles.

12. **The major determinants of chronic poverty and vulnerability identified in the PRSP** include, inter alia, the lack of access to financing, the use of outdated agricultural production techniques, difficult access to safe water and primary health care, and illiteracy. The PRSP emphasizes the deterioration of the poverty situation in rural areas and the disproportionate effect of poverty on women. The PRSP also identifies the major determinants of chronic poverty and vulnerability as the volatility of rural incomes and the deterioration of the natural resource base. The PRSP states that, although past economic and social policies have been successful in restoring relatively strong and steady economic growth and improving social indicators, they have failed to reduce poverty. The PRSP offers various reasons to explain the limited impact of development policies and antipoverty programs on poverty, such as unequal access to economic infrastructure, insufficient integration of sector policies and projects, and weaknesses in governance. Nonetheless, the strategy does not provide a detailed analysis of the poverty impact of past policies and programs, nor does it fully exploit existing analyses on poverty. The lack of such an assessment, which could help the government to prioritize the various policies and programs in the strategy, reinforces the paramount importance of establishing an adequate monitoring and evaluation system for the PRSP's implementation. The staffs welcome the government's decision to carry out in 2003 a social impact assessment of cotton sector reforms, which the staffs believe can go a long way toward explaining the apparent increase in poverty in rural areas in the face of relatively high growth.

IV. POVERTY REDUCTION STRATEGY

13. **The PRSP's strategic framework, which rests on four main pillars, is coherent and oriented toward results.** The four pillars to effective poverty reduction are as follows: (i) bolstering the medium-term macroeconomic framework; (ii) strengthening human development and environmental management, including improving the access of the poor to quality basic services (basic education, primary health care, water and sanitation, food security and nutrition, adequate habitat, and rural roads); (iii) improving governance and institutional reforms, such as decentralization, public administration reform, and the strengthening of the legal and judicial system; and (iv) improving employment or income-generating opportunities for the poor and strengthening their capacity to participate in decision making and production. The staffs agree that these areas of focus appropriately address the root causes of poverty laid out in the poverty diagnosis and consider that the policy action plan set forth in the PRSP is broadly consistent with the four pillars.

A. Targets, Indicators, and Monitoring

14. **Given past trends, most medium- and long-term targets presented in the PRSP are realistic but those for income poverty and girls' education appear ambitious.** The set of intermediate and outcome indicators covers most of the Millennium Development Goals (MDGs). The targeted reduction in monetary poverty is consistent with the MDG target of halving poverty by 2015. While the lack of comparable historical data on poverty makes this target difficult to assess, it appears ambitious and will require timely and sustained implementation of the poverty reduction strategy and a significant strengthening of implementation capacity at all levels. In light of the apparent higher income poverty incidence in rural areas, this target would fail to address geographical disparities. The target for primary school enrollment is set at 100 percent by 2015, which, though less ambitious than the MDG of universal primary completion, is clearly very ambitious for girls. A continuation of the rate of enrollment growth for boys since 1990 would lead to the attainment of the universal primary enrollment goal well ahead of the 2015 target. But the gap between girls and boys is such that, at the current pace, universal primary enrollment for girls may not be attained before 2015. The infant mortality rate is expected to be reduced by two-thirds, in line with the MDG target and past performance. The PRSP does not present targets either for maternal mortality or for access to reproductive health services, but conservative medium-term targets are set for assisted birth, prenatal consultations, and contraceptive prevalence. The goal of universal access to safe water is expected to be reached in 2010, in advance of the MDG time frame.

15. **The staffs believe that the core set of indicators in the PRSP is appropriate, given existing conditions and institutional monitoring capabilities.** These focus mainly on priority sectors (basic education, health, safe water, environment, agriculture, and transportation) and will over time need to be supplemented with indicators to monitor the impact of the governance, judicial, and cotton sector reform programs, as well as with intermediate impact indicators for other key public actions. Also, for policy-targeting purposes, greater disaggregation would be useful to capture social group, gender, and regional disparities.

16. **The PRSP proposes an ambitious and comprehensive plan to improve data collection and analysis** and establishes a Poverty Reduction Information System. The monitoring framework will rely on administrative data collection, regular survey work, and the program budget-monitoring system developed in priority sectors. The PRSP proposes implementation of an agenda of surveys to address gaps in poverty knowledge.⁴ The proposed monitoring and evaluation system is comprehensive, and an intensive capacity-building program supported by various donors has been designed. However, more work is needed to specify (i) the content of the monitoring and evaluation program; (ii) an institutional mechanism to ensure that monitoring results feed into strategy making and policy design; and (iii) a participatory monitoring mechanism at the national and departmental levels.

⁴ See the action plan for improving the PRSP in Annex 13 for a list of the surveys planned. In addition, a general population census was carried out in 2002, that will provide by June 2003 valuable data for poverty analysis.

B. Macroeconomic Framework

17. **To achieve a significant reduction of poverty, the PSRP emphasizes the need for the authorities to accelerate economic growth through higher investment while maintaining financial stability.** The PRSP presents two macroeconomic scenarios for 2003-05: a baseline scenario consistent with the PRGF-supported medium-term program approved in July 2002, and a second, more ambitious scenario reflecting a higher level of social and infrastructure expenditures. The baseline scenario reflects current commitments and firm indications from donors about available external financing over the medium term, an increase in the revenue/GDP ratio to 17 percent through further improvements in tax administration, and the reallocation of government expenditure to priority sectors. The second scenario is based on raising the level of government expenditure about 1.5 percentage points of GDP higher than in the baseline scenario, in order to finance higher investment in the priority sectors. The expected demand and productivity gains from higher investment are reflected in higher real GDP growth rates, which exceed the rates in the baseline scenario by about 0.3 percent annually on average. Inflationary pressures are projected to remain limited in this scenario. In light of recent growth performance, the staffs consider the higher growth scenario as feasible, provided that Benin makes substantial progress in implementing the structural reform agenda of the PRSP and maintains a stable macroeconomic policy stance.

18. The authorities have indicated that they intend to increase public investment above the levels in the baseline scenario to the extent that additional external financing in the form of donor grants or highly concessional loans is made available. While seeking to accelerate its progress toward achievement of the MDGs, the government will need to ensure that this additional external borrowing is consistent with Benin's objective of maintaining external debt sustainability. This will require implementing a prudent borrowing policy, with a view to increasing reliance on grants and highly concessional loans, as well as strengthening the monitoring of external financing policy. **The authorities recognize that the absorptive capacity of the economy needs to be strengthened,** so as to maximize the effectiveness of donor support. Indeed, the mobilization of external financing for the proposed priority investment projects will depend to a significant extent on better implementation of the current sectoral programs, which, in turn, will require improvements in prioritization of spending, implementation capacity, and budget management, along the lines set out in the PRSP. As the achievement of the poverty reduction targets is based on the scenario with higher public expenditure, the authorities will need to revise their targets if the scenario is not fully implemented.

19. Regarding **regional integration**, the PRSP mentions Benin's membership in the West African Economic and Monetary Union (WAEMU). The macroeconomic policy framework developed in the PRSP is in line with the Regional Convergence, Stability, Growth, and Solidarity Pact adopted by the member countries of the WAEMU.⁵ The steps taken by Benin to comply with WAEMU's directives to harmonize budget laws, as well as government accounts and statistics, help strengthen public expenditure management.

⁵ The Pact, adopted in December 1999, reinforces the system of mutual surveillance through a set of relevant criteria in order to support the common pegged exchange rate regime and boost the regional reform agenda. Benin has been one of the most compliant members of the WAEMU regarding the Pact.

The implementation of the WAEMU common trade policy since January 2000 should facilitate attainment of the private-sector-led growth objectives.

C. Policies for Implementing the Strategy

20. **The PRSP addresses most of the key policy issues and constraints in poverty reduction.** The policies are broadly consistent with the issues raised in the diagnosis, the priorities identified during consultations, and the resulting poverty reduction objectives. The overall orientation of sectoral policies is consistent and appropriate for meeting Benin's poverty reduction objectives.

21. **Structural reforms are recognized as being crucial to the promotion of private-sector-led growth,** and the PRSP identifies several of the many obstacles faced by the private sector in expanding its activities and investing. These constraints include weaknesses in the judicial system, low financial intermediation, high transaction costs owing to inadequate infrastructure, and an insufficient supply of skilled workers. The PRSP stresses the importance of completing the privatization program and implementing the comprehensive ten-year program for reforming and strengthening the legal and judicial system. The private sector development strategy is nonetheless incomplete. In particular, the PRSP could have elaborated on (i) how to increase financial intermediation and promote savings and access to credit; and (ii) how to further streamline business regulations to reduce red tape and transaction costs. The staffs welcome the authorities' intention to further develop their private sector strategy in 2003.

22. **While the proposed social policies support the poverty reduction and MDG targets discussed above, they may not suffice by themselves to achieve these objectives.** In **education**, while the measures included in the PRSP are desirable, they may not be sufficient to achieve the targeted improvements in quality and gender equity. In particular, the already large share of the higher education budget is projected to increase further, while the main structural weaknesses and strategic issues in this subsector are not being addressed. The education subsector strategies are not adequately coordinated, and the government will need to develop a more coherent overall strategy. In addition, greater attention to increasing access for girls will be necessary to reach the targets set in the PRSP. The **health strategy** is oriented toward poverty reduction and the fight against HIV/AIDS, malaria, and tuberculosis, but critical issues remain to be addressed more systematically. In particular, the authorities should consider how to (i) improve accessibility of the poorest groups to health services and modern medicine; (ii) increase the utilization rate of health services; (iii) step up efforts to improve hygiene and sanitation; and (iv) develop partnerships with the private sector. Since no concrete actions are proposed to accelerate the implementation of the 1996 National Population Policy, the staffs are concerned that population issues will not be addressed in an effective fashion. The high rate of demographic increases limits the potential for improving the welfare of the population, puts pressure on the growth and availability of productive resources, and threatens the natural resource base, especially in the coastal zone. Finally, the PRSP does not propose a policy framework for social inclusion and measures targeted to reach vulnerable groups.

23. **The staffs welcome the explicit recognition of gender equality as a priority for poverty reduction.** But while the PRSP points to gender disparities in some key sectors, it does not propose actions to tackle the persistence of systemic legal and sociocultural

barriers to women's empowerment, which affect their ability to contribute to economic growth and development. No reference is made to the recent passage of the Personal and Family Code, which falls short of providing a gender-responsive legal framework. Significant sharpening of the gender focus of sectoral strategies will be required to meet gender equality targets.

24. **The overall strategic objectives for rural development are appropriate, although further work is needed to detail and prioritize the actions presented in the PRSP.** Rural development is characterized by institutional fragmentation (at least three ministries are involved) and highly dispersed aid. In the context of the preparation of the PRSP and the budget management reform, the government has prepared an integrated agriculture and rural development strategy and initiated the development of detailed action plans, which are to be translated in concrete program budgets. This work should be reflected in the first PRSP progress report. **The PRSP underscores that further liberalizing the cotton sector is key to increase cotton producers' incomes and reducing poverty in rural areas.**

25. **The staffs welcome the importance attached to good governance and the effort made to identify specific actions in that regard,** especially the focus on anticorruption and the comprehensive public expenditure reform program. The staffs believe that a successful implementation of this program will be essential not only to improve budget execution and fiscal accountability, but also—and more importantly—to increase absorptive capacity, improve results on the ground, and elicit support from development partners.

26. **For the governance strategy to be fully successful, the public expenditure reforms need to be complemented by the effective implementation of a comprehensive administrative reform.** The staffs recommend that the authorities (i) develop an overall public administrative reform strategy that includes a modern human resource management system based on merit, (ii) revitalize the stalled civil service reform, and (iii) take up these elements in the progress report. While decentralization is seen as an essential instrument for implementing the poverty reduction strategy, there is not yet a detailed plan for the devolution and decentralization process. The staffs recommend designing a detailed implementation action plan over the medium term, including measures to ensure that decentralization does not compound issues in expenditure management and financial accountability. Finally, the implementation of the proposed comprehensive legal and judicial program will also be key to improved governance.

27. **The PRSP emphasizes the importance of specific measures to improve employment and income-generating opportunities for the poor and to strengthen their capacity to participate in decision making.** Proposed policies include fostering community development, developing a strong employment policy, increasing access to microfinance, and improving professional training, gender mainstreaming, and regional development. However, in many areas, more work is required to identify the concrete, targeted, and realistic measures needed to achieve the proposed goals. Also, the creation of new implementation agencies for these purposes does not appear justified in light of the existing associated ministerial and public sector functions, which should be strengthened and better utilized.

D. Public Expenditure Program and Financing

28. **The comprehensive medium-term expenditure framework (MTEF)⁶ laid out in the PRSP is broadly in line with the strategic priorities for poverty reduction.** This MTEF is based on detailed budget programs for priority sectors that link quantitative targets, policies and actions with expenditures, and it includes investment and recurrent costs. The framework covers sector-specific programs financed by HIPC Initiative debt relief. Under the MTEF, budget allocations for priority sectors will increase to 12.4 percent of GDP on average over 2003-05 from 8.7 percent in 1996-99, with their share increasing from 63.5 percent to 72.6 percent of total government expenditure. An effort has also been made to better balance investment and recurrent costs in priority sectors. More work will be needed to improve project and program prioritization, so that adequate funding for priority programs is ensured. In order to improve the poverty impact of expenditure programs, staffs encourage the government to increase the absorptive capacity of sectoral ministries and to carry out poverty and social impact analysis of government programs as a basis for further refinement of the MTEF. The expenditure program in the PRSP baseline scenario is fully financed, and the government is seeking additional concessional financing consistent with debt sustainability objectives to support the higher-spending scenario.

E. Risks and Challenges to the Strategy

29. **The staffs consider that the successful implementation of the PRSP is subject to three substantial risks.** First, Benin's economy remains highly vulnerable to exogenous shocks, especially cotton price changes, which could affect rural incomes and export earnings. The second major risk is weak institutional capacity, which could undermine the refinement and implementation of the PRSP. Difficulties in organizing the PRSP process, as well as delays in finalizing a full PRSP and implementing structural and institutional reforms reflect this weakness. Greater ownership by the government and the beneficiaries should provide greater incentives for strengthening national capacity, but there is clearly a risk that improvements in capacity could be slower than desired. In this regard, the PRSP institutional framework may need to be revised and strengthened to institutionalize the participatory process and improve the ability of the PRSP to facilitate government coordination and priority setting. The Bank, Fund, and other donors, which already provide capacity building support in their respective areas of expertise, stand ready to further deepen their support in areas of priority for the PRSP. A final risk is that the large infrastructure projects scheduled under the 2001-06 Government Action Program have not been assessed for their contribution to growth and poverty reduction and may crowd out more poverty-focused spending.

V. CONCLUSIONS

30. **The staffs of the Bank and Fund conclude that Benin's PRSP provides an adequate framework for the poverty reduction strategy.** The authorities will need to

⁶ A summary of this MTEF is presented in annexes to the PRSP; detailed program budgets were submitted for priority sectors to the National Assembly together with the 2003 budget law.

address the important shortcomings, however, in order to make the strategy fully operational and ensure its effectiveness. The strategy is well structured and consistently organized around major building blocks of poverty reduction. The priority actions and measures proposed in the strategy address the main issues facing the various sectors. The strategy underscores the government's commitment to reforms in public expenditure management and decentralization as means to improve results on the ground and enhance ownership. Successful implementation will require mastering of organizational and institutional challenges and accelerating structural reforms, especially with respect to privatization, governance, and public sector management.

31. The staffs of the IMF and the World Bank consider this PRSP a credible poverty reduction strategy that provides a sound basis for Fund and IDA concessional assistance and debt relief under the HIPC Initiative. The staffs recommend that the respective Executive Directors of the IMF and the World Bank reach the same conclusion.

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