# *VOLUME 1*

# *BENIN*

## *Diagnostic Trade Integration Study*

December 18, 2005

# REPUBLIC OF BENIN

**Weights and Measures:**
Metric System

**Fiscal Year:**
January 1 - December 31

**Currency Unit:**
CFA (Franc)

**Average Exchange Rates:**
2004: US$1.00 =528.28
2003: US$1.00 =581
2002: US$1.00 =697
2001: US$1.00 =733

| | | |
|---|---|---|
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## Acknowledgments

This report was prepared in the context of the Integrated Framework (IF) sponsored by six IF partner institutions[1]. The Integrated Framework (IF) was established under the World Trade Organization (WTO) in October 1997 to facilitate the coordination of trade-related technical assistance to least developed countries (LDC), and to promote an integrated approach to assist these countries in enhancing their trade opportunities. The original IF entailed preparing a Needs Assessment for the eligible LDCs followed by a Roundtable or Consultative Group meeting to secure donor financing for the trade action plan. However, an independent review concluded that the IF only produced modest results and that a new approach was required. Emerging from this review, the IF Working Group recognized the need to integrate trade strategy with Benin's overall development strategies and to improve coordination among donors -- including the six IF partner institutions -- in providing technical assistance to LDCs. The new approach was piloted initially for Cambodia, Madagascar and Mauritania during July–October 2001 and is now underway in several other countries. It introduced the Diagnostic Trade Integration Study (DTIS) as a vehicle to analyze constraints to LDC integration into the global economy by identifying trade-related technical assistance needs to enhance the country's prospects for increased integration into world trade and by incorporating trade issues into national development strategies, including poverty reduction.

The overall Benin IF is managed and supervised by Mr. Salomon Samen (Regional Trade Coordinator, World Bank's Africa Region). Mr. Leendert Solleveld, Trade Department provided support in the dialogue with donors and the IF Steering Committee.

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# Acronyms

| | |
|---|---|
| ADEX | Association de Développement des Exportations |
| ADSL | Asymetric Digital Subscriber Line (for data transmission on telephone lines) |
| ADIAB | Association des Distributeurs d'Intrants Agricoles du Bénin |
| AFD | Agence Française de Développement |
| AGOA | African Growth and Opportunity Act |
| AGROPE | Association des Agriculteurs et Opérateurs Economiques |
| AIB | Acompte sur l'Impôt sur le Bénéfice |
| AIC | Association Interprofessionnelle du Coton |
| APEB | Association Professionnelle des Egreneurs du Bénin |
| BAE | Bon a Enlever |
| BCEAO | Banque Centrale des Etats de l'Afrique de l'Ouest |
| BIC | Impôts sur les Bénéfices Industriels et Commerciaux |
| BRVM | Bourse Régionale des Valeurs Mobilières |
| C.N.Ex | Conseil National D'Exportation |
| CAD | Commissionnaires Agrées en Douane |
| CAGIA | Coopérative d'Approvisionnement et de Gestion des Intrants Agricoles |
| CBCE | Centre Béninois du Commerce Extérieur |
| CCIB | Chamber of Commerce and Industry of Benin |
| CEBENOR | Centre Béninois de Normalisation et de Gestion de Qualité |
| CED | Certificat d'Evaluation Douanière |
| CET | Common External Tariff |
| CFDT | Compagnie Française pour le Développement des Fibres Textiles |
| CI | Code des Investissements |
| CNBC | Conseil National des Chargeurs de Bénin |
| CPI | Centre de Promotion des Investissements |
| CSPR | Centrale de Sécurisation des Paiements et Recouvrements |
| CWIQ | Core Welfare Indicator Questionnaire |
| DCE | Direction du Commerce Extérieur |
| DTIS | Diagnostic Trade Integration Study |
| EBA | Everything But Arms |
| ECOWAS | Economic Community of West African States |
| EIPA | Export and Investment Promotion Agency |
| EPA | Economic Partnership Agreement |
| ERSUMA | Ecole Régional Supérieure de la Magistrature |
| FAFP | Fonds d'Appui à Frais Partagés |
| FCFA | Franc CFA |
| FDI | Foreign Direct Investment |
| FENAPRA | Fédération Nationale des Producteurs Agricoles |
| FENAPROP | Fédération Nationale des Groupements de Producteurs |
| FUPRO | Fédération de l'Union des Producteurs du Bénin |
| GDDS | General Data Dissemination System |
| GDPIA | Groupement Professionnel des Distributeurs d'Intrants Agricoles |
| HACCP | HYazard Analysis Critical Control Point |
| HDI | Human Development Index |
| HIPC | Heavily Indebted Poor Countries Initiative |
| ICAC | International Cotton Advisory Committee |

| | |
|---|---|
| IMF | International Monetary Fund |
| INRAB | Institut National de Recherche Agricole de Bénin |
| INSAE | Institut National de la Statistique et de l'Analyse Economique |
| IRAM | Institut des Recherche Agronomiques de Montpellier |
| IRVM | Impôts sur les Revenues de Valeurs Mobilières |
| ITC | International Trade Center |
| JITAP | Joint Integrated Technical Assistance Program |
| LARES | Laboratoire d'Analyse Régionale et d'Expertise Sociale |
| LDC | Least Developed Countries |
| MCAT | Ministry of Culture, Traditional Crafts, and Tourism |
| MAEP | Ministère de l'Agriculture, de l'Elevage et de la Pêche |
| MDG | Millennium Development Goals |
| MICPE | Ministère de l'Industrie, du Commerce et de la Promotion de l'Emploi |
| MTEF | Medium Term Expenditure Framework |
| NGO | Non-Governmental Organization |
| OBOPAF | Observatoire des Opportunités des Affaires |
| OCBN | Organisation Commune Benin-Niger |
| OHADA | Organisation pour l'Harmonisation en Afrique du Droit des Affaires |
| OPT | Office des Postes de Télécommunications |
| PAC | Port Autonome de Cotonou |
| PADSP | Projet d'Appui pour le Développement du Secteur Privé |
| PCS | Prélèvement Communautaire de Solidarité |
| PRSP | Poverty Reduction Strategy Paper |
| REER | Real Effective Exchange Rate |
| RS | Redevance Statistique |
| SBEE | Société Béninoise de l'Energie Electrique |
| SEC | Recensement Général de la Population et de l'Habitat |
| SME | Small and Medium Enterprise |
| SODICOT | Société d'Egrenage Industriel du Coton du Bénin |
| SONAPRA | Société Nationale pour la Promotion Agricole |
| SONICOG | Société Nationale des Industries de Corps Gras |
| SONICOP | Société Nationale pour la Commercialisation des Produits Pétroliers |
| SSA | Sub-Saharan Africa |
| SYSCOA | Système de Comptabilité Ouest Africain |
| TEC | Tarif Extérieur Commun |
| TFU | Taxe Foncière Unique |
| TPU | Taxe Professionnel Unique |
| TVA | Taxe sur la Valeur Ajoutée |
| UNCTAD | United Nations Conference on Trade and Development |
| UEMOA | Union Economique et Monétaire Ouest Africaine |
| UNDP | United Nations Development Program |
| UNIDO | United Nations Industrial Development Organization |
| VAT | Value Added Tax |
| VPS | Versement Patronal sur Salaries |
| WAEMU | West African Economic and Monetary Union |
| WTO | World Trade Organization |
| ZFI | Zone Franche Industrielle |

# EXECUTIVE SUMMARY

**Background**.

Located in the Gulf of Guinea next to Nigeria[2] in West Africa, Benin is a small and very poor country with a population of about 7 million. The country has achieved a successful transition since 1989 from a Marxist-Leninist state towards a pluralist democracy and a market economy. Ethnic harmony reigns. The country enjoys a free press and relative political stability. In the 1991 democratic presidential election, the incumbent President Mathieu Kérékou, who ran the country from 1972 to 1991, lost to President Soglo. Five years later, Kérékou defeated Soglo in a run-off election, and regained the presidency. President Kérékou was subsequently re-elected for a second five-year term in March 2001.

Important reforms initiated in the early 1990s with the change in regime have paid off. Growth rates average about 5 percent annually since 1991. This growth performance is significantly superior to most African countries[3], resulting in modest increases in per capita incomes as well as improvements in education and health outcomes. Nonetheless, poverty remains widespread and per capita income is well below the Sub-Saharan average.

Benin is a member of the West African Economic and Monetary Union (WAEMU), a group of seven Francophone countries and Guinea Bissau, and of the Economic Community of West African States (ECOWAS). Participation in WAEMU has had a major effect on Benin's economic policies, notably through the regional monetary union and customs union. Although integration has advanced much less in ECOWAS, Benin remains strongly influenced by economic and political developments in its large neighbor Nigeria.

Benin's Poverty Reduction Strategy Paper (PRSP), adopted by the Government in December 2002, makes poverty reduction the centerpiece of the government's development goals. As the government recognizes, economic growth is a necessary condition for poverty alleviation. For a small country such as Benin, growth in turn is impossible without integration into the world economy. Benin's coastal location next to Nigeria and borders with several land-locked countries (Niger, Burkina Faso), makes it a natural transportation hub. Benin also has a long tradition of trading with these countries. At present, Benin's trade remains highly dependent on cotton and transit trade with Nigeria, both of which have recently revealed serious vulnerabilities, reflecting underlying problems in the business climate. The DTIS provides a golden opportunity for a comprehensive reassessment of Benin's policies relating to international trade and investment.

[2] Nigeria is potentially the largest economy in Africa with a Gross Domestic Product (GDP) estimated at US$52.8 billion, and an estimated population of 133 million in 2002.
[3] The average for Sub Saharan Africa on the same period is 2.3 percent.

## Objective

The primary objective of this diagnostic study of the trade and investment environment in Benin is to help the government define a strategy and an integrated approach for a greater participation of the country in regional and global markets. To this end, the study: (i) develops an integrated approach for trade, investment, and sector development activities for traditional as well as non-traditional areas with high growth potential; and (ii) provides a framework to better integrate the efforts of key stakeholders (i.e. government, the private sector, multilateral and bilateral donors) to promote pro-poor trade and investment. The study concludes with an actionable program to enhance competitiveness, and to increase trade and investment in traditional and non-traditional sectors.

**The central message** of this DTIS is that notwithstanding significant progress since the move to a market-oriented economy in 1990, further reforms are required to achieve sustained higher rates of growth and accelerated poverty reduction. These reforms include a broad range of medium- and long-term institutional[4] and policy measures not only to achieve higher growth, but also to sustain it over time. Because firms' decisions have major implications for growth and poverty reduction[5], their decisions largely depend on the way Government policies and behaviors shape the business climate in the country. Improving the investment climate for both local and foreign firms involves not only expansion of markets, but also increased public goods without which markets cannot function effectively. As Governments worldwide have important roles in providing public goods, support for improved infrastructure, and mitigating other market failures, areas identified in this DTIS where the Benin's Government could act alone or in coordination with external partners to bring about sustained growth and poverty reduction include: (i) lowering costs of doing business through a more equitable tax burden, increased access to finance, trade facilitation, contract enforcement, and adequate infrastructure, while reducing excessive bureaucracy, corruption and rent-seeking behavior; (ii) reducing barriers to competition in product and labor markets, and streamlined business regulation; and (iii) minimizing business risk through property rights protection, land title reform, judiciary reform, and elimination of arbitrary regulations. [6]

## Main Challenges.

Despite progress achieved on some reforms over the last decade (e.g. macro-stability, trade policy reforms), Benin now faces multiple development challenges. With regard to international trade -- the focus of the DTIS -- there are three main challenges facing Benin.

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[4] As per Shahid J. Burki and Guillermo Perry (1998) in "Beyond the Washington Consensus: Institutions Matter," institutions are here defined as rules that shape the behavior of organizations and individuals. They can be formal (constitutions, laws, regulations, contracts, internal procedures) or informal (values and norms of specific organizations or society). They can also be thought of as non-price incentives for the behavior of individuals or organizations.

[5] World Development Report 2005: A Better Investment Climate For Everyone

[6] Benin's role as a transit hub for its powerful neighbor Nigeria suggests the analogy of Hong Kong vis-à-vis China, notwithstanding important differences. Hong Kong parlayed its trade with China into an engine of growth, developing a diversified manufacturing and service economy on the foundation of the gains from trade with China. The key lesson from Hong Kong and, indeed, from all successful emerging economies, is that exports flourish when the institutional environment is favorable and the government's priority is economic development.

**The first challenge is to maximize income generated from the cotton sector.** Cotton accounts for 50-80 percent of merchandise exports (Chapter 3), depending on world prices and harvests. Much of the small industrial sector revolves around processing cotton, particularly ginning. Benin faces both international and national pressure on its important cotton sector. **(i)** At the international level, it is known and under discussion at the WTO (World Trade Organization) that subsidies in developed countries depress world prices and lower incomes of farmers in cotton-exporting countries. **(ii)** At the domestic level, Benin began to liberalize the cotton sector in the mid 1990s. The liberalization process provided an increasing role for the private sector. Instead of complete liberalization, an alternative set of private-sector oversight institutions was established, with prices and market shares determined by negotiations between industry groupings and the government. The reforms have encountered unexpected difficulties associated with opportunistic behavior of a small but increasing number of participants. The steady rise in non-compliance or delays in meeting obligations in payments, loan servicing and delivery of services is resulting in a dangerous erosion of confidence in the system. Debts and arrears are accumulating. Credit recovery fell to just over 90 percent in 2002-03, down from 98 percent in the two previous years. Distribution of inputs has been disorganized. The use of pesticides has not followed recommended norms and resulted in pest infestation. For these reasons the reforms failed to spur the hoped-for increase in yields, Efforts at increasing local cotton processing beyond ginning have been largely unsuccessful so far. Actions to maximize income generated from the cotton sector could include:

**(i)** pursuit of efforts, with other cotton producing developing countries, to reduce developed countries' cotton subsidies, in the context of the WTO Doha development round;

**(ii)** completion of the privatization of SONAPRA;

**(iii)** further liberalization of pricing and greater scope for competitive bidding should be combined with tougher enforcement of rules and sanctioning of opportunistic and illegal behavior. The two 2003 government decrees affirming the primacy of the CSPR must be enforced;

**(iv)** improved conditions for greater local processing of raw cotton.

**The second challenge is to rationalize transit and re-export trade.** Transit and re-export trade with Nigeria and to a lesser extent the land-locked countries of the region are vastly more important to Benin than official statistics reveal. Unofficial exports to Nigeria alone are estimated at almost half official exports. Nigeria's restrictive and volatile trade barriers encourage unofficial exports, with Nigeria's average tariff currently at 28.6 percent compared to 12.1 percent for Benin (WTO 2004). Benin's policies and practices historically have been and continue to be swayed by the lure of informal or semi-official trade. Benin benefits substantially from this parallel trade in the form of income, employment and fiscal revenues. Often, goods are imported officially, thereby generating customs revenues, and then re-exported unofficially. The sustainability of this trade, however, is precarious, given its dependence on trade policies in Nigeria. For example, a recent crackdown effort by Nigerian President Obasanjo and moves to liberalize the Nigerian economy could remove the incentive to transship through Benin. Actions to rationalize transit and re-export trade could include:

**(i)** wholesale elimination of multiple and redundant controls for transit and re-export, to be replaced by computerized tracking of shipments;

**(ii)** reduced dependence on trade taxes as a source of revenue through widening of the tax base, notably through a more equitable distribution of the tax burden between the formal and informal sectors;

**(iii)** greater cooperation with Nigeria and in the context of ECOWAS to reduce trade barriers on formal trade and limiting the incentives for smuggling and tax evasion.

**The third and final challenge is to diversify the country's export base.** Outside of cotton and transit trade, export-oriented enterprises are scarce despite preferential access to developed-country markets (e.g. Everything But Arms (EBA) initiative in the EU, African Growth Opportunity Act (AGOA) in the US, and Generalized Systems of Preferences (GSP) in some OECD countries). Benin appears to have unrealized potential comparative advantage in various raw and processed tropical agricultural products, such as cashew nuts and pineapples. Tourism and fish also show promise. However, institutional weaknesses appear to underpin the difficulties faced by these fledgling industries. Actions to reinforce export diversification could include:

**(i)** technical assistance to farmers in quality control, credits and inputs;

**(ii)** development of local agro-processing; and

**(iii)** improved quality of processed fish to meet the needs of European and US markets.

## High Priority Reforms

The three challenges highlighted above call for a second generation of reforms to improve the institutional and infrastructural environment for formal-sector production and exports. In a world where production is footloose and capital is mobile, the quality of infrastructure and of the institutional environment (e.g. reliable power and telephone service, minimal red tape and delays at the port and customs, an honest and efficacious judiciary system, and secure property rights) is decisive in fostering both local and foreign investment. In many instances, this is a matter of political will and organizational reform, requiring little expenditure. Benin can capitalize on its favorable location and political stability in a more sustainable fashion.

The DTIS provides a comprehensive assessment of **(i)** the overall institutional and infrastructural environment, **(ii)** policies and institutions directly impinging on trade and **(iii)** sectoral constraints and opportunities. In all areas identified, directions for reform as well as technical assistance needs are sketched out with recommendations embedded in the action matrix.

### THE OVERALL INSTITUTIONAL ENVIRONMENT

**Macroeconomic Policy**. At the macroeconomic level, Benin's situation appears quite favorable, despite significant real appreciation of the CFA currency (pegged to the Euro) in recent years and recent fiscal difficulties. Benin benefits from membership in WAEMU (West African Economic and Monetary Union) and particularly the common currency and peg to the Euro, guaranteeing monetary stability. The slowdown in growth associated with the problems with Nigeria and the cotton sector have put pressure on the fiscal deficit, but the government is taking steps to consolidate fiscal stability in the form of short run expenditure control. In the longer run, fiscal policy should aim to strengthen customs and tax administration and expand the tax base to finance greater social expenditures. Hence, Benin would need to wean itself from foreign trade taxation revenue and strengthen its domestic tax system.

**Factor Costs**. While conferring monetary stability, the CFA's peg to the Euro precludes exchange-rate adjustments as a means of improving export competitiveness. It is therefore all the more important that Benin maintains competitive and flexible factor costs and well-functioning public services. Instead, however, electricity and telecommunications costs tend to exceed regional averages, and service quality is relatively poor (see Chapter 5). Fresh efforts to restructure and privatize utility industries could improve quality of services and reduce factor costs.

**Legal and Judiciary Systems.** These function poorly, especially regarding competition and land tenure (Chapter 6). Court cases drag on for years, and rulings are often aberrant. The OHADA (" Organization pour l'Harmonisation en Afrique du Droit des Affaires") harmonization is a promising lever with which to address some of these problems such as better training of judges and improved legal codes. It merits greater technical assistance.

**Financial System.** Benin is dominated by a few commercial banks that cater to the formal sector and fail to meet the needs of SMEs (Small and Medium Enterprise) and farmers. While the banks are in sound financial condition thanks to the restructuring of the 1990s and the strict prudential regulations of the regional central bank, there is almost no long-term credit available and SMEs are virtually excluded from any access to credit. Efforts to increase the access of SMEs and farmers to credit should be undertaken through education of both lenders and borrowers, along with limited lines of credit and guarantee funds provided by donors. Creation of an export credit guarantee fund and other export financing mechanisms should be explored. At the regional level, the member states of WAEMU should initiate a discussion regarding the possibility of easing the regional central bank's stringent prudential and foreign exchange regulations with a view to increasing the flexibility of lending and foreign exchange operations, without sacrificing the hard-won soundness of the banking system.

**Tax System.** Benin's direct and indirect taxes, particularly customs duties and value added taxes (VAT), have largely been harmonized within the WAEMU structure, with Benin's VAT rates near the WAEMU average (Chapter 6). Customs duties, now set by the common external tariff (CET) are, generally, relatively low and uniform for a developing country. Business tax rates (VAT and corporate income taxes) are rather high for a poor country, however, and Benin should consider lowering them to levels similar to Cote D'Ivoire, provided the tax base is simultaneously expanded. As the experience of many countries suggest, lowering rates can and should be accompanied by an expansion of the tax base, especially to include large players in the informal sector. At present, the small formal sector bears almost all the burden of the tax system.

## TRADE-RELATED POLICIES

Benin's favorable geographical location, calm social climate and political stability are conducive to foreign and domestic investment and export growth geared towards Nigeria or global markets. However, the business climate needs to improve through, inter alia, more effective trade facilitation and trade support institutions, better governance, and better delivery of public services across-the-board.

**Export and Investment Promotion Mechanisms.** These, including the "Code des Investissements" and other tax exemptions, have evidently not been effective. In theory, exports are exempt from value added taxes, and firms are eligible for rebates on value added taxes on inputs used in producing exports. In practice, however, rebates are received only after very long delays or not at all. Various other tax abatement relief provisions are available, such as duty drawbacks and bonded warehouses. In practice, however, there are few industries in Benin at present that can take advantage of such measures so they are largely hypothetical. In an effort to address the near total absence of manufactured exports, since 1999 Benin has moved to establish an industrial free-trade zone. While a well-functioning free-trade zone could provide a boost to manufactured exports (as it did in some countries like Mauritius), the authorities should seek to minimize the potential negative impact of free-trade zones on fiscal revenue, fraud, and corruption by applying strict eligibility criteria and ensuring the efficiency of the zone's administration.

**Trade Support Institutions.** Given the underdeveloped state of markets in developing economies, well-functioning support institutions are critical. But in these same economies, these institutions tend to be ineffective. Benin is a case in point. The industrial sector is embryonic and, aside from cotton, agriculture is disorganized. The need for effective technical assistance is evident. Moreover, the lack of organized industry and agriculture suggests that support institutions must foster new investments rather than merely assist existing firms.

In Benin, there are numerous agencies, public and private, with unclear and overlapping mandates. There is no over-arching strategy within which these institutions operate. The resulting redundancy and incoherence hampers performance measurement, reduces transparency and accountability, and undermines effectiveness. With few exceptions, most of the services offered by these institutions do not correspond to the needs of the export community.

The trade and investment support institutions should be consolidated into a single export and investment promotion agency (EIPA). This institution should use modern management techniques, be staffed by qualified personnel, such as product specialists and function specialists with private sector backgrounds who can provide advice and guidance to new exporters, rather than career civil servants. It should also work closely with constituents in the private sector. The head of EIPA should be the "Monsieur/Madame Export" called for in the previous reform efforts, a person of high standing having direct access to the President of the Republic.

The EIPA[7] funding could be limited to small amounts of co-financing or seed money, with most of the funding for any export development projects coming from financial markets. An export and investment development fund managed by the EIPA could be funded by a very small charge on imports or a similar arrangement, as is the case in a number of other countries, along with an initial injection of funds by donors.

The other functions of the EIPA should include:

- Technical assistance to entrepreneurs with regard to credit, marketing, quality control, etc.

- Creation of a national capacity building program for entrepreneurs and managers in cooperation with the relevant ministries, e.g., agriculture, tourism, etc.

- Establishment of one or two trade representation offices for Benin abroad, in locations to be determined by the head of EIPA and its staff.

- A leadership role in pushing for urgent remedial action on constraints and bottlenecks to exports as identified in the DTIS and other studies.

**Trade Facilitation.** The Port Autonome de Cotonou (PAC) competes with the Ports of Lome (Togo),Tema (Ghana), and Lagos (Nigeria) as a gateway to the region. To reap the full advantages of its geographic position, the decisive factor should be quality of trade facilitation, notably the PAC's services, customs administration as well as ease of internal transit and external transport connections. Improvement in trade-facilitation services could serve as a strong signal to foreign investors and local entrepreneurs that Benin is an attractive location for

[7] Rather than creating additional charges or taxes that could further increase the number of taxes levied on imports, consideration should be given to increasing existing earmarked fees.

investment. Administrative problems and corruption appear endemic, however, with consequent adverse effects on Benin's competitiveness.

The PAC is handicapped by deficiencies in infrastructure, organization, and operation, which have led to loss of competitiveness vis-à-vis Lome and Tema. Private operators have complained for years about high costs and delays in movement of merchandise, with little success until recently. Many -- even most -- of the requisite reforms need not be costly, insofar as they involve improvements in procedures and management. These include revising the port's legal status to give it greater autonomy, improving access to the port for incoming trucks and traffic circulation within the port, and greater security. A rationalization of the various entities operating at the port is needed (Chapter 8). Shallow water channels -- the most significant physical constraint on the port's competitiveness -- could be ameliorated through more frequent dredging and extension of a sand barrier.

Customs operations in Benin are characterized by multiple and redundant controls associated with discretionary power of customs officials. Large smuggling rings operate with impunity. Computerization has improved, but transparency of customs operations must be further enhanced. The new ASYCUDA++ system should be completed and interconnected with related services, notably the port and regional trading partners. Manual data entry and cash payments should be eliminated in favor of modern electronic data entry and payments methods. In consultation with WAEMU authorities, consideration should be given to the consolidation of categories II and III of the WAEMU CET rates, in order to simplify customs administration. Transit shipments should be eased through a reduction of controls at the port and along the roads. The battle against smuggling should target large underground trading networks rather than small players, as presently is mostly the case.

## SECTORAL POLICIES

**Cotton.** At the international level, Benin should work with Mali, Benin, Burkina Faso and other African cotton producers to lobby for more open world markets, and especially, a reduction of the indefensible developed country subsidies. Benin does not have the luxury, however, of using developed country subsidies as an excuse to avoid further restructuring of the cotton sector. The government must urgently address flaws in the reforms, not by going back to the old-vertically-integrated system, but by enforcing the new system and reconfiguring where necessary, in particular, the role of the government (Chapter 9). Further pricing liberalization and wider competitive bidding must be combined with tougher rules on enforcement and sanctioning of opportunistic and illegal behavior. The two 2003 government decrees affirming the primacy of the CSPR "Centrale de Securisation des Paiements et Recouvrements" must be adhered to and enforced.

The possibility of further up-stream processing of cotton fibres should be explored. But it is not clear whether Benin has a comparative advantage in thread and cloth production, which are quite capital-intensive. Still, any attempt to promote cotton processing should not be at producers' expense. Improving the overall business climate to attract private investors, as discussed above is the precondition for a viable cotton-processing sector. The state-owned textile factories should be privatized or liquidated.

**Other Potential Sources of Export Diversification**. Benin appears to have unrealized potential comparative advantage in various raw and processed tropical agricultural products, tourism, and fishing. Here too, institutional weaknesses appear to underpin the difficulties faced by these fledgling industries.

**Agriculture**. Rural Benin is dominated by small-holder farms. Such farmers can only prosper in the presence of certain basic public goods: infrastructure and knowledge about production techniques, quality control, and foreign markets. In addition, in the absence of a well-defined legal environment, access to credit is problematic. Crops other than cotton have been almost completely ignored by the government. The result is that production is erratic and may fail to satisfy foreign standards and quality stipulations. Farmers resort to using cotton inputs for other crops given the unavailability of more appropriate ones. The Ministry of Agriculture and the trade support institutions should collaborate to provide targeted production, marketing and credit assistance and incentives, and to reinforce producer organizations. Investments in infrastructure, such as rural roads and storage areas, must be undertaken with donor assistance.

**Agro-Processing**. Agro-processing is almost non-existent outside of cotton. Again, technical assistance with production, quality control, marketing, etc. from the new EIPA is essential. Equally important, however is improving the business climate, as discussed previously.

**Fishing**. The paramount problem is satisfying European norms. Here the ball is in the government's court. The establishment of accredited laboratories and inspection mechanisms are the key to lifting the moratorium on shrimp exports. In this regard, the government should work with exporter associations and the EU, with the latter providing technical assistance. Exploring export prospects and constraints on the US markets should also be considered.

**Tourism.** Benin has substantial tourist attractions but little effort has gone into their development. Historic and environmental enhancement and preservation as well as marketing Benin's image in Europe receive very little attention. The government should work with private developers in identifying a tract of land on the coast within easy range of the country's most important cultural assets for hotel development. Tourist development, as for other sectors, requires attention to improving incentives and institutions, e.g., the inability to obtain secure land title.

## PRIORITY REFORMS

Following World Bank-led missions that visited Benin in 2004, this DTIS sets out Benin's trading strengths, potential and prospects, as well as weaknesses and obstacles to a greater integration into the multilateral trading system. A prioritized action program of trade-related technical assistance is proposed with the hope that it will mobilize appropriate support from donors and international agencies. Although all actions developed in the DTIS and summed up in the Action Plan Matrix are essential for accelerated poverty reduction and economic growth in Benin, it is critical to prioritize the actions needed. For each policy action and technical assistance component, priorities are indicated in the Action Plan Matrix as high, medium, or low. For each policy action component, the priorities refer to the relevance and importance of the action in the overall strategy to meet the challenges for structural reform and accelerated integration into regional and global markets. The timeframe highlights the urgency/timing or time horizon to implement the reforms.

<u>Overview of high priority recommendations of the DTIS:</u>

(a) **Improve trade facilitation**

i. **Port cluster actions**. Liberalize cargo handling at the port; streamline port operations and revise the zoning and circulation plans to improve entry, exit, circulation within the port and allocation of storage space; move petroleum depot out of the port and increase warehouse and open-air storage capacity as well as truck parking space.

ii. **Customs cluster actions**. Complete computerization (SYDONIA ++) and eliminate all manual data entry; reduce cash payments to small amounts; introduce risk management practices and targeted inspection techniques; respect PSI valuations, make the "guichet unique" operational so that a single payment covers all port and customs services; regularize transit procedures.

(b) **Consolidate trade and investment support institutions** into a single Export and Investment Promotion Agency (EIPA).

i. Devise a detailed strategic plan with private sector involvement.

ii. Implement the plan and its accompanying measures.

(c) **Improve the judiciary, legal and regulatory frameworks for private investment**

i. Train judges and provide greater incentive to reward good governance.

ii. Streamline land ownership/ registration operations for unique and recognized land titles.

iii. Develop appropriate regulatory and foreign investment frameworks to deal with the high cost and poor quality of telecommunications and electricity.

(d) **Cotton reforms**

i. Consolidate sector reforms at home. The latter entails enforcing the sanctions on opportunistic agents and continuing to liberalize pricing and entry.

ii. Continue to press for reductions in global cotton subsidies before the WTO.

(e) **Regional Integration**

i. Continue to use regional integration as a vehicle for reform, extending the progress made in WAEMU to ECOWAS.

ii. Work to engage Nigeria in negotiations to reduce barriers to trade while curtailing smuggling.

# ACTION MATRIX

## Policy Reforms and Trade-Related Technical Assistance Requirements

| Proposed Measures | Priority | Responsible Institutions and Bodies | Proposed Timeframe | Monitoring Indicators | Type of Assistance (TA) | Existing TA | To be Provided TA |
|---|---|---|---|---|---|---|---|
| ***Overview of High Priority Reforms*** | | | | | | | |
| **Improve trade facilitation** (see cluster actions port and customs below). | Highest | Port<br>Customs, Chamber of Commerce (CCIB) | 1-2 years | Competition in port handling; reduction in delays at port and customs; full computerization of port and customs operations | Port facilitation expert<br><br>Customs/ Transit experts | | |
| **Consolidate trade and investment support institutions** (see cluster actions below) | High | Ministry of Commerce, Ministry of Plan, Ministry of Finance, Presidency, producer groups | 1-2 years | Detailed strategic plan to consolidate trade institutions into a single export and investment promotion agency (EIPA).<br><br>Implement plan. | Senior resident trade promotion advisor and short term consultants | World Bank, UNCTAD, ITC, WTO | |
| **Improve judiciary, legal and regulatory framework to boost private investment and trade** (see cluster actions below) | High | Ministry Of Justice Ministry of Energy, Ministry of Posts and Telecommunications | 1-2 years | Unique and recognized land titles;<br>Selection of strategic foreign partner for telecommunications and electricity companies. | Land titling expert, Legal experts;<br>Investment bank services | World Bank<br>EU | |
| **Cotton reforms** (see cluster actions below) | High | Ministry of Agriculture, Ministry of Finance | 1-2 years | Privatization of SONAPRA; producer pricing reform | Investment bank services | World Bank, AFD | |
| **Regional integration and trade with Nigeria** (see cluster actions below) | Medium | Ministry of Commerce, Ministry of Plan, Ministry of Finance, Presidency, CCIB. | 1 year | Reduced number of checkpoints and escorts, reduced smuggling | Customs and transit experts | | |

| Proposed Measures | Priority | Responsible Institutions and Bodies | Proposed Timeframe | Monitoring Indicators | Type of Assistance (TA) | Existing TA | To be Provided TA |
|---|---|---|---|---|---|---|---|
| ***Macroeconomic Framework:*** ***Objective 1: Ensure greater macroeconomic stability*** | | | | | | | |
| **Action 1:** Continue to abide to WAEMU convergence criteria. | High | Ministry of Finance, Ministry of Plan | Ongoing | WAEMU Commission Indicators | | | |
| **Action 2:** Reduce dependence on trade taxes. | Medium | Ministry of Finance | Next few years | Tax receipts and increased reliance on VAT | Consultations with IMF | IMF | |
| **Action 3:** Streamline customs operations/improve tax administration and increase the tax base. | Medium | Ministry of Finance | Next few years | Increased Taxpayer database | | | |
| **Action 4:** Consolidate Expenditure Management and control non-essential expenditures. | Medium | Ministry of Finance | Next few years | Reduced non essential expenditure indicators | Consultations with IMF | IMF | |
| **Action 5:** Monitor real exchange rates on a bilateral and multilateral level to assess macroeconomic competitiveness | Medium | BCEAO, Ministry of Finance, Private Sector | Ongoing | Real exchange rate indicators | Statisticians, economists | IMF | |

| Proposed Measures | Priority | Responsible Institutions and Bodies | Proposed Timeframe | Monitoring Indicators | Type of Assistance (TA) | Existing TA | To be Provided TA |
|---|---|---|---|---|---|---|---|
| ***International Competitiveness and Business Climate: Objective 1: Reduce the cost of Doing Business*** | | | | | | | |
| **Action 1:** Lower factor costs and improve service of electricity and telecommunications through public-private collaboration and investment | High | Ministry of Energy, Ministry of Posts and Telecommunications | Ongoing | Prices of electricity, frequency of blackouts, coverage. Prices of telephone, frequency of failed connections. | Energy and privatization experts | World Bank | |
| **Action 2:** Lower VAT and corporate tax rates while expanding tax base | High | Ministry of Finance | Ongoing | Larger number of filers and payees | Fiscal experts | IMF | |
| ***International Competitiveness and Business Climate: Objective 2: Minimize Business risk*** | | | | | | | |
| **Action 1:** Improve protection of property rights | High | Ministry Of Justice | Next few years | | Legal experts | ? | |
| **Action 2:** Reform land title | High | Ministry Of Justice | 1-2 years | Registry of land ownership, unique and recognized land titles | Legal experts | ? | |
| **Action 3:** Reform of the Judiciary system | High | Ministry Of Justice | Next few years | Improved training of judges. | ? | | |
| ***International competitiveness and the business climate Objective 3: Reduce barriers to competition*** | | | | | | | |
| **Action 1:** Improve system of investment promotion | High | Ministry of Commerce, CPI, Private investors | | Revised investment code, simplified and harmonized within WAEMU | | | |
| **Action 2:** Implement competition law | High | Ministry of Commerce | 1-2 years | Apply UEMOA rules on competition | Legal experts | ? | |
| **Action 3:** Liberalize labor law to reduce costs of dismissing workers | Medium | Ministry of Justice, Ministry of Labor | | Application of WAEMU provisions; reduced number of legal conflicts | Legal experts | ? | |

| Proposed Measures | Priority | Responsible Institutions and Bodies | Proposed Timeframe | Monitoring Indicators | Type of Assistance (TA) | Existing TA | To be Provided TA |
|---|---|---|---|---|---|---|---|
| ***Trade Facilitation:***<br>***Objective 1: Improve the quality of services of the Port..*** | | | | | | | |
| **Action 1:** Accelerate implementation of the strategic plan, zoning plan. | High | Ministry of Transport (Port) Ministry of Interior (Security) Ministry of Defense | Start: end first trimester Completion: Beginning second trimester | Traffic plan, right of way signs, eased traffic flow, | Technical assistance in port management | UNCTAD | |
| **Action 2:** Increase port security. | High | Port, Police | Immediately | Number of reported thefts | Consultation with private sector | | |
| **Action 3 :** Improve port computerization | Medium | Port | Next few years | Link up various port services through a computer network; create an internet site. | Information technology specialists | UNCTAD | |
| **Action 4:** Improve port governance | Medium | Port, Ministry of Transport | One year | Revised statutes governing port status to grant greater autonomy and private sector role | Representatives of other ports, knowledge of best practices elsewhere | World Bank | |
| ***Trade Facilitation:***<br>***Objective 2: Improve the Port infrastructure.*** | | | | | | | |
| **Action 1:** Move petroleum depot out of the port | Medium | Port, Petroleum companies, Ministry of transport, Ministry of Mines | Medium term | See the master plan and zoning plan | | | |
| **Action 2:** increase warehouse and open-air storage capacity, more usable dock space | Medium | Port, Private sector | Next few years | Time in transit and volume of traffic | Partnership between private and public sectors | | |
| **Action 3:** continue to liberalize cargo handling, review the role of CNCB | High | Ministry of Transport (Division of Merchant Shipping), Private sector | One year | Eliminate bribes and the 10,000 FCFA fee levied on private cargo handlers | Partnership between private and public sectors | | |

| Proposed Measures | Priority | Responsible Institutions and Bodies | Proposed Timeframe | Monitoring Indicators | Type of Assistance (TA) | Existing TA | To be Provided TA |
|---|---|---|---|---|---|---|---|
| **Action 4:** increase and improve truck parking | High | Port | Immediate | More parking spaces, fewer trucks in non-designated parking areas | Partnership between private and public sectors | | |
| ***Trade Facilitation:*** ***Objective 3: Improve customs administration.*** | | | | | | | |
| **Action 1:**Full Diagnostic of present customs practices | High | Ministry of Finance (Customs) | One year | Report on customs practices in line with WCO tested tools. | Customs experts | | |
| **Action 2:** Customs computerization | High | Customs | One year | Complete implementation of ASYCUDA++ system and eliminate all manual data entry | Customs experts | IMF | |
| **Action 3:** Customs payment methods | High | Customs | Next few years | Eliminate all cash payments above a certain threshold, develop electronic funds transfers | Customs experts | IMF | |
| **Action 4: Customs and port:** Make *guichet unique* operational so that a single payment covers all port services | High | Customs, port, | One year | Reduce number of documents and payments required before exit from port | Customs experts | IMF | |
| **Action 5: Customs:** More targeted inspections | High | Customs | Immediate and Ongoing | Reduced number of inspections based on carefully articulated criteria, | Customs experts | IMF | |
| ***Trade Facilitation:*** ***Objective 4: Improve customs administration.*** | | | | | | | |
| **Action 1:** Revise strategy against smuggling and corruption to target large-scale networks | High | Customs, Ministry of Justice, Ministry of Interior | Immediate and ongoing | Legal action against well-known large smuggling networks | Customs experts | IMF | |
| **Action 2:** Information sharing with tax authorities and other countries and introduction of risk management practices. | High | Customs, Ministry of Finance, Customs in Nigeria and other adjacent countries, WAEMU and ECOWAS | Immediate and Ongoing | Initiate discussions and set up consultation system | Customs experts | IMF | |

| Proposed Measures | Priority | Responsible Institutions and Bodies | Proposed Timeframe | Monitoring Indicators | Type of Assistance (TA) | Existing TA | To be Provided TA |
|---|---|---|---|---|---|---|---|
| **Action 3:** Create a new ethos and motivation for Customs personnel | High | Customs, Ministry of Labor, Ministry of Justice | Next few years | New system of remuneration and punishment of corrupt agents, | Customs experts | IMF | |
| **Action 4:** Reduce number of checkpoints on the highways, eliminate customs and police escorts and clean-up transit business | High | Customs, Police, Presidency | Immediate | Diminish number of checkpoints, escorts | Customs/ Transit experts | IMF | |
| **Action 5:** Make better use of PSI services and elimination of discretion of undervaluation | Medium | Customs | Immediate and ongoing | Respect PSI valuations, increased coverage of its operations | Customs experts | IMF | |
| ***Trade Facilitation:*** ***Objective 5: Miscellaneous.*** | | | | | | | |
| **Action 1:** Improve road maintenance | High | Ministry of Transport (Public Works Division) | Immediate and Ongoing | Improved road surfaces | Donor financing | ? | |
| **Action 2:** private operator for OCBN railroad | Medium | Ministry of Transport | Immediate | Call for bids; improved infrastructure | Rail experts | | |
| **Action 3:** improve security on highways | High | Ministry of Justice, Ministry of Interior | Immediate | Number of hold-ups | | | |

| Proposed Measures | Priority | Responsible Institutions and Bodies | Proposed Timeframe | Monitoring Indicators | Type of Assistance (TA) | Existing TA | To be Provided TA |
|---|---|---|---|---|---|---|---|
| ***Trade Support Institution:*** ***Objective 1: Implement a single export and investment promotion agency.*** | | | | | | | |
| **Action 1:** Trade support institutions should be consolidated into a single export and investment promotion agency (EIPA). | High | Ministry of Commerce, Ministry of Plan, Ministry of Finance, Presidency, producer groups, private sector | Plan over next few months and implement in one year | Liquidation of poorly functioning agencies, merging of others | Senior resident trade promotion advisor and short term consultants | World Bank, UNCTAD, ITC, WTO | |
| **Action 2:** Head of EIPA should have high stature and cabinet status | High | Ministry of Commerce, Ministry of Plan, Ministry of Finance, Presidency, producer groups, private sector | Next few months | Appointment of head of EIPA, who is invested with strong support from the Presidency | | | |
| **Action 3:** EIPA should manage a strategic export and investment promotion fund | High | Ministry of Commerce, Ministry of Plan, Ministry of Finance, Presidency, producer groups, private sector | 1-2 years | Initial bridge financing by donors; continuing finance through levy on imports | Senior resident trade promotion advisor and short term consultants | World Bank, UNCTAD, ITC, WTO | |
| **Action 4:** private sector professionals should staff EIPA. | High | Ministry of Commerce, Ministry of Plan, Ministry of Finance, Presidency, producer groups, private sector | Plan over next few months and implement in one year | New staff with private sector experience | Senior resident trade promotion advisor and short term consultants | World Bank, UNCTAD, ITC, WTO | |
| **Action 5:** EIPA should work closely with DCE and other officials in Ministries and the | High | Ministry of Commerce, Ministry of Plan, Ministry of | Ongoing | Regular meetings of officials concerned with economic policy and international trade | Senior resident trade promotion advisor and short term consultants | World Bank, UNCTAD, ITC, WTO | |

| Proposed Measures | Priority | Responsible Institutions and Bodies | Proposed Timeframe | Monitoring Indicators | Type of Assistance (TA) | Existing TA | To be Provided TA |
|---|---|---|---|---|---|---|---|
| private sector | | Finance, Presidency, producer groups, private sector | | | | | |
| **Action 6:** EIPA should work to assist entrepreneurs to obtain credit | High | Ministry of Commerce, Ministry of Plan, Ministry of Finance, Presidency, producer groups, private sector | Ongoing | | Senior resident trade promotion advisor and short term consultants | World Bank, UNCTAD, ITC, WTO | |
| **Action 7:** To create a national capacity building program for entrepreneurs and managers | High | Ministry of Commerce, Ministry of Plan, Ministry of Finance, Presidency, producer groups, private sector | Ongoing | | Senior resident trade promotion advisor and short term consultants | World Bank, UNCTAD, ITC, WTO | |
| **Action 8:** To establish one or two trade representation offices for Benin abroad | High | Ministry of Commerce, Ministry of Plan, Ministry of Finance, Presidency, producer groups, private sector | Ongoing | | Senior resident trade promotion advisor and short term consultants | World Bank, UNCTAD, ITC, WTO | |
| **Action 9:**To play a leadership role in pushing for urgent remedial action on constraints and bottlenecks to exports | High | Ministry of Commerce, Ministry of Plan, Ministry of Finance, Presidency, producer groups, private sector | Ongoing | | Senior resident trade promotion advisor and short term consultants | World Bank, UNCTAD, ITC, WTO | |

| Proposed Measures | Priority | Responsible Institutions and Bodies | Proposed Timeframe | Monitoring Indicators | Type of Assistance (TA) | Existing TA | To be Provided TA |
|---|---|---|---|---|---|---|---|
| ***Export Of traditional product: Cotton.<br>Objective 1: To advance with the Domestic Reforms*** | | | | | | | |
| **Action 1:** Reinforce and support the new producer organizations | Very High | Ministry of Agriculture, producer organizations, Ministry of Literacy | Ongoing | Sidelining of parallel organizations for ginners, input suppliers, farmers | Financing and technical assistance | World Bank | |
| **Action 2:** Sanction opportunistic behavior by dissident agents operating in disregard of established rules; enforce 2003 inter-ministerial decrees | High | Ministry of Agriculture, Ministry of Justice, producer organizations | Immediate | Prohibit participation of and take legal action against village groupings, ginners and input providers that violate rules | | | |
| **Action 3:** Move towards market pricing of seed cotton and inputs | High | Ministry of Agriculture, producer organizations | Next few years | Higher ratio of producer price to world price | Agricultural experts | World Bank | |
| **Action 4:** Privatize SONAPRA while ensuring that its functions of oversight of the sector are covered by other agents | Medium | Ministry of Finance, Ministry of Plan, Ministry of Commerce, Ministry of Agriculture | Next few years | Sale of the SONAPRA | Privatization experts | IMF, World Bank | |
| **Action 5:** Create the conditions for greater local processing of raw cotton (textiles, clothing, cottonseed oil) | Very High | Ministry of Commerce | Ongoing | Improved overall business environment (see above); Privatization of state-owned textile factories | Financing and technical support | | Ministry of Agriculture, Ministry of Commerce, CCIB |
| ***Export Of traditional product: Cotton.<br>Objective 2: To continue to press for reduction of Cotton Subsidies.*** | | | | | | | |
| **Action 1:** Work to reduce developed country subsidies in conjunction with other Cotton producers African countries | High | Ministry of Commerce, Ministry of Commerce, NGOs | Ongoing | Negotiations with the WTO, continued collaboration with other West African countries | Trade negotiation specialists | WTO, UNCTAD, ITC | |

| Proposed Measures | Priority | Responsible Institutions and Bodies | Proposed Timeframe | Monitoring Indicators | Type of Assistance (TA) | Existing TA | To be Provided TA |
|---|---|---|---|---|---|---|---|
| ***Export Of traditional product: Cotton.*** ***Objective 3: To maximize the income generated from the cotton sector.*** | | | | | | | |
| **Action 1:** Ensure delivery of public services to farmers: rural roads, research, etc | High | Ministry of Agriculture, producer organizations | Immediate and ongoing | Collect fees from all users as stipulated; sanction non-contributors | | | Ministry of Transport, Transporters, NGOs |
| **Action 2:** Set up a stabilization mechanism (regulatory and financial environment) enabling cotton sector protect against world price fluctuations. | High | Ministry of Finance, Ministry of Trade, Central Bank, Ministry of Agriculture. | Immediate | Preparation of legislation for modern risk management instruments. | | | Professional organizations |
| | | | | | | | |
| ***Export Of Nontraditional products*** ***Objective 1: Increase exports of nontraditional agricultural goods.*** | | | | | | | |
| **Action 1:** Reinforce producer organizations to increase bargaining power and lower transactions costs/ attract the interest of fair/alternative trade organizations to let develop alternative outlets | High | Ministry of Agriculture | Immediate and ongoing | Create organization for cashew nut growers; strengthen organization for pineapple growers | Product specialists | World Bank, ADEX, other support institutions | |
| **Action 2:** Provide technical assistance to farmers in quality control, norms, standards marketing, credit, inputs, promotion of new agricultural products, shrimps, and tourism | High | Ministry of Agriculture | Immediate and ongoing | Improved quality control For all products and specially for shrimps and fishery products, access to credit and to foreign markets | Product and process specialists | | |
| **Action 3:** To improve rural infrastructure | High | Ministry of Agriculture | Immediate and ongoing | Improved rural roads, storage facilities | Funding from donors | World Bank, UNDP, Millenium Challenge Account | |

| Proposed Measures | Priority | Responsible Institutions and Bodies | Proposed Timeframe | Monitoring Indicators | Type of Assistance (TA) | Existing TA | To be Provided TA |
|---|---|---|---|---|---|---|---|
| ***Objective 2. Promoting Export Diversification in Agro-processing, shrimp production and tourism*** | | | | | | | |
| **Action 1.** Develop local processing of fruits, nuts and vegetables through improvements in overall business environment as described above, technical assistance to prospective investors and producers | High | Ministry of Commerce, support institutions, Ministry of Crafts (MCAT), Private sector | Immediate and ongoing | Investment in processing factories, beginning of exports canned fruits and vegetables, shea butter, fruit juices, etc. | Product specialists | ITC, World Bank, UNDP, UNCTAD, bilateral donors, ADEX | |
| **Action 2:** Increase shrimp output and exports by raising norms to satisfy EU criteria through accredition and upgrading of laboratories and testing procedures. | High | Ministry of Agriculture, CCIB | Immediate and ongoing | Resume shrimp exports to the European Union | Funding and material assistance in setting up accredited laboratories and procedures | EU, WAEMU program | |
| **Action 3:** Expand tourism :<br>- Designate a section of the coast for a hotel/resort complex in the Ouidah, Porto Novo, Abome vicinity<br>- Open a competition for a lead developer; - Promote a voodoo and/or music festival. | High | Ministry of Tourism (MCAT) | Next few years | Increased number of tourists | Tourist consultant | | |

| Proposed Measures | Priority | Responsible Institutions and Bodies | Proposed Timeframe | Monitoring Indicators | Type of Assistance (TA) | Existing TA | To be Provided TA |
|---|---|---|---|---|---|---|---|
| ***Regional integration.*** ***Objective 1**: Promote regional and global trade; reduce non-official trade with neighboring countries.* | | | | | | | |
| **Action 1:** Regularize trade with Nigeria | High | Presidency, Ministry of Finance, Ministry of Commerce, Customs | Immediate | Negotiate new accords on transit and re-exports; promote official trade | | ECOWAS | |
| **Action 2:** Rationalize duty exemptions | High | Ministry of Commerce | As soon as possible | More thorough and transparent granting and monitoring of exemptions, Reassessment of free trade zone | Trade policy consultants | ITC, UNCTAD, World Bank | |
| **Action 3:** Increase Intra-WAEMU trade through studies of remaining impediments | Medium | Ministry of Commerce | Next few years | Intra-regional trade | Consultations with partners | | |
| **Action 4:** Promote trade within ECOWAS by working with ECOWAS partners to implement accords | Medium | Ministry of Commerce | Next few years | Intra-regional trade | Consultation with partners | | |

| Proposed Measures | Priority | Responsible Institutions and Bodies | Proposed Timeframe | Monitoring Indicators | Type of Assistance (TA) | Existing TA | To be Provided TA |
|---|---|---|---|---|---|---|---|
| ***Technical Assistance / Capacity Building in the Ministry of Commerce*** <br> ***Objective 1: Enhance the capacity of the Ministry of Commerce to coordinate, implement, and monitor progress on proposed reforms.*** | | | | | | | |
| **Action 1: E**nhance the ministry's of commerce capacity to formulate and implement trade policy; provide staff training; purchase of essential equipment and vehicles | High | Ministry of Commerce, Customs, CCIB | | Preparation of a restructuring plan of the Ministry; implementation of the plan; set timetable for staff training; preparation of detailed inventory equipment and vehicle needs | External expert to identify and verify needs; External trainers in trade policy, increase participation in WTO Training Institute training | | |
| **Action 2:** Strengthen of the Ministry of Trade and Industry, and institutions for business development | High | Ministry of Commerce | As soon as possible | Strengthened institutions | Expert to identify and confirm needs; Trainers in the area of computer systems +training | ITC, UNCTAD, World Bank | |
| **Action 3:** Improve quality and timeliness of official trade statistics | Medium | Ministry of Commerce, INSAE, CCIB | 6 months | More complete reporting of re-exports and transit; more timely release of data | | ITC, UNCTAD, World Bank | |
| ***Objective 2:Implement WTO agreements and Enhance benefits from other international agreements (EBA, AGOA).*** | | | | | | | |
| **Action 1:** Undertake detailed inventory of existing WTO legislation, including coverage of tariff bindings, gap between bound and applied tariff, WTO customs valuation and standards | Medium | Ministry of commerce, Justice, External relations, and finance | Immediate | Completion of inventory, highlighting existing gaps | International expert on WTO agreements+ training | | |

| Proposed Measures | Priority | Responsible Institutions and Bodies | Proposed Timeframe | Monitoring Indicators | Type of Assistance (TA) | Existing TA | To be Provided TA |
|---|---|---|---|---|---|---|---|
| **Action 2:** Prepare action plan and timeframe for compliance with WTO agreements | Medium | Ministries of Commerce and Industry, Justice, External Relations, and Finance, CCIB | As soon as possible | Completion of action plan and timeframe for correction of identified distortions | International expert on WTO agreement + training | | |
| **Action 3: C**ompliance with WTO agreements. | Medium | Ministries of commerce, Justice, External Relations, and Finance | As soon as possible | Compliance with WTO agreements. Actions to extend the coverage of tariff bindings, reduce the gaps between bound and applied tariffs, and implement WTO customs valuation, and standards could be done in the short term as priority measures | International expert on WTO agreement+training | | |
| **Action 4.** Training of personal and increase awareness of institutions, professional associations, civil society of the WTO | High | Ministries of Commerce, Justice, External Relations, and Finance, CCIB | As soon as possible; during three months | Personnel complete training program; Creating and sensitizing relevant institutions | Expert in training with respect to WTO agreements + training | | |
| **Action 5:** Promote exports to EU, to take greater advantage of EBA program | Medium | Ministry of Commerce | Next few years | Exports to EU | Negotiations/ Consultations with EU | EU | |
| **Action 6:** Promote exports to USA to take greater advantage of AGOA | Medium | Ministry of Commerce, CCIB | Next few years | Exports to USA, particularly textiles and apparel | Negotiations/ Consultations with USAID | USAID | |

# 1. OVERVIEW

This chapter provides a synopsis of Benin's political and economic situation, noting the importance of cotton and transit trade with Nigeria (section 1.1), with the challenges for reform they pose (section 1.2). Section 1.3 lays out the structure of the DTIS.

## 1.1 Background

A small, very poor country located in the Gulf of Guinea in West Africa, Benin has achieved a successful transition since 1989 from a Marxist state towards a pluralist democracy and a market economy. Important structural reforms have been undertaken and growth rates since 1990 averaged around 5 percent annually. Ethnic harmony reigns. The country enjoys a free press and relative political stability, with former Marxist President Kérékou returning to office through elections. At the same time, it is evident that Benin faces profound structural problems. Cotton and transit trade dominate the economy with little success in diversifying exports. The business environment is unfavorable in important respects for formal production and trade. The informal sector, while of course difficult to measure, accounts for more than 90 percent of non-agricultural employment and close to 60 percent of non-agricultural GDP. Without a second set of reforms and the political will to carry them out, the prospects for Benin sustaining high growth and poverty reduction are problematic.

As of 2003, Benin had a population estimated at 6.8 million and a per capita income of $442 in constant 1995 dollars, well below the Sub-Saharan average of $577. More than half the population remains in the countryside, notwithstanding continued migration to urban areas in the face of high population growth (estimated at 3 percent per year since 1999). Benin is a member of the West African Economic and Monetary Union (WAEMU), a group of seven Francophone countries and Guinea Bissau, and of the Economic Community of West African States (ECOWAS). Although integration has advanced much further within WAEMU than ECOWAS, Benin remains strongly influenced by the vagaries of its large neighbor Nigeria, with which it conducts a large volume of informal or semi-formal transit and re-export trade.

**Cotton**. Since the beginning of the 1990s, cotton has dominated the formal sector, in agriculture, industry and foreign trade, but faces serious difficulties. Cotton accounts for about 50-80 percent of merchandise exports and 10 to 15 percent of GDP. This has an important bearing on rural incomes and employment, and much of the small industrial sector revolves around processing cotton, particularly ginning. While cotton subsidies in developed countries are rightly denounced, and their elimination would benefit Benin, the more significant cause for concern is domestic in origin. Long controlled by the parastatal SONAPRA (Societe Nationale Pour la Promotion Agricole), Benin undertook bold reforms in the 1990s, partially privatizing and liberalizing the sector while creating an elaborate and carefully considered set of institutions to oversee the market. The reforms initially appeared to work well. But severe fissures in the system have developed in the last two political campaigns, with increasing opportunism from some of the actors threatening to undermine the sector. Problems in the cotton sector are emblematic of those in Benin more generally: institutions are fragile and the rule of law is weak. It is imperative that institutions be strengthened and corruption reigned in.

**Trade with Nigeria**. The economic and social landscape is heavily influenced by Benin's long shared border with Nigeria, the economic powerhouse of West Africa (see map). Benin's location makes it a transportation and transit hub for Nigeria and the land-locked Sahelian neighboring countries, especially Niger. Economic and social developments in Nigeria exert a decisive influence on Benin's formal and informal sectors, with traders rapidly exploiting differences in trade barriers, regulations between Nigeria and Benin, and fluctuations in the Naira against the CFA franc. Unofficial exports are estimated to represent about 6 percent of GDP and contribute about one-third of customs revenues (IMF, November 2004)[8].

**Map 1: Benin and Neighboring Countries**


At present, the lure of trade with Nigeria has ambiguous effects on Benin. The large informal or semi-formal trade flows benefit substantial numbers of people in Benin. They also add greatly to customs revenue, as informal re-exports to Nigeria are usually imported formally as if intended for the domestic market, and hence are subject to import duties. The sustainability of this trade, however, is precarious, given recent crackdown threats by Nigerian President Obasanjo, and talk of liberalizing the Nigerian economy, which would remove the incentive to transship through Benin.[9] Moreover, a flourishing informal trade sector contributes to a culture of corruption and crowds out more legitimate economic activities.

Outside of cotton and transit trade, export-oriented enterprises are scarce, notwithstanding promising diversification in agriculture, light manufacturing, and tourism. In

[8] IMF estimates, November 2004. See Chapter 4 for further discussion.

[9] President Obasanjo said to Beninese traders on April 22, 2004: "We will not permit our economy to be destroyed by illicit trade…We will never allow entry of goods imported from third countries…But whatever you produce yourselves here in Benin, we will welcome for sale in Nigeria." (Quoted in *Le Rocher Douanier*, No. 094, 26 April 2004, p.2.)

agriculture, Benin has a potential comparative advantage in tropical produce, with demonstrated capabilities in producing highly prized pineapples and cashew nuts, among others products. Small landholders dominate agriculture. However they have limited access to infrastructure, credit, inputs, and knowledge about quality control and markets, resulting in erratic production and sporadic exports. The situation is even more rudimentary in manufacturing, where Benin has had no success in developing fruit and vegetable processing industries. Export of Benin's highly sought shrimp is impeded by failure to satisfy European norms, mostly due to government inaction. Benin's rich cultural heritage and geographic attractions suggest a promising tourist industry, but at present Benin lags well behind others such as Senegal and Ghana in tapping this potential.

### 1.2 An Agenda for Reform

Benin's political stability and role as a transit hub for its powerful neighbor Nigeria are the foundations upon which it can use trade as an engine of growth and build a diversified economy in the long run. [10]

Small countries like Benin can benefit from economic dynamism as well as the dysfunctions in their larger neighbors. Hong Kong capitalized on its stability and geographical location by developing well functioning institutions, particularly trade facilitation (port, customs, and transport connections), a sound financial sector, a reliable legal system and property rights, and efficient infrastructure — much of all this inherited from the British colonial era. Indeed, one of the keys to Hong Kong's success was that it endeavored to maintain the efficiency and probity of its own public services even as it served as entrepot for illicit trade. In Benin, by contrast, the institutional underpinnings of a market economy, such as the legal system and infrastructure, are in a dire state. The poor quality of public services extends to the port and customs administration, which are critical for a country with ambitions to serve as a trading center.

Nigeria's efforts to close the border to re-exports from Benin and to liberalize its own economy could ultimately be a blessing in disguise for Benin insofar as they spur more diversified and legitimate forms of trade. The 1951 United Nations embargo on China was a major impetus to Hong Kong's shift from an entrepot economy to a producer of manufactured and service exports for developed countries.[11] At the same time, liberalization and growth in Nigeria could also spill over to Benin, just as Hong Kong re-invented itself as a financial and organizational service center for Chinese manufactured exports as China opened to world commerce in the 1980s.

Unlike Hong Kong in the 1950s, Benin is primarily rural with low human capital and potential comparative advantage in tropical agricultural products, fishing, and tourism rather than manufacturing. But the fundamental lessons of Hong Kong and East Asia more generally could apply everywhere with adaptation of local contexts and realities: growth and poverty reduction

[10] Benin's situation vis-à-vis Nigeria suggest the analogy of Hong Kong vis-à-vis China. Hong Kong parlayed its entrepot role into a diversified manufacturing and service economy (Chau 1997).

[11] As Chau (1997) describes, Hong Kong's traders were able to adapt their entrepreneurial skills to manufacturing remarkably easily, contrary to the view that trading and production are antithetical that is often voiced in Benin. Also, Hong Kong benefited from the movement of entrepreneurs from China, just as Benin can take advantage of the movement of businesspeople to and from Nigeria.

are achieved through greater economic efficiency, good governance and adequate institutions.[12] In recent years, a near consensus has emerged on the positive effects of export growth and diversification on economic development. Perhaps most convincingly, the remarkable success of a number of East Asian and other "miracles" such as Mauritius and Chile have all been at least partly based on integration into the global economy and rapid export growth.[13] Export growth in turn requires political stability and efficacious governance. Good governance means attention to macroeconomic stability, secure property rights, adequate infrastructure, basic education, well-functioning technical training, limiting arbitrary action of officials, etc.[14]

Beyond these basic institutional requirements, another lesson from Hong Kong and other emerging successful economies is that each country must formulate a unique strategy or vision of its economic development and integration in the world economy based on the particularities of its situation. In the case of Benin, such a vision would have to center on its proximity to Nigeria, hence the significance of the analogy to Hong Kong, imperfect as it is. The specific policies appropriate for Benin will differ from Hong Kong's but not the general lesson. That is, a small country with ambitions to be a trading hub must have adequate government services (transport, port, and customs) that operate more efficiently and with less corruption than those in neighboring countries.[15]

## 1.3 Focus of the DTIS

Based on details analysis of government and market failures, the DTIS aims to provide a comprehensive analysis and set of prescriptions regarding Benin's integration into the global economy, with a view to advancing the goals of economic development and poverty reduction, as articulated in the Poverty Reduction Strategy Paper (PRSP), adopted by the government in December 2002. The PRSP rests on four pillars:

(a) Strengthening macroeconomic stability

(b) Developing human capital and environmental management

(c) Strengthening good governance and institutional capacity

(d) Promoting employment and enhancing participation of the poor

As a small country sharing a large border with Nigeria and with a port serving as a gateway to land-locked countries in West Africa (Niger and Burkina Faso), it is self-evident that trade must play a central role in attaining these objectives.

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[12] See World Bank (1993), Westphal (2002), UNIDO (2003).
[13] See Panagariya (2004), Dollar and Kray (2002) and Bhagwati and Srinivasan (2002) for restatements of the case for openness as a necessary condition for growth and poverty reduction.
[14] See Harrold et al (1996).
[15] Jones' (2000) theory of globalization identifies the quality of a country's service links as the key to its ability to attract internationally mobile production processes.
Rodrick, D(2003) "Growth Strategies", to be published in handbook of economic growth.

The DTIS draws on several important recent exercises including the WTO's Trade Policy Review, UNCTAD's Investment Policy Review, and the ITC's JITAP II, focusing on providing technical assistance to Benin in the trade area. The DTIS is broader in scope and focuses not only on trade and investment policies *per se*, but also on the institutional environment affecting them. After a macroeconomic overview (Chapter 2), the first volume of the DTIS examines Benin's trade policy and trade patterns (Chapters 3 and 4). Cross-cutting issues of international competitiveness, the business climate, trade support institutions, and trade facilitation (especially the port and customs) are addressed in Chapters 5-8. Sectoral issues are covered in Chapter 9 (cotton) and 10 (promising areas of export diversification). An examination of the links between trade and poverty alleviation is provided in Chapter 11 and a set of recommendations summarized in Chapter 12 and detailed in an action matrix. The second volume is devoted to annexes and statistical appendix.

# 2. THE MACROECONOMIC ENVIRONMENT, GROWTH AND POVERTY [16].

## 2.1 Introduction

Because macroeconomic stability is crucial for sustained growth, this chapter provides a broad overview of recent macroeconomic[17] developments, and puts in context the more detailed analysis of subsequent chapters.

Benin has been one of the most politically stable countries of West Africa since 1990, achieving a successful transition from a centrally controlled economy to a market economy. From independence in 1960 to 1972, the country experienced a succession of military governments, which ended with the rise to power of Mathieu Kérékou and the establishment of a Marxist-Leninist government. Kérékou's Marxist Leninist regime ended in 1989. Since 1991, the country has embarked on a series of economic and structural reforms supported by the IMF and the World Bank. Integration with other West African economies under the West African Economic and Monetary Union (WAEMU)[18] has been a central dimension of the move towards liberalization and opening to the world economy. The chapter reviews the growth and composition of output, inflation, and the fiscal balance (section 2.2), external balance and foreign debt (section 2.3), regional integration and the macroeconomic implications of WAEMU (section 2.4), the business climate and investment (2.5), poverty and human development indicators (section 2.6), concluding with an assessment of the key issues for growth and poverty reduction (section 2.7).

## 2.2 Recent Economic Development

**Growth and Structure of the Economy:** Since Benin started its political and economic transition, GDP growth rates have been relatively high, at 4.8 percent during 1990-2003, compared to 2.3 percent for Sub-Saharan Africa, and much improved over the volatile and often negative growth rates before 1989-1990. The improved growth reflects both increased investment and higher total factor productivity, spurred by the economic reforms. The investment to GDP ratio rose from under 10 percent prior to the reforms to about the African average of 18 percent by the end of the 1990s. Domestic saving rates remain very low, however, with much of investment financed by foreign saving via the current account deficit and foreign assistance (see below). The devaluation of the CFA franc also provided a boost to Benin's growth. In 2000-2003, the average growth rate rose further to 5.4 percent despite a dip to 4.8 percent in 2003. Given the high population growth rate, per capita income increased at a modest 1.5 percent annually in the 1990s, rising to about 2 percent in 2000-03.

[16] This chapter draws on a report by Raju Kalidindi.

[17] Macroeconomic instability leads to lower economic growth because it reduces the level of investment and the rate of productivity growth in the economy. An unstable macroeconomic environment is usually characterized by high and variable rates of inflation, by sudden changes in economic policies causing sharp changes in relative prices. This results in uncertainty and misallocation of resources.

[18] The treaty establishing the WAEMU became effective on August 1, 1994. Member countries are Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal, and Togo.

Because of Benin's geographic location and the importance of trade and commerce, the tertiary sector is the dominant sector with 50 percent of GDP. The primary and secondary sectors contribute 37 percent and 13 percent of GDP, respectively. As a result of the high proportion of trade and commerce in the tertiary sector and subsistence farming in the primary sector, the informal sector represents 70 to 75 percent of the economy.

**Table 2.1 Benin Macroeconomic indicators period averages, 1990- 2006**

| **Benin Macroeconomic Indicators, Period averages** | **1990-95** | **1996-99** | **2000-03** | **2004-06*** |
|---|---|---|---|---|
| **Real GDP growth (%)** | **4.1** | **5.2** | **5.4** | **4.7** |
| Primary | 4.3 | 6.6 | 5.3 | 5.1 |
| Secondary | 4.9 | 3.5 | 7.4 | 4.9 |
| Tertiary | 2.7 | 4.4 | 4.7 | 4.0 |
| **Real GDP per capita growth (%)** | **1.1** | **2.3** | **2.6** | **1.8** |
| Gov. revenue (% of GDP) | 12.4 | 15.2 | 16.7 | 16.9 |
| Gov. expenditure (% of GDP) | 19.9 | 18.0 | 20.6 | 21.8 |
| Overall balance (% of GDP) | -7.5 | -2.8 | -3.9 | -4.9 |
| Terms of Trade | 6.6 | -6.9 | 2.3 | 3.4 |
| Exports (GNFS, % GDP) | 15.6 | 17.1 | 14.3 | 13.7 |
| Current account deficit (% of GDP) | 3.9 | 6.2 | 8.0 | 8.0 |

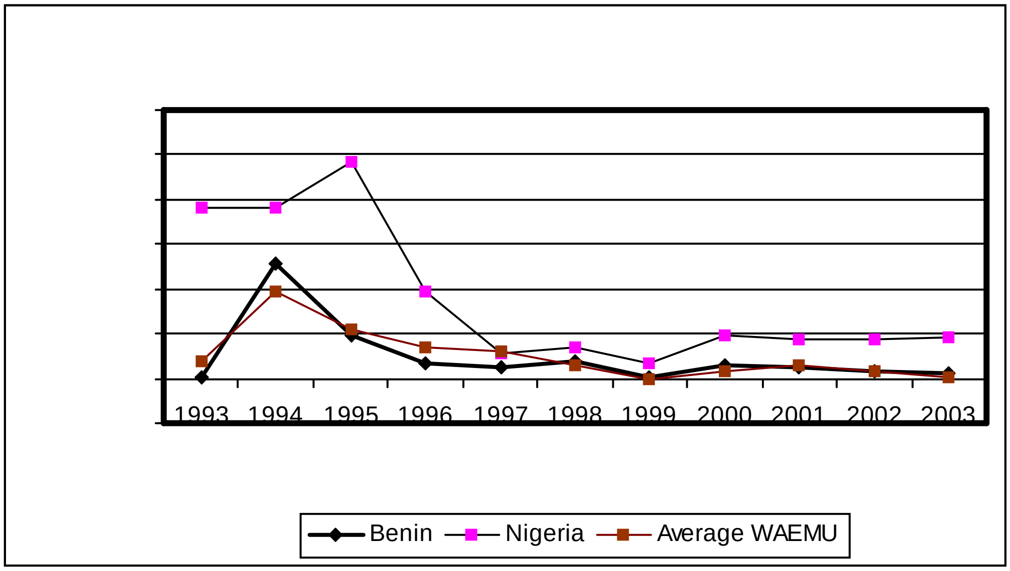
*Source: World Bank and IMF, November 2004, * forecasted values.*

Growth**,** however, was expected to fall in 2004 to about 3 percent, mainly due to a poor cotton crop and more vigorous efforts by Nigeria to reduce unofficial imports from Benin.[19] The slowdown in growth points to the importance of deepening institutional and policy reforms. Under the assumption that the government is successful in tackling the difficulties in the cotton sector and other structural problems, strong growth is projected to resume in 2005-06.

**Inflation:** Inflation is under control. Annual average inflation fell to 1.5 percent in 2003 from its peak at 38.5 percent in 1994 in the aftermath of the 1994 devaluation. The monetary policy pursued by the regional central bank (BCEAO) has been prudent (See fig. 2.1).

[19] The poor cotton crop resulted largely from difficulties in adjusting to far-reaching reforms (see Chapter 9).

**Figure 2.1: Benin Inflation Rate, 1993 - 2003**




*Source: World Bank database SIMA, December 2004*

**Public Finance:** Fiscal performance has been broadly satisfactory but the recent crackdown by Nigeria on transshipments through Benin have had led to a substantial decline in revenues both directly through reduced customs receipts and indirectly through the induced economic slowdown. The pursuit of prudent fiscal policies is a key factor in supporting the common exchange rate regime in the WAEMU**.** Despite additional expenditures for PRSP priority areas, the overall fiscal deficit (before grants) remained low at 4.6 percent in 2003. The basic fiscal balance[20] to GDP ratio, which should be positive according to WAEMU convergence criteria, has indeed been positive for about a decade. Due to weaker economic activity and the apparent decline in informal trade with Nigeria, resulting in falling in government revenue, the overall fiscal deficit (before grants) is estimated to have been above 5 percent in 2004. The government has responded to this development in the short run by cutting non-priority spending and continuing to improve public expenditure management and tax administration over time.

**Government Revenue:** In 1990, prior to the reforms, total government revenue to GDP was less than 10 percent. With improved growth and tax collections, revenues gradually increased to 17 percent of GDP in 2003, which is still below the Sub-Saharan average of about 20 percent. Total tax revenue is about 90 percent of total domestic revenues. For Benin, 47 percent of total revenue comes from taxes on international trade, which is much higher than the sub-Saharan average of 13.8 percent and West African average of 19 percent. Yet, Benin's recorded trade as a percentage of GDP is lower than the Sub-Saharan average (Chapter 3). With Benin's tariffs relatively low following the implementation of the CET, the unusually high dependence on trade taxes reflects the combination of an unusually underdeveloped tax system and high unrecorded, but taxed, trade flows. Indeed, as discussed in Chapter 4, re-export and transit trade, notably with Nigeria, is greatly understated in the official statistics yet contributes

[20] Total revenue, excluding grants, minus total expenditures, excluding foreign-financed investment outlays.

substantially to government revenues. The main domestic taxes are a value-added tax (18 percent) and a business income tax (38 percent), which are largely harmonized within WAEMU. These rather high marginal tax rates fall disproportionately on the small formal sector, with the informal sector getting a significant unfair advantage (see Chapter 6).

Total government revenue is projected to decline from 17 percent of GDP in 2003 to 15.8 percent of GDP in 2004, largely because of reduced customs revenue associated with the difficulties with Nigeria. Reducing dependence on trade taxes, especially on re-exports to Nigeria, is a priority.[21]

**Government Expenditure and Management*:*** Total government expenditure was stable at about 20 percent of GDP until 2003 when election related overruns and unplanned wage and salary increases took place. The government is implementing the poverty reduction strategy paper (PRSP). Due to the increase in poverty-reducing outlays, expenditure increased to 21 percent of GDP in 2003 and is expected to remain at that level during 2004-2006. Social spending is projected to increase from 5.2 percent of GDP in 2003 to 6.9 percent in 2004, in line with PRSP priorities. Government priorities also include higher public investment in basic economic infrastructure and social sectors. Public investment increased from 6.4 percent of GDP in 2002 to 7.2 percent in 2003 and an expected 7.4 percent in 2004. Raising revenues is essential to fund increased public investment.

[21] See chapter 4 for further discussion.

**Table 2.2 Consolidated Government Operations (Percent of GDP)**

| | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 |
|---|---|---|---|---|---|---|---|---|---|
| **Total revenue** | **15.3** | **16.0** | **16.6** | **16.2** | **16.9** | **17.0** | **15.8** | **16.0** | **16.2** |
| **Tax revenue** | **13.3** | **13.7** | **14.6** | **14.2** | **15.0** | **15.2** | **14.1** | **14.5** | **14.8** |
| Tax on international trade | 6.6 | 7.3 | 7.9 | 7.7 | 7.8 | 7.9 | 7.1 | 7.5 | 7.6 |
| Direct and indirect taxes | 6.6 | 6.4 | 6.7 | 6.5 | 7.3 | 7.3 | 7.0 | 7.0 | 7.1 |
| **Non-tax revenue** | **2.0** | **2.3** | **2.0** | **1.9** | **1.9** | **1.8** | **1.6** | **1.5** | **1.4** |
| **Total expenditure** | **16.4** | **17.6** | **20.1** | **20.3** | **20.4** | **21.6** | **21.3** | **21.2** | **21.2** |
| Primary expenditures | 15.7 | 14.8 | 13.7 | 14.8 | 15.9 | 17.5 | 16.4 | 16.5 | 17.2 |
| Wages | 4.7 | 4.5 | 4.7 | 4.6 | 4.8 | 5.1 | 5.3 | 5.1 | 4.9 |
| Pensions and scholarships | 1.2 | 1.2 | 1.2 | 1.2 | 1.1 | 1.3 | 1.2 | 1.2 | 1.2 |
| Current transfers | 0.5 | 1.4 | 1.7 | 2.4 | 3.9 | 3.7 | 3.7 | 3.6 | 3.9 |
| Other expenditure | 2.9 | 2.9 | 4.0 | 3.4 | 3.1 | 3.8 | 3.3 | 3.5 | 3.4 |
| Investment | 5.8 | 6.3 | 7.6 | 7.8 | 6.4 | 7.2 | 7.4 | 7.5 | 7.4 |
| Budgetary contribution | 1.3 | 1.9 | 2.2 | 3.2 | 2.9 | 3.5 | 2.9 | 3.2 | 3.8 |
| Financed from abroad | 4.5 | 4.4 | 5.4 | 4.6 | 3.5 | 3.6 | 4.5 | 4.3 | 3.6 |
| Net lending | 0.1 | 0.3 | 0.0 | 0.0 | 0.2 | -0.1 | 0.0 | 0.0 | 0.0 |
| **Primary balance** | **0.0** | **-0.7** | **-2.6** | **-3.3** | **-2.6** | **-4.0** | **-5.1** | **-4.8** | **-4.6** |
| Interest | 1.0 | 0.9 | 0.9 | 0.9 | 0.8 | 0.6 | 0.4 | 0.4 | 0.4 |
| Internal debt | 0.2 | 0.1 | 0.1 | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 | 0.0 |
| External debt | 0.9 | 0.8 | 0.8 | 0.8 | 0.8 | 0.6 | 0.4 | 0.4 | 0.3 |
| **Overall balance (Before grants)** | **-1.0** | **-1.6** | **-3.5** | **-4.2** | **-3.5** | **-4.6** | **-5.5** | **-5.2** | **-5.0** |

*Source: World Bank and IMF November 2004*

Increased use of program-budgets and Medium-Term Expenditure Frameworks (MTEFs) would improve budget formulation and execution. A governance and anticorruption survey was carried out recently.

The authorities are committed to civil service reform, which includes a performance based promotion and compensation system. Civil service reform discussions were recently initiated with trade unions. The government also sent a new code of penal procedures to parliament to deal with corruption in the public service.

Some of these measures have yielded impressive results. For example, procurement lags were reduced from 8 months in 2000 to 4 months in 2002; payment delays were reduced from 30 days in 2000 to 22 days in 2002; deviation between budgets approved and spent by pilot ministries was at a maximum 10 percent. Also, the Ministry of Finance publishes all bidding results two times a week and all ministries prepare quarterly budget implementation reports that are submitted to the Ministry of Finance for review. Progress is also reflected in Benin's HIPC expenditure tracking Assessment and Action Plan. In a recent Bank-Fund Board paper [22] ", Benin met 8 out 15 benchmarks, one of the higher scores in Africa.

In summary, recent deterioration in the fiscal deficit highlights the vulnerability of the economy and government revenues to trade with Nigeria and the cotton sector.

**Recommendations:**

1. In the short run, the government must continue to forcefully implement its measures to track expenditures, and control non-essential expenditures until the fiscal situation improves.

2. In the medium run, the authorities must seek to increase revenues by streamlining customs operations and improving tax administration. Regarding customs,[23] the government must: (**i**) apply transactions value on all imports; (**ii**) include foodstuffs in the import verification company BIVAC's mandate; (**iii**) monitor goods in transit to neighboring countries more effectively, (**iv**) strengthen cooperation between customs, BIVAC, and tax administration; (**v**) collect unpaid bills; and (**vi**) develop a more effective strategy for combating smuggling and corruption. On the domestic tax side,[24] the government should aim to: (**i**) expand the taxpayer database; (**ii**) enforce the law through audits, and (**iii**) improve collection of arrears. Details on specific actions are provided in following chapters.

3. In the long run, efforts should be made to increase the tax base and reduce dependence on trade taxes by reassessing the structure of taxation, taking into consideration constraints imposed by regional integration, with the aim of lower domestic taxes but a greater tax base. One possibility is to lower VAT and profit taxes while increasing the "Accompte sur l'impot et sur les benefices" (AIB) tax surcharge on imports back up to 5 percent from 3 percent.

## 2.3 External Balances and Debt

Benin has a very low official export/GDP[25] ratio for a small coastal country, although inclusion of unofficial re-exports and transit is likely to dramatically change the picture (see chapters 3 and 4). Cotton continues to dominate the official merchandise exports of Benin. Non-factor services are unusually large for a country like Benin mainly due to the port in Cotonou and other transit activities. In 2003, exports of services were $220 million compared to $185 million in exports of cotton and textiles. As a result of high international prices for cotton, the terms of trade improved by 7 percent in 2003 after a 16 percent decline in 2002. The trade balance and current account deficits remain substantial, but are broadly in line with the IMF supported program.

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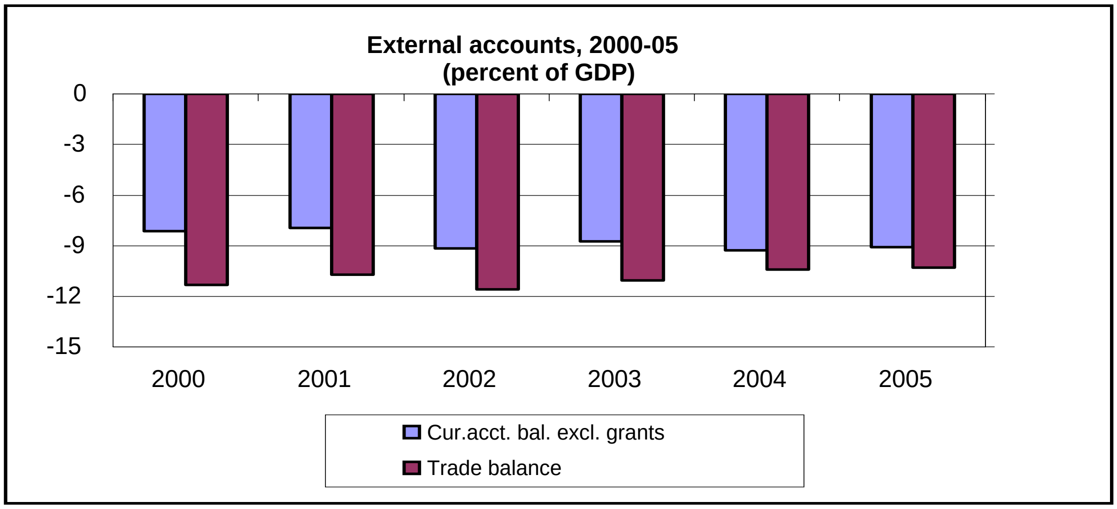
[22] World Bank: "Actions to Strengthen the Tracking of Poverty-Reducing Public Spending in Heavily Indebted Poor Countries (HIPCs), Board Paper, March 2002.
23 See Chapter 8 for fuller discussion of customs.
[24] See Chapter 6 for further discussion of domestic taxation.
[25] Exports of goods and services to GDP is estimated at around 15, compared to 32.66 for Sub-Sahara Africa, according to data from the World Bank, SIMA.

**Figure 2.2 Benin External accounts (as percent of GDP), 2000- 2005.**




*Source: World Bank and IMF, November 2004.*

Benin remains heavily reliant on foreign aid (11.8 percent of gross national income in 1993-2002, compared to 5.3 percent for Sub-Saharan Africa as a whole).

**Real Effective Exchange Rate Trends.** While the fixed exchange rate of the CFA franc against the Euro is a source of stability, it also entails vulnerability. During 2000-2003, the real effective exchange rate appreciated about 15 percent, mainly due to the appreciation of the Euro against the dollar. (See Chapter 5 for further analysis.)

**Debt.** In March 2003, Benin qualified for debt relief under the enhanced Heavily Indebted Poor Countries (HIPC) Initiative. The debt to GDP ratio declined from 50 percent at end-2002 to 38 percent at end 2003. The government is committed to a prudent borrowing policy so as to maintain external debt sustainability. In this regard, the government established a National Debt Committee, chaired by the Ministry of Finance and Economy, which became operational in December 2003.

## 2.4 Regional Integration and the West African Economic and Monetary Union (WAEMU)

Benin is a member of both WAEMU and ECOWAS (the Economic Community of West African States).[26] Integration has advanced much further within WAEMU, consisting of the francophone countries of the region and Guinea Bissau, than ECOWAS with the former achieving a customs union, a single currency, and significant harmonization of other policies. The current crisis in Cote D'Ivoire, however, underlines the fragility of the region, although the direct effects on Benin are quite small given the low level of intra-WAEMU trade and the fact that Benin does not share a border with Cote D'Ivoire. Economic relations with Nigeria, a

[26] ECOWAS includes all the WAEMU countries plus Nigeria, Ghana, Cape Verde, Gambia, Guinea, Liberia and Sierra Leone.

member of ECOWAS, also exert a decisive influence on Benin, although trade between the two countries is mostly informal (see Chapter 4).

As a member of WAEMU, Benin's currency is the CFA franc, pegged to the Euro. Benin does not have an independent monetary policy and has no control of its nominal exchange rate. The regional central bank BCEAO (Banque Centrale des Etats de l'Afrique de l'Ouest) sets monetary policy and maintains an appropriate level of foreign exchange reserves to support the fixed parity of the CFA franc. The BCEAO's key interest rates have remained constant since June 2000[27]. This built-in monetary discipline has helped Benin to achieve low inflation, but subjects Benin's real exchange rate to fluctuations associated with variations of the Euro against other currencies and differences in inflation rates between countries (see Chapter 5).

While impressive progress towards economic integration has been made since 1994, particularly the establishment of the common external tariff in 2000, the momentum of integration appears to have slowed in recent years. Benin's trade with WAEMU and ECOWAS countries remains a small proportion of its total trade (see Chapter 3). Benin, however, continued to be one of the most compliant members of the West African Economic and Monetary Union (WAEMU) regarding regional convergence and growth (Table 2.3).

**Table 2.3 WAEMU Converge Criteria Violations**

| | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **All countries** | 55 | 58 | 55 | 50 | 47 | 49 | 43 | 47 | 46 | 41 | 40 |
| | | | | | | | | | | | |
| **Benin** | 6 | 7 | 7 | 7 | 7 | 5 | 3 | 5 | 4 | 3 | 2 |
| **Burkina Faso** | 6 | 6 | 6 | 5 | 4 | 5 | 4 | 4 | 5 | 4 | 5 |
| **Cote d'Ivoire** | 7 | 7 | 8 | 6 | 6 | 6 | 7 | 7 | 6 | 6 | 6 |
| **Guinea Bissau** | 6 | 7 | 7 | 8 | 6 | 8 | 7 | 8 | 9 | 9 | 9 |
| **Mali** | 8 | 7 | 6 | 5 | 4 | 4 | 3 | 4 | 5 | 4 | 5 |
| **Niger** | 7 | 8 | 8 | 7 | 7 | 8 | 8 | 8 | 6 | 6 | 5 |
| **Senegal** | 7 | 7 | 6 | 5 | 6 | 5 | 3 | 3 | 2 | 1 | 2 |
| **Togo** | 8 | 9 | 7 | 7 | 7 | 8 | 8 | 8 | 9 | 8 | 6 |

The WAEMU common external tariff (CET) with four rates of 0, 5, 15, and 20 percent, was implemented in 2000. Intra-WAEMU trade, while increasing, remains rather small, due to *de facto* non-tariff barriers and high transportation costs (see Chapters 3 and 8). Deeper integration has also been pursued in domestic taxation, business law, and other policies.

## 2.5 The Investment Climate and Privatization

Since 1990, Benin has opted for a market economy. The new constitution protects property rights and freedom of establishment without regard to nationality. Nevertheless, the business environment is unattractive to investors for important reasons. The legal and judiciary systems do not function effectively, especially with regard to land tenure and the probity and qualifications of judges. Notwithstanding the creation of a one-stop shop (guichet unique),

[27] A Rediscount rate of 6.5%, a Special Rate for Advances to treasury of 4.95%, a Repurchase Rate of 6%, an Average Monthly Money Market Rate of 4.95%, an Interbank Rate of between 3.50 to 8.25 percent.

investment procedures and regulations are complex and time-consuming (see Chapter 6 for details, Table 6-2 comparative indicators of the business climate).

Benin business environment indicators are broadly on a par with Sub-Saharan African countries. For instance, Standard and Poors (S&P) rating of Benin is B+, while Benin has a Creditor rights index of 1, with 0 being the weakest value and 4 the strongest value (Table 2.4). Investor credit risk in Benin is high, in comparison to the average SSA country (Table 2.4). Similar indexes (government effectiveness, regulatory quality and rule of law) appear to be less than attractive in Benin.[28]

An ambitious privatization program was initiated in the early 1990s and a number of industrial firms were sold off with positive effects both on the economy and government budget. Privatization of some important sectors, including public utilities (telecommunications, electricity, port, airport) and the cotton parastatal SONAPRA, and have lagged, although the latter is now advancing again. Even where privatization has occurred, barriers to entry often remain, as in the case of petroleum distribution, where the sector has been criticized for lack of transparency and the government has been slow to authorize new entrants while the incumbent SONOCOP remains the dominant distributor.

**Table 2.4 Benin business environment indexes, 2004**.

| | **Benin** | **Senegal** | **SSA** | **Low-Income countries** |
|---|---|---|---|---|
| **Creditor rights index** (0: weak. 4: strong) | 1 | 1 | 2 | 2 |
| **Investor credit risk** (0:highest; 100:lowest) | 20.2 | 29.2 | 17.5 | 17.9 |
| **Euro money country risk** (0:highest; 100:lowest) | 30.9 | 39.6 | 28.7 | 30.1 |
| **S&P rating** | B+ | B+ | … | … |
| **Coface rating** | B | B | … | … |

*Source: World Development Report, November 2004.*

On the basis of Table 2-4, it appears that investor credit risk in Benin is relatively high, in comparison to the average SSA country (Table 2.4). Similar indexes (government effectiveness, regulatory quality and rule of law) appear to be less than attractive in Benin.[29]

## 2.6 Poverty Profile and Human Development Indicators

Benin's strong growth record since 1990 has had limited effects on poverty. With a Human Development Index (HDI) score of 0.421 in 2002, Benin ranked 161 out of 177 countries, and worse than the Sub-Saharan average (SSA). Table 2.5 shows that while Benin has made progress relative to the SSA in per capita income and literacy, and to a lesser extent life expectancy, it lags behind SSA in the first of these two.

[28] See chapter 6 for a fuller discussion and recommendations.
[29] See chapter 6 for a fuller discussion and recommendations.

**Table 2.5: Some Basic Social Indicators, Benin and SSA, 1990 and 2002**

| | 1990 | | 2002 | |
|---|---|---|---|---|
| | **Benin** | **SSA** | **Benin** | **SSA** |
| GDP per capita, PPP (constant 1995 $) | 753 | 1629 | 950 | 1593 |
| Life expectancy at birth, female (years) | 54 | 52 | 55 | 47 |
| Life expectancy at birth, male (years) | 50 | 48 | 51 | 45 |
| Literacy rate, adult female (% ) | 15 | 40 | 26 | 58 |
| Literacy rate, adult male (%) | 38 | 59 | 55 | 71 |

The poverty line based on a recent Core Welfare Indicators Questionnaire (CWIQ) survey in 2003 shows that 39 percent of the population is poor, and 22 percent is extremely poor. Poverty is especially high in rural areas at 47 percent in 2002 compared to 29 percent in urban areas. Stagnant or declining prices in real terms for most agricultural products have held down the incomes of the rural population. As a result, progress towards achieving the MDGs in social sectors has been slow despite a few bright spots.

Over the past decade, noticeable improvement has been made in some areas of the health system, such as the increase in immunization coverage for children from 17 percent in 1985 to 73 percent in 2001. Currently, 80 percent of the population lives within a five-kilometer radius of a health facility. But more remains to be done. Benin still has high rates of malnutrition. About one-third of children under five are stunted, and 11 percent severely stunted. One in four children have low weight. While child mortality fell from 170 per 1000 in early 1996 to 146 in 2002, it is still far from its MDG target of 60 by 2015. The country’s maternal mortality remains high and decreased slowly from 498 in 1996 to 474 in 2002 and is unlikely to achieve the MDG target of 137 per 100,000. Malaria represents the leading cause of morbidity and mortality among children.

Encouraging progress in education is also apparent. The gross primary enrollment ratio improved from 67 percent in 1995 to 80 percent in 2001/2002. The share of girls in total enrollment rose from 39.2 percent in 1999 to 41.7 percent in 2002, while primary completion rates rose from 40 percent to 46 percent during the same period.

Gender disparities continue to persist in labor force participation, earnings, schooling and literacy. The same can be said for health and the impact of HIV/AIDS, and in access to control of a wide range of human, economic, and social capital assets. Access to improved sanitation facilities remains extremely low.

## 2.7 High Priority Macroeconomic Policy Issues

Benin has achieved both macroeconomic stability and relatively solid growth since it moved towards a market economy. Some important structural reforms have been undertaken.

Despite the progress and commitment highlighted above, Benin continues to face formidable structural challenges for sustained growth and poverty reduction. Basic services (water, electricity, health and basic education) are deficient, and corruption rampant. Restructuring of the electricity and water company (SBEE) and post and telecommunications

(OPT) has been postponed. Long delays at the port of Cotonou -- the "lung of the country" -- remain endemic. Severe weaknesses remain in the judicial system, SMEs lack access to credit, and high transport costs impede both foreign and domestic investment. Benin has made much progress but much more needs to be done.

Benin benefits from the built-in monetary stability of the CFA franc and the efforts to harmonize policies within WAEMU. Although the fixed exchange rate of the CFA franc against the Euro is a source of stability, it also entails some vulnerability, which needs addressing as evidenced by recent strong Euro appreciation. On the fiscal side, however, the recent widening in the deficit highlights the vulnerability of the economy and government revenues to excessive dependence on trade with Nigeria and cotton production.

In the short run, the government must continue to forcefully implement measures to track expenditures and control non-essential expenditures until the fiscal situation improves. Over time, the authorities must seek to increase revenues by streamlining customs operations and improving tax administration. In the long run, efforts should be made to increase the tax base after studying the tax system.

# 3. TRADE POLICIES AND TRADE PATTERNS[30]

Since the 1990 National Conference marking the shift from a centrally planned to a market economy, Benin has taken major steps to integrate into the world economy via its membership in the WTO, and its participation in two regional trade organizations the West African Economic and Monetary Union (WAEMU) and the Economic Community of West African States (ECOWAS). Benin's trade is marked by a dichotomy between the trend towards multilateral and regional integration versus the pull of informal trade, especially with Nigeria. This chapter describes the overall orientation of Benin's trade policies and trade patterns while the next chapter looks at particular regional and global market access issues. Section 3.1 describes Benin's policies, beginning with the structure of trade policy formulation, then turns to measures affecting imports and exports. On the import side, the focus is on the magnitude of statutory and actual restrictions (Tariff and Non-tariff barriers). On the export side, the key question is the efficacy of export promotion mechanisms. Section 3.2 describes Benin's officially recorded trade flows by product and partner country.

## 3.1 Trade Policies[31]

### *3.1.1 Trade Policy Formulation*

The Ministry of Industry, Trade and Employment Promotion (MICPE) has primary responsibility for implementing and administering trade policies. Laws must be approved by the Legislature following approval from the Ministry. The Ministry of Finance (in particular the Customs and Indirect Taxation Department), Ministry of Planning, and Ministry of Agriculture are also involved with various aspects of formulating trade and investment policies. The Ministry receives input from the private sector through the Chamber of Commerce and other groups. Trade laws are published in the *Journal Officiel*, and dissemination of information about these laws is increasingly made available on the Internet.

Benin's trade policies are set in the framework of the Poverty Reduction Strategy Paper with the view of relying increasingly on the private sector as the engine of growth. Membership in WAEMU plays a key role in shaping Benin's trade policies through the customs union, as described in the next chapter. Benin is also committed to the multilateral trading system through its membership in the WTO. Recently Benin and other West African cotton producers have been actively involved at the WTO in discussions regarding improving market access for African cotton (see next chapter). Benin's notifications to the WTO regarding its trade statutes, tariffs, and trade flows have sometimes been incomplete or tardy.

### *3.1.2 Measures Affecting Imports*

Benin has abolished virtually all quantitative restrictions on imports, relying instead on customs duties as the main instrument of trade policy. Trade taxes account for more than half total tax receipts and about half all government revenue, as noted in Chapter 2. Benin's nominal

[30] This chapter draws on a report prepared by Anne-Marie Gourjeon and Toussaint Houeninvo.
[31] Further details on Benin's trade policies can be found in June 2004's Trade Policy Review of Benin.

tariffs are now largely set by WAEMU, although tariff bindings at the WTO remain those tabled by Benin's authorities.

## Tariff Barriers

### A. Customs Duties (CD).

Under the WAEMU's Common External Tariff (CET), by 2000 internal tariffs were eliminated and external tariffs harmonized to a structure with only four possible rates:

- Category I: 0 percent: Social and cultural necessities (medicines, educational materials).
- Category II: 5 percent: Primary inputs and capital goods.
- Category III: 10 percent: Inputs and intermediate products.
- Category IV: 20 percent: Final consumer goods.

The distinction between categories II and III is based primarily on the degree of input processing and how essential they are, with different rates applying to different goods within the same product groups according to these criteria. This distinction opens doors for continued discussions and conflict for reclassification of goods from one category to another. Consolidation of category II and III should be explored at the regional level in the context of WAEMU trade policy to move progressively towards greater uniformity in rates and product categories. Such a move would significantly help harmonize effective protection and improve customs administration.

**Table 3.1 Statutory Nominal Tariff Rates in WAEMU Countries Before and after the Common External Tariff***

| | After CET | Before CET | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Benin | Burkina Faso | Cote D'Ivoire | Mali | Niger | Senegal | Togo |
| Capital Goods | **7.8** | 8.7 | 18.3 | 15.1 | 11.6 | 17.6 | 20.6 | 11.8 |
| Intermediate Products | **10.5** | 10.8 | 32.1 | 19.5 | 20.8 | 21.8 | 27.0 | 16.3 |
| Consumer Goods | **18.1** | 13.4 | 34.8 | 29.6 | 31.0 | 32.1 | 40.9 | 19.1 |
| | | | | | | | | |
| Total | **12.2** | 11.4 | 31.1 | 21.6 | 19.5 | 22.3 | 29.0 | 17.2 |

*Simple averages.
*Source: CERDI (1998).*

The CET actually raised nominal tariff rates on average (Table 3.1) as Benin maintained relatively low tariffs, especially on final consumer goods, to promote re-exports to Nigeria.[32] Prior to the CET, Benin's tariffs on consumer goods averaged 13.4 percent, far below the 30 percent plus rates of most other WAEMU countries, with only Togo somewhat closer to Benin at 19 percent. With the implementation of the CET, Benin's overall average nominal tariffs rose

[32] Hinkle et al (2003) found that in 1996 Benin had by far the lowest average tariffs of the 13 African countries in their sample. See also "Direction des Statistiques" (2002).

slightly from 11.4 to 12.2 percent, whereas average tariffs fell substantially for all other WAEMU countries.

In addition to the CET tariff, all non-WAEMU-originating imports are subject to the redevance stastistique (RS) and the prélevement compensatoire de solidarité (PCS), both at 1 percent and a prélevement communautaire (PC) of 0.5 percent.[33] There are also miscellaneous port fees and service charges, discussed in Chapter 8 (0.18 percent fees for the "Conseil National des Chargeurs", 0.25 percent for the Chamber of Commerce, 0.7 percent for the BIVAC pre-shipment inspection company). Although WAEMU established two temporary taxes (the "Taxe Dégressive de Protection-TDP", and the "Taxe Conjoncturelle à l'Importation-TCI" to ease the transition associated with the CET's implementation, Benin chose not to avail itself of either one.

When the RS and PCS are included, Benin's "actually-applied" tariffs rise and are slightly above those prior to the CET (Table 3.2), notwithstanding the above indicated official charges and fees as well as unofficial fees for bribes (about CFA 130,000) necessary to move containers through the port without delays.

**Table 3.2 Benin Bound and Actually Applied Tariff Rates**

| | **Bound Rate** | **Actual Rate** | | | |
|---|---|---|---|---|---|
| | | **1997** | | **2003** | |
| | | Nominal | Actually Applied | Nominal | Actually Applied |
| All goods | 29.5 | 12.7 | 13.7 | 12.1 | 14.6 |
| Agriculture | 60.1 | 12.1 | 13.1 | 15.2 | 17.7 |
| Non-agriculture | 14.6 | 12.8 | 13.8 | 11.6 | 14.1 |

Source: WTO (2004).

Table 3.2 also shows that bound rates are high in agriculture but close to actually applied rates in non-agriculture. For some industries, actual rates exceed bound rates. A significant effect of the CET has been to alter the structure of both nominal and actually applied rates, raising them for final products and lowering them for unprocessed and semi-processed goods. Final product rates have increased sharply in food products, textiles and clothing, wood products, and paper products. [34] The distribution of actually applied rates has also changed, with increases in the number of products in the 5 percent and 20 percent brackets relative to 1997, when more products were in the 10-15 percent brackets. The dispersion of actually applied rates in Benin in 2003 is relatively small, ranging from a minimum of 1.5 percent to a maximum of 22.5 percent.[35] Table 3.3 shows a slight increase in applied rates from 1997 to 2004.

**Table 3.3 Benin Nominal and Actually Applied Tariff Rates**

| | **Actual Rate** |
|---|---|

[33] The PCS and PC are for funding WAEMU and ECOWAS, respectively.
[34] See WTO TPR (2004) for further detail.
[35] Hinkle, Herrou-Aragon and Kubota (2003) also found that tariffs were lower and less variable for Benin in 1996 than in other African countries.

| | 1997 | | 2004 (May) | |
|---|---|---|---|---|
| | **Nominal** | Actually Applied | Nominal | Actually Applied [36] |
| Capital Goods | 8.3 | 8.7 | 7.8 | 9.2 |
| Intermediate Products | 10.1 | 10.8 | 10.5 | 11.5 |
| Consumer Goods | 12.8 | 13.4 | 18.1 | 19.1 |
| Total | 12.7 | 11.4 | 12.2 | 13.1 |

Source: CERDI, CUSTOMS DEPARTMENT (2004).

According to some of our interviews, Togo has been undercutting Benin by lowering tariffs below the WAEMU-prescribed levels to increase transit trade through Lome destined for the land-locked regions and Nigeria. As discussed in Chapter 4, however, Benin's customs officials apparently also adjust customs valuations in highly discretionary and non-transparent ways. It thus appears that some WAEMU countries, notably Benin and Togo, are competing for re-export market share by cutting trade barriers through adjustments in customs valuations in violation of WTO and regional agreements. The extent of application of the common external tariff in WAEMU should be assessed and discussed with WAEMU and Togo authorities.

## B. Other taxes levied on imports.

The value added tax (VAT), introduced in 1991, and harmonized among WAEMU member countries (see Chapter 6), applies to imported goods at a flat 18 percent rate on most products, with some exemptions. There are also special excise taxes on a few products such as cigarettes (15 percent), alcohol and sparkling beverages (20 percent), other drinks (10 percent), cosmetics (10 percent), and on a few other products at much lower rates.

In addition, as provided for under a 2001 WAEMU statute, all imports are subject to a prepayment profits tax (accompte sur l'impot sur les benefices—AIB), which is in principle reimbursable once a company has demonstrated that it is not subject to the business profits tax. The purpose is to ensure that the informal sector pays at least a modicum of taxes. In practice, however, rebates are subject to long delays, leading to substantial creditor positions for some companies. The AIB has just been reduced from 5 to 3 percent, in part, to alleviate this problem.

The Code des Investissements (discussed in Chapter 6) provides statutory exemptions from import duties for designated activities, with the goal of promoting investment. Agricultural inputs, notably for cotton, are also exempt from customs duties. The exemption for agricultural inputs from import duties was instituted in 1998 to assist agriculture, but is a violation of the CET. In addition, it is discriminatory in that only cotton inputs are wholly exempt.

## C. Customs Valuation.

[36] These are simple averages including RS and CD only. In May 2004 applied weighted averages were 8.6 for capital goods, 14.5 for intermediate products, 16 for consumer goods and 14 for total.

Benin has applied the WTO Customs Valuation Agreement since January 1, 2003, making use of transactions values rather than reference values, except for used cars. In practice, however, it is alleged that customs agents sometimes arbitrarily adjust valuations, especially on goods intended for Nigeria, as discussed in Chapter 4. This practice is in contradiction with WTO agreement on customs valuation and should clearly be discontinued.

### *3.1.3 Measures Affecting Exports*

**Export Taxes.** The 0.85 percent "taxe de voirie" is levied on all exports. Transit and re-exports as well as a few other products (oil, precious metals, cocoa beans) are subject to an additional 5 percent statistical tax and a customs stamp (4 percent of all other taxes). Moreover, re-exports are subject to a further 8 percent re-export tax. Transit and re-exports are discussed further in the following chapter.

**Export bans and restrictions**. Certain primary product exports are banned to protect natural resources or local users of domestically produced raw materials. These include seed cotton, teak wood, and charcoal. Other products are subject to suspension but are freely exported at present.

**Export Promotion.** Benin has no export subsidies as such. Various tax abatements are available. In theory, exports are exempt for value added taxes, and firms are eligible for rebates on value added taxes on inputs used in producing exports. In practice, however, rebates are received only after very long delays or not at all. The government justifies its failure to reimburse on the grounds that many of claimed credits are fictitious. Evidently, the government appears to be incapable of distinguishing between valid and false claims for reimbursement, which penalizes legitimate operators.

The "Code des Investissements," which governs investment incentives (see Chapter 6), creates provisions for duty drawbacks for inputs and packaging used in manufacturing exports. Various other measures to ease the anti-export effects of import duties on manufactured exports are in effect, including bonded warehouses and temporary admission. In practice, however, there are few industries in Benin at present that can take advantage of such measures, so they are largely hypothetical.[37]

In an effort to address the near total absence of manufactured exports, since 1999 Benin has moved to establish an industrial free-trade zone (Zone Franche Industrielle-ZFI) and free trade points, whereby firms exporting at least 65 percent of their output would be exempt from most taxes and eligible for other benefits. Qualifying firms are also supposed to give priority, where feasible, to the employment of Beninese nationals and the use of local raw materials. Only in October 2003, however, were regulations approved, with the draft law still under consideration at the National Assembly at the time of preparation of the DTIS. In September 2003, the first geographically defined ZFI area was identified East of Cotonou, near the Nigerian border. At end 2004, 34 enterprises had applied to the MICPE for a place in the ZFI, with total requests for space exceeding the available acreage.

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[37] Hinkle *et al* (2003) also found that value-added-tax rebates and duty drawback mechanisms were dysfunctional in Benin in 1996, so this problem is not new.

In implementing ZFIs, the authorities should proceed with care. If successful, the ZFI could provide a welcome boost to manufactured exports. But the potential negative effects of free-trade zones include loss of revenue, fraud, and corruption, and the administration of such zones is complex. The underlying causes of the dysfunctions of the existing export promotion mechanisms must be addressed if the ZFI is to be successful. Free trade zones have worked well in some countries such as Mauritius but have largely failed in others such as Senegal. In this area, as elsewhere, the quality of administration seems decisive. To maximize the beneficial effects of the free trade zone, the authorities must ensure that firms meet eligibility requirements in terms of exporting, and that the administration of the zone is autonomous (preferably not civil servant managed), honest and efficient.

## 3.2 Officially Recorded Trade Flows

Even more so than for many other African countries, official trade statistics are incomplete indicators of Benin's actual trade flows. At the official level, merchandise trade is dominated by cotton. A large volume of unofficial trade, especially with Nigeria, also plays a decisive role in Benin's trade. Unofficial trade with Nigeria is estimated at 6 percent of GDP by the IMF, or about one-third of customs revenues.

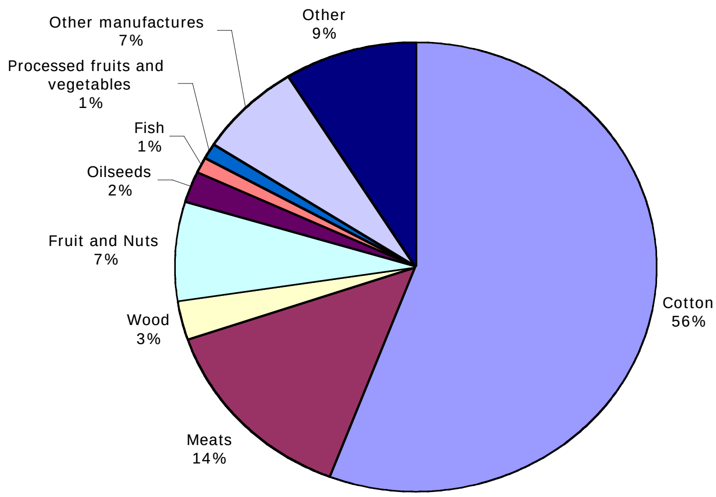
### *3.2.1 Exports*

This section focuses on merchandise exports. It should be noted, however, that service exports are nearly as large as merchandise exports and are approximately equal to cotton exports. Tourism and trade-related services are the largest service exports, although little detailed information is available. Tourism is discussed in Chapter 10 and trade facilitation services are discussed in Chapter 8.

**Product Composition**. Cotton dominates Benin's recorded exports. Cotton's share of total exports has varied between about 60 and 90 percent in recent years, with fluctuations in the price of cotton as well as harvests affecting this proportion (Figure 3.1). The share fell to about 55 percent in 2002 due to low world prices. Increased world production and extensive cotton subsidies in industrial countries like the USA are believed to negatively affect cotton prices, as discussed in Chapters 9 and 11.

Other significant export products include: tropical fruits and nuts (mainly cashews, a little pineapple and manioc), meat products, and oilseeds (Figure 3.1). Fruits, nuts, and vegetables exports have expanded as a share of total exports in recent years, largely consisting of cashew nuts exported to India. Manufactured exports are very small (8 percent of total exports).

**Figure 3.1 Benin's Composition of Merchandise Exports, 2002**




Source: UN COMTRADE, October 2004.

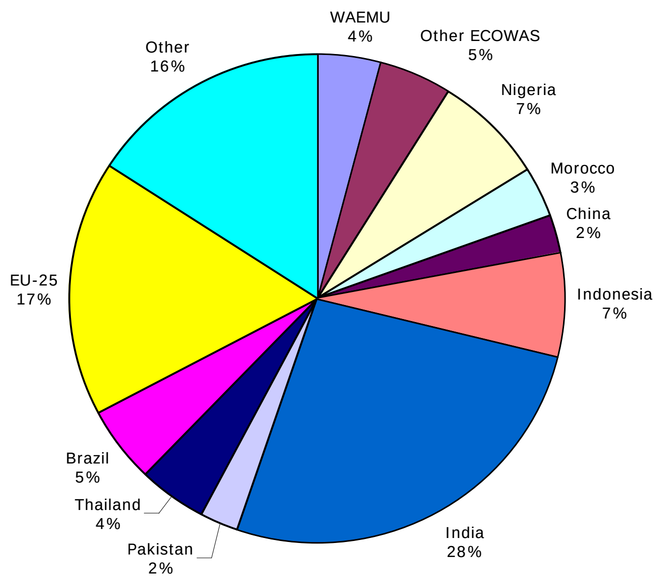
**Table 3.4 Benin structure of merchandise exports, 1995, 2000, 2001, 2002.**

| Benin, Structure of Merchandise Exports, 1995, 2000, 2001, 2002 (in thousand of US dollars and percent) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Yearly Export Value, $000 | | | | Share of Total Exports (%) | | | |
| | **1995** | **2000** | **2001** | **2002** | **1995** | **2000** | **2001** | **2002** |
| **Destination** | | | | | | | | |
| Brazil | 32,214.39 | 16,808.84 | 10,424.45 | 914.56 | 19.02 | 8.92 | 5.73 | 0.38 |
| China | 3,829.27 | 428.17 | 441.39 | 16,360.68 | 2.26 | 0.23 | 0.24 | 6.76 |
| EU-25 | 48,655.51 | 34,193.14 | 33,037.66 | 36,029.59 | 28.73 | 18.15 | 18.17 | 14.89 |
| Ghana | 98.60 | 4,918.48 | 10,717.90 | 13,551.71 | 0.06 | 2.61 | 5.89 | 5.60 |
| Indonesia | 7,083.53 | 9,447.16 | 10,190.82 | 24,098.93 | 4.18 | 5.01 | 5.60 | 9.96 |
| India | 9,972.53 | 59,798.01 | 55,739.00 | 42,495.43 | 5.89 | 31.74 | 30.65 | 17.57 |
| Morocco | 15,775.28 | 7,057.58 | 4,383.01 | 9,003.40 | 9.32 | 3.75 | 2.41 | 3.72 |
| Nigeria | 3,452.38 | 2,762.77 | 9,668.23 | 36,009.26 | 2.04 | 1.47 | 5.32 | 14.89 |
| Pakistan | 587.39 | 1,500.01 | 1,320.51 | 12,782.92 | 0.35 | 0.80 | 0.73 | 5.28 |
| Thailand | 7,964.05 | 7,218.46 | 7,866.52 | 12,594.92 | 4.70 | 3.83 | 4.33 | 5.21 |
| **All above** | 129,632.92 | 144,132.61 | 143,789.49 | 203,841.40 | 76.55 | 76.50 | 79.08 | 84.26 |
| **World** | 169,349.02 | 188,413.60 | 181,837.65 | 241,906.56 | 100.00 | 100.00 | 100.00 | 100.00 |
| | | Yearly Export Value, $000 | | | Share of Total Exports (%) | | | |
| **Product/Commodity** | | | | | | | | |
| SITC 1 digit | | **2000** | **2001** | **2002** | **1995** | **2000** | **2001** | **2002** |
| Food and live animals | | 22,448.08 | 28,065.02 | 63,079.34 | 6.56 | 15.43 | 11.91 | 26.08 |
| Beverages and tobacco | | 2,985.40 | 3,248.52 | 5,342.21 | 1.64 | 1.79 | 1.58 | 2.21 |
| Crude materials, inedible | | 142,807.98 | 129,003.30 | 140,383.57 | 80.68 | 70.94 | 75.79 | 58.03 |
| Mineral fuels, lubricants | | 0.00 | 19.44 | 562.06 | 5.41 | 0.01 | 0.00 | 0.23 |
| Animal and vegetable oils | | 926.63 | 615.00 | 1,837.43 | 0.02 | 0.34 | 0.49 | 0.76 |
| Chemicals | | 1,366.00 | 1,389.24 | 2,020.99 | 0.17 | 0.76 | 0.73 | 0.84 |
| Manufactured goods | | 8,621.13 | 6,701.45 | 12,137.82 | 4.11 | 3.69 | 4.58 | 5.02 |
| Machinery and transport | | 2,463.05 | 1,816.74 | 2,060.59 | 0.71 | 1.00 | 1.31 | 0.85 |
| Miscellaneous manuf. | | 961.62 | 793.25 | 1,190.92 | 0.56 | 0.44 | 0.51 | 0.49 |
| Other commodities & trans | | 5,833.70 | 10,185.70 | 13,291.65 | 0.14 | 5.60 | 3.10 | 5.49 |
| **All above products** | | 188,413.60 | 181,837.65 | 241,906.56 | 100.00 | 100.00 | 100.00 | 100.00 |

*Source: UN COMTRADE Database, August 2004*

**Product destination**. Official exports are destined overwhelmingly to textile-producing developing countries outside Africa, especially Asia, which absorbed a little over 50 percent of Benin's exports in 2000-02. During this time, India became the largest client for Benin at 30 percent of exports in 2001, with other Asian countries including Indonesia, China, Thailand and Pakistan also important (Figure 3.2). WAEMU accounts for a very small share of Benin's exports: only 4 percent in 2000-02. ECOWAS as a whole was the recipient of about 16 percent of Benin's official exports in 2000-02, of which Nigeria accounts for the bulk of the non-WAEMU ECOWAS share at 7 percent.

**Figure 3.2 Shares of Official Merchandise Exports by Destination in 2000-02**
**(Percent of total exports)**




**Benin's export performance** depends on the international price of cotton, its major export (see Chapter 9). Export destinations include the European Union, India and Nigeria. Official exports to Nigeria amounted to about 7 percent of all exports over 2000-2002 (Table 3.3/ Figure 3.2), but these figures exclude official and unofficial re-exports (see Chapter 4).

**Trade Openness**. Reflecting the unusually large proportion of unofficial trade and smuggling, Benin has low reported export to GDP ratios for such a small country, with openness much lower than countries like Senegal, Ghana and Togo (Figure 3.3). The trade integration index (measured as a ratio of exports to GDP) has gradually trended upward over time (1970-1985), but remains well below the Sub-Saharan average (see Table 3.4). These low trade ratios are inconsistent with Benin's recognized status as a trade hub for the region.

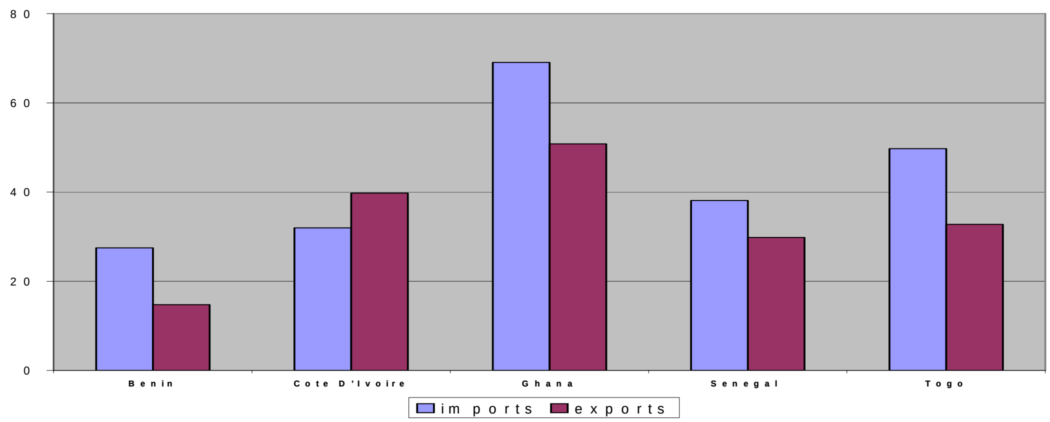
**Table 3.5 Benin: Trade integration index**

| Exports of Goods and services over GDP (%), period average | | | | | | | |
|---|---|---|---|---|---|---|---|
| | **1960- 70** | **1970-75** | **1976-80** | **1980-86** | **1986-93** | **1994-00** | **2000-02** |
| **Benin** | 7.39 | 15.31 | 15.81 | 17.9 | 14.72 | 17.23 | 14.74 |
| **Sub Saharan Africa** | 22.76 | 24.55 | 29.18 | 26.45 | 26.63 | 29.04 | 32.66 |

*Source: The World Bank Database, SIMA, December 2004.*

As for most other African countries, Benin has a structural merchandise trade deficit, with exports of good only covering about one half to one-third of imports of goods. Transfers and official loans finance the trade deficit, as do some private capital flows.

**Figure 3.3 Exports and Imports of Goods and Services as a Percent of GDP, 2002**

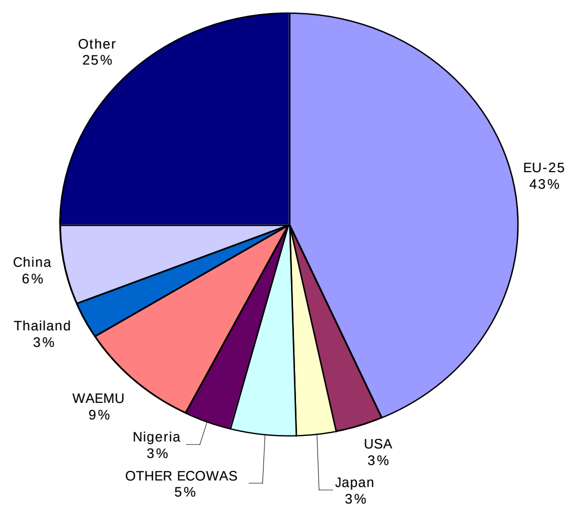



Source: World Development Indicators (2004)

### *3.2.2 Imports*

**Import Sources**. In contrast to exports, recorded imports are mostly from developed countries, with Europe shipping about 45 percent of total imports. The United States and Japan, to whom Benin exports almost nothing, each accounted for about 3 percent of Benin's imports in 2000-02. Other major sources of imports include China (7 percent), WAEMU (9 percent) and Nigeria (3 percent) (Figure 3.4).

**Figure 3.4 Shares of Official Merchandise Imports by Source Country in 2000-02 (Percent of total Imports)**




Source: COMTRADE.

Benin is a net importer of food and manufactured goods, and a net exporter of crude materials (cotton), as shown in Tables 3.3 and 3.4.

**Table 3.6 Benin, Structure of Merchandise Imports, 1995, 2000, 2001, 2002.**

| (In thousand of US dollars and percent) | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Yearly Import Value, $000 | | | | Share of total imports | | | |
| | **1995** | **2000** | **2001** | **2002** | **1995** | **2000** | **2001** | **2002** |
| **Origin** | | | | | | | | |
| Bahrain | 0.00 | 566.12 | 2,660.17 | 10,931.99 | 0.00 | 0.10 | 0.44 | 1.50 |
| China | 21,117.10 | 29,640.07 | 48,022.47 | 46,694.21 | 2.94 | 5.42 | 7.98 | 6.42 |
| EU-25 | 329,475.71 | 270,261.77 | 268,988.53 | 322,446.94 | 45.82 | 49.40 | 44.69 | 44.35 |
| Ghana | 19,677.26 | 26,705.11 | 29,439.31 | 40,429.51 | 2.74 | 4.88 | 4.89 | 5.56 |
| Japan | 28,365.49 | 16,901.70 | 18,530.94 | 20,486.55 | 3.95 | 3.09 | 3.08 | 2.82 |
| India | 15,259.80 | 8,870.92 | 8,457.47 | 14,085.66 | 2.12 | 1.62 | 1.41 | 1.94 |
| U.S.A | 36,341.38 | 18,087.93 | 25,970.77 | 21,080.12 | 5.05 | 3.31 | 4.31 | 2.90 |
| Nigeria | 116.12 | 10,234.42 | 29,261.51 | 27,782.62 | 0.02 | 1.87 | 4.86 | 3.82 |
| WAEMU | 43,170.14 | 63,633.11 | 44,436.58 | 62,534.20 | 6.00 | 11.63 | 7.38 | 8.60 |
| Thailand | 71,128.16 | 15,019.63 | 19,140.96 | 20,438.86 | 9.89 | 2.75 | 3.18 | 2.81 |
| South Africa | 1,153.78 | 3,224.28 | 10,997.02 | 18,107.84 | 0.16 | 0.59 | 1.83 | 2.49 |
| All above | 565,804.93 | 463,145.07 | 505,905.72 | 586,910.67 | 78.69 | 84.65 | 84.05 | 80.73 |
| **World** | 718,991.35 | 547,114.88 | 601,889.20 | 726,993.03 | 100.00 | 100.00 | 100.00 | 100.00 |
| **Product** | | **Yearly Import Value, $000** | | | **Share of total imports** | | | |
| SITC 1 digit | | **2000** | **2001** | **2002** | **1995** | **2000** | **2001** | **2002** |
| Food and live animals | | 106,907.13 | 111,797.85 | 152,377.41 | 24.17 | 19.54 | 18.57 | 20.96 |
| Beverages and tobacco | | 7,665.45 | 7,423.71 | 11,581.51 | 2.55 | 1.40 | 1.23 | 1.59 |
| Crude materials, inedible | | 34,107.00 | 35,765.77 | 44,682.06 | 3.54 | 6.23 | 5.94 | 6.15 |
| Mineral fuels, lubricants | | 104,868.41 | 104,201.56 | 126,775.37 | 9.39 | 19.17 | 17.31 | 17.44 |
| Animal and vegetable oils | | 4,854.12 | 3,326.60 | 7,786.97 | 0.62 | 0.89 | 0.55 | 1.07 |
| Chemicals | | 55,069.16 | 64,738.91 | 94,444.65 | 13.71 | 10.07 | 10.76 | 12.99 |
| Manufactured goods | | 122,531.31 | 147,094.20 | 152,965.77 | 23.20 | 22.40 | 24.44 | 21.04 |
| Machinery and transport | | 82,366.45 | 97,705.75 | 97,572.98 | 17.98 | 15.05 | 16.23 | 13.42 |
| Misc. manufactures | | 28,589.99 | 29,794.73 | 36,908.65 | 4.61 | 5.23 | 4.95 | 5.08 |
| Other commodities & trans | | 155.87 | 40.13 | 1,897.67 | 0.23 | 0.03 | 0.01 | 0.26 |
| All above products | | 547,114.88 | 601,889.20 | 726,993.03 | 100.00 | 100.00 | 100.00 | 100.00 |

*UN COMTRADE Database, August 2004*

## 3.3 High Priority Trade Policy Issues

- Benin should continue to consolidate its move towards an open trade regime, at the international and regional level (see Chapter 4).
- Export and investment promotion mechanisms, including the "Code des Investissements" and other tax exemptions, do not function effectively. Reimbursement mechanisms should be simplified and speeded up. The long-planned establishment of a free trade zone could provide a boost to manufactured exports if implemented and administered appropriately. Benin should seek to limit potential abuse of the free trade zone and potential loss of revenue by ensuring that eligibility criteria are enforced.

- Benin's official exports are dominated by cotton. Notwithstanding preferential access, Benin has been unable to significantly diversify into non-traditional exports to developed countries. The structural barriers to export diversification need to be understood and ameliorated (see Chapter 10).
- The quality and timeliness of official trade statistics must be improved.

# 4. REGIONAL AND GLOBAL MARKET ACCESS ISSUES[38]

Participating in the global economy is a challenge for least developed countries such as Benin. At the multilateral level, LDCs confront difficulties in acceding to developed countries markets and the costs of complying with WTO obligations.[39] Many countries in Africa, including Benin, have turned to regional integration as a stepping-stone to global integration, although the poverty and economic difficulties of its neighbors can limit the gains from trade. At the regional level, Benin is a full member of WAEMU and ECOWAS, which are setup to boost economic integration in the Western African region. In this chapter, the disjunction between the impressive progress of institutional integration within WAEMU and the low level of Intra-WAEMU trade is analyzed. While integration has advanced much further within WAEMU than ECOWAS, trade with Nigeria is the elephant in the room with regard to Benin's trade. That is, trade with Nigeria is vastly more important to Benin than official statistics reveal. Likewise, Benin's policies and practices have historically been, and continue to be, swayed as much by the lure of this informal or semi-official trade as by moves toward regional integration within WAEMU and ECOWAS and measures to increase trade with developed countries.

This chapter focuses on multilateral and regional market access issues, starting with Benin's participation in the multilateral trading system, focusing on the cotton initiative at the WTO and on technical assistance to Benin in meeting its WTO obligations (Section 4.1), then turns to preferences granted by developed countries, notably the United States and the European Union (Section 4.2), before focusing on integration within WAEMU and ECOWAS (Section 4.3). The nature, causes and consequences of informal trade with Nigeria are presented in detail in Section 4.4. The chapter concludes with an overview of high priority market access and regional integration issues in Section 4.5.

## 4.1 Multilateral Market Access Issues

**Participation in the WTO**. Benin had been a Contracting Party to the General Agreement on Tariffs and Trade (GATT) since 1963. The country became a member of the WTO in 1996, and was recognized as a "least developed country (LDC)[40]." Benin has made an unequivocal commitment to the multilateral trading system and to meet its obligations to the WTO. The WAEMU countries are increasingly cooperating in negotiations at the WTO, notably on the cotton issue. Benin put into force the WTO Customs Valuation Agreement in 2003. There is now a consensus on the negative impact on poverty reduction of trade barriers on products that are exported by the poor, particularly agricultural products. A recent agreement by the WTO General Council lays out a road map for the elimination of agricultural export subsidies, better discipline on exports credits and state trading enterprises, and introduction of new commitments to reduce trade distorting farm subsidies with deeper cuts in countries with higher subsidies and

[38] This chapter draws on a report prepared by Anne-Marie Gourjeon and Toussaint Houeninvo.
[39] See Finger and Schuler (2000.
[40] The WTO second Trade Policy Review (TPR) was carried out on June 2004. The Minister of Trade of Benin, led the Benin delegation.

significant cuts early on. Because cotton accounts for more than 60 percent of exports, and cotton exports represent roughly 6 percent of GDP, Benin played a key role in shaping the outcome of multilateral discussions on cotton.

**The Cotton Issue**. As discussed in Chapters 9 and 11, production subsidies in developed countries have an adverse effect on cotton-producers in Africa, including Benin. Cotton subsidies were a major point of discussion in the Doha Round of trade negotiations at Cancun, with West African producers, including Benin, and other developing country producers, notably Brazil, Mali, Burkina Faso and Chad, making a reduction in developed country cotton subsidies one of their central objectives. In May 2003, prior to the Cancun meeting, four West African producers, Benin, Burkina Faso, Mali and Chad, put forth the "Sectoral Initiative in Favor of Cotton" calling for the phase-out of subsidies in view of their detrimental effects on cotton prices. Notwithstanding the failure of the talks at Cancun in September 2003, discussions continued at the WTO with consensus developing on distinguishing two dimensions of the cotton problem: **(i)** trade policies and **(ii)** development assistance to producers. The African Regional Workshop on Cotton held in Cotonou on 23-34 March 2004 focused on providing interim financial and technical assistance to cotton-producing nations, to provide *de facto* compensation for the harm caused by subsidies. At this conference, it was agreed that the ongoing JITAP and IF processes should be deployed for this purpose. On August 1, 2004, the WTO General Council issued a decision (the "July Package") that included a reaffirmation of the importance of the Sectoral Initiative on Cotton as part of the Doha work program, and urged international organizations to provide assistance to cotton-producing nations. This decision created a subcommittee on cotton of the Committee on Agriculture. In November 2004, the WTO established a Cotton Sub-Committee and adopted its work program in March 2005.

**Technical Assistance/ Capacity Building.** Benin receives technical assistance from the WTO, the ITC, and UNCTAD and other institutions for its participation in the multilateral trading system. *The JITAP (Joint Integrated Technical Assistance Programme for selected African countries) programme was launched in Benin in 1998 as a joint effort of the ITC, UNCTAD and the WTO. The Programme has three objectives:*

- *Build national capacity to understand the evolving Multilateral Trading System (MTS) and its implications for external trade.*
- *Adapt the national trading system to the obligations and disciplines of the new MTS.*
- *Seek maximum advantage from the new MTS by enhancing the readiness of exporters.*

*The main results of the implementation of the program activities in Benin are as follows:*

1. *<u>MTS Institutional support, Compliance, Policies, and negotiations</u>: The program initiated the setting up of an Inter-Institutional Committee for dealing with MTS issues and WTO negotiations. It has 43 members and three subcommittees that cover: Goods, Services, and TRIPS. The IIC helped the country in developing negotiating strategies, and to participate effectively in the Doha Ministerial Conference and in other on-going multilateral trade negotiations. It also enabled the country to meet its WTO notifications obligations. With the help of JITAP, work commenced for collecting legislative and regulatory texts on the*

*business environment and action has begun to bring national legislation in line with the WTO rules.*

2. *Enhancing MTS Knowledge and Networks: An important achievement of JITAP was the creation of a core group of persons having knowledge of MTS matters. 115 MTS trainers were trained by JITAP. These comprised 36 general trainers and 79 experts in the different MTS subjects. Persons from Benin participated in several technical seminars and training workshops organised by JITAP at the national, sub-regional, and regional levels, which built their knowledge on MTS issues and enabled them to exchange experiences with other countries covered by the programme. Ten training modules developed jointly by ITC, UNCTAD and WTO were provided to Benin as basic reference material. These were used by trainers to develop material for local use.*

3. *Formulation of Sector Strategies for export development: Benin followed a "bottom up" approach for developing sector strategies Two sector strategies, along with respective action plans for their implementation were developed for the "Cashew Nuts" and the "cassava" sectors. All technical work was done by sector counterpart teams (SCTs), which are composed of representatives of public and private sectors. The strategies helped Benin analyse all the constraints facing these two potential sectors and devise a plan for export development. The strategies are adopted at national level and implemented in coordination between the high level representatives from the public and the private sectors. "*

While the JITAP Phase II report made some recommendations for institutional development, it did not include a comprehensive assessment of the functioning of trade support organizations. Trade support institutions are discussed in Chapter 7. In addition to JITAP, Benin receives technical assistance in trade policy formulation and implementation from the WTO, UNDP, UNCTAD, the World Bank, the European Union, France and other bilateral partners, and NGOs.

## 4.2 Preferential Access to Developed Country Markets.

Benin enjoys preferential access via the U.S. Generalized System of Preferences, and the European Union's Cotonou Convention (which replaced the Lomé Convention) and Everything But Arms (EBA) Initiative. The latter grants duty-free and quota-free access to the European market to LDCs for all products except arms.[41] Benin has been approved by the United States as eligible for duty-free access under the (AGOA) Africa Growth and Opportunity Act, in addition to the GSP (Generalized System of Preferences). Benin has received a visa for clothing exports to the United States, but has seen no benefit from AGOA[42] so far, unlike some African countries that have significantly boosted apparel exports to the United States.

The last Cotonou Agreement provided for negotiation of EPAs (Economic Partnership Agreement) between the EU and SSA countries. The EPAs are scheduled to take effect in 2008 when the Cotonou Agreement expires. The main objective of these EPAs is to reform trading arrangements between the EU and SSA countries to make them more effective in enhancing

[41] Bananas, rice and sugar are the exceptions. For these products, duty-free access is phased-in between 2002 and 2008 by a gradual yearly reduction in tariffs.
[42] Exports to the United States are estimated to be less than 4 percent of all exports (WITS estimate).

trade and investment and more compatible with WTO rules. While the EPAs provide an opportunity and vehicle to strengthen regional trade integration and thus have received much political support in the region, they pose enormous challenges to countries like Benin. For instance, to comply with WTO rules, the EPAs include a provision for reciprocity in preferential tariff reductions, yet African countries' tariffs are generally much higher than those in European countries. Also, given the importance of the EU as a source of imports for Benin and the significant share of import taxes in government revenues (47 percent), the fiscal impact of the EPAs could be significant. In negotiating EPAs, Benin and other African countries should seek to obtain increased technical assistance and market access benefits to compensate for disproportionate tariff cuts.[43]

As seen in Chapter 3, however, Benin's exports are heavily concentrated in cotton (60-90 percent of total), destined overwhelmingly to textile-producing developing countries in Asia. Therefore, without export diversification in both products and markets, the preferences granted by the EU and the U.S. will have little value for Benin. Given current trade patterns, hides and skins as well as fish products (mainly shrimps) are the only major beneficiaries of these preferences. The actual utilization of such preferences, however, is low, standing at 26.4 percent overall (Table Annex 4.1). This average utilization rate reflects very high preference requests for fish products (about 99 percent) and no request of preference for raw hides and skins, which represent 71 percent of the EU's total imports from Benin. The absence of preference take-up for raw hides and skins is due to the small preference margin of the latter (small gap between MFN and preferential duty-free tariffs). Indeed, at a disaggregated level, tanned skins of sheep / goat face an MFN tariff rate of only 2 percent, a rather small incentive to justify the administrative costs associated with claiming preferential access. .

**Other Key Market Access issues.** As discussed in Chapter 10, besides cotton, Benin has untapped potential in nontraditional exports in raw and processed tropical agricultural products, and fishing. The country's main market issues include:

- Tariff escalation at successive stages of processing
- Technical barriers, sanitary and phytosanitary measures, norms and quality control (the case for Benin shrimps)
- Antidumping and countervailing measures
- High tariff peaks for some specific goods.

In summary, the EU and US initiatives can have important potential benefits for Benin even though Benin has not taken much advantage of trade preferences so far, mainly because of a lack of supply capability as well as the complexity and restrictiveness of these preferences. This suggests that efforts to promote Benin's export potential should go hand-in-hand with more effective technical assistance from Benin's developed partners.

### 4.3 Regional Market Access Issues in WAEMU and ECOWAS

Access to WAEMU countries has had a major effect on Benin's policies, as noted in Chapter 2. Benin's trade regime is governed by WAEMU provisions (Free Trade Area within

[43] See Hinkle and Schiff (2004) for an assessment of the potential implications of EPAs for African countries.

and Common External Tariff with third parties), notably for tariffs. Beyond trade policy, the WAEMU countries have moved to harmonize economic policies and regulations across a wide range of areas, including internal taxation, business law (OHADA), accounting systems (SYSCOA) and more, as described in Chapter 6. Still, the current political crisis in Cote D'Ivoire, the largest economy in WAEMU, threatens to undermine these efforts.

As noted in the previous chapter, notwithstanding deep regional integration within WAEMU, Table 4.1 shows that trade within WAEMU (exports plus imports) remains small, with Benin's intra WAEMU trade estimated at 11.8 percent in 2002. However, Benin's intra-WAEMU trade increased more rapidly than that of most other WAEMU countries, although much less so than Togo.

**Benin's exports to WAEMU** amounted to about 4 percent of total exports in 2000-02, with the largest categories being cigarettes, portland cement and cotton fabrics (Table 4.1).

**Table 4.1 Benin merchandise exports to WAEMU, 2000, 2001, 2002**

**Benin's Exports to WAEMU and Export Shares for Major Merchandise Products, 2000-2001-2002**

| SITCRev.2 | Product | Exports to WAEMU ($'000s | | | Export share (%) | |
|---|---|---|---|---|---|---|
| | | 2000 | 2001 | 2002 | 2001 | 2002 |
| 1222 | Cigarettes | 2,777.11 | 2,158.83 | 1,870.13 | 29.58 | 22.60 |
| 6116 | Leather and other hides and skins | 334.19 | 131.54 | 0.00 | 1.80 | 0.00 |
| 652 | Cotton fabrics, woven | 2,672.17 | 1,290.06 | 1,034.24 | 17.68 | 12.50 |
| 6612 | Portland cement, ciment fondu | 2,025.54 | 910.10 | 1,569.26 | 12.47 | 18.97 |
| 71 | Power generating machinery | 213.83 | 6.25 | 0.00 | 0.09 | 0.00 |
| 89 | Miscellaneous manufactured articles | 514.38 | 375.00 | 325.74 | 5.14 | 3.94 |
| 2 | Crude materials, inedible, except fuel | 223.88 | 324.39 | 369.00 | 4.44 | 4.46 |
| 533 | Pigments, paints, varnishes & related | 204.61 | 298.00 | 9.14 | 4.08 | 0.11 |
| 0 | Food and live animals | 99.10 | 242.15 | 252.48 | 3.32 | 3.05 |
| 334 | Petroleum products, refined | 0.00 | 3.00 | 236.01 | 0.04 | 2.85 |
| 4233 | Cotton Seed oil | 0.00 | 186.97 | 524.00 | 2.56 | 6.33 |
| 55 | Essential oils and perfume mat.; toile | 119.25 | 347.64 | 599.44 | 4.76 | 7.25 |
| 77 | Electrical machinery, apparatus & ap. | 0.00 | 123.31 | 489.17 | 1.69 | 5.91 |
| | All above products | 9,184.07 | 6,397.24 | 7,278.61 | 87.65 | 87.98 |
| | All products exported to WAEMU | **9,884.74** | **7,298.78** | **8,273.15** | 100.00 | 100.00 |
| | All products exported to the world | 188,413.60 | 181,837.65 | 241,906.56 | | |

*Source: UN COMTRADE database, November 2004.*

The low level of intra-WAEMU trade (Table 4.2) undoubtedly reflects high transport costs and other *de facto* barriers to trade that WAEMU should ascertain and attempt to ameliorate. Some of these barriers, notably poorly functioning transport services and costs and delays associated with multiple checkpoints on the roads, are described in Chapter 8.

**Table 4.2 Evolution of Intra-WAEMU Trade (Exports plus Imports) as a Percent of Total Trade**

| | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|
| **Benin** | 6.6 | 7.3 | 7.8 | 10.7 | 11.7 | 11.8 |
| **Burkina Faso** | 18.2 | 18.9 | 23.7 | 20.9 | 22.9 | 22.6 |
| **Côte d'Ivoire** | 7.5 | 7.9 | 8.7 | 10.1 | 9.3 | 6.7 |
| **Guinée Bissau** | 7.1 | 6.3 | 6.8 | 7.0 | 6.6 | 7.8 |
| **Mali** | 34.4 | 32.7 | 23.8 | 31.5 | 22.6 | 19.9 |
| **Niger** | 11.5 | 12.8 | 15.5 | 15.7 | 16.1 | 16.5 |
| **Senegal** | 6.8 | 6.0 | 6.5 | 5.6 | 6.3 | 7.7 |
| **Togo** | 6.1 | 7.0 | 14.0 | 12.8 | 15.6 | 17.0 |
| **Total** | 9.7 | 9.9 | 10.6 | 11.8 | 11.3 | 10.1 |

*Source : WAEMU Commission*

Access to ECOWAS has had little effect on member economies so far, as the planned customs union has been delayed. Recently, renewed efforts have been made with the objective of creating a free trade zone in the near future and a customs union modeled on WAEMU by 2007. The new Economic Partnership Agreement (EPA) currently being negotiated between the EU and West Africa (ECOWAS plus Mauritania) may also significantly advance integration within ECOWAS and have an important effect on Benin’s trade regime.

## 4.4 Trade with Nigeria

Benin’s trade is heavily influenced by Nigeria’s trade policies and economic situation. Officially exports to Nigeria (not counting re-exports) amounted to about 16 percent of all exports in 2002[44], a big increase over the previous few years. Unofficial exports to Nigeria are believed to be much larger, amounting to 6 percent of GDP and about one-third of Customs revenues (IMF estimate, November 2004). Benin and Nigeria have extensive historical ties reflecting their geographical and cultural proximity. They share several languages and ethnicities. The political instability, insecurity and restrictive trade policies in Nigeria have traditionally stimulated unofficial trade in Benin. The parallel circuit between the two countries was given an impetus by the dislocation caused by the Biafra war in 1967. During that time, for example, Benin became a major cocoa exporter, despite non-existent production of this product in Benin.

The 1976-86 oil boom in Nigeria boosted the demand for consumer goods imports, further boosting transit via the port of Cotonou to take advantage of the relatively better infrastructure in the port. During this time, Benin adopted low-tariff policies to facilitate an entrepot role of Cotonou. The balance of payments crisis of the late 1980s in Nigeria led to the implementation of bans or high tariffs on a number of imported products, including rice and wheat. Notwithstanding its membership in the WTO, Nigeria has maintained highly protectionist and ever-changing trade policies. A number of products have been subject to periodic impositions of outright bans or very high tariffs. Until recently, it was very difficult even to ascertain what products were banned. These bans provided an incentive for traders to source

44 The ratio of export to GDP in 2002 was 14.29 %

informally in Benin. The question now is whether Nigeria is "getting its act together," thereby reducing the incentive to divert shipments through Benin while increasing opportunities for formal trade.

Nigeria's import barriers are markedly more restrictive than Benin's; the average actually-applied tariff is 28.1 percent in Nigeria, against 12.1 percent for Benin (WTO 2004). Table 4.3 presents the recent evolution of some of Nigeria's trade barriers, illustrating the very high and variable restrictions on imports of a number of goods.

**Table 4.3 Selected Import Barriers in Nigeria (tariff rates in percent or bans) 1995- 2003.**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 |
|---|---|---|---|---|---|---|---|---|---|
| Edible oil | Banned | Banned | Banned | Banned | 55 | 65 | 40 | 100 | Banned |
| Poultry meat | Banned | Banned | Banned | 150 | 55 | 75 | 75 | 100 | Banned |
| Beer | Banned | Banned | Banned | 100 | 100 | 100 | 100 | 100 | 100 |
| Wine | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 | 100 |
| Milk | 10 | 10 | 10 | 10 | 10 | 5 | 5 | 5 | 5 |
| Milk Products | 55 | 55 | 55 | 55 | 50 | 50 | 50 | 100 | 100 |
| Tomato preserves | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 | 45 |
| Used Clothes | Banned | Banned | Banned | Banned | Banned | Banned | Banned | Banned | Banned |
| Tires | Banned | Banned | Banned | Banned | Banned | Banned | Banned | Banned | Banned |
| Wheat dough | Banned | Banned | Banned | Banned | Banned | Banned | Banned | Banned | Banned |
| Used Cars* | Banned | Banned | Banned | Banned | Banned | Banned | Banned | Banned | Banned |
| Sugar | 10 | 10 | 10 | 10 | 10 | 10 | 40 | 100 | 100 |
| Cloth and Apparel | Banned | Banned | 50 | 65 | 65 | 30 | 55 | 100 | 100 |
| Frozen Fish | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Tobacco and cigarettes | 90 | 90 | 90 | 90 | 80 | 60 | 80 | 100 | 100 |
| Rice | 100 | 50 | 50 | 50 | 50 | 50 | 75 | 100 | 110 |

Note: *defined as more than 8 years old in 1994, and more than 5 years in 2002.
Source: LARES-IRAM (2004)

These barriers openly invite smuggling, and Benin, with its large frontier with Nigeria, has been happy to oblige. Nigeria has made sporadic efforts and threats to close down this trade, but until recently has shown little serious commitment to do so. Lately, however, President Obansanjo of Nigeria has indicated a new resolve to crack down on imports from Benin. In the August 2003 memorandum of Badagry (a coastal town in Nigeria, lying between Lagos and the border with Benin), following a meeting between highest authorities of the two countries, Nigeria made public a list of 29 banned products, which covers both re-exports and goods made in Benin, notwithstanding ECOWAS agreements on free movement of goods within the region. Nigerian border authorities have been confiscating and burning goods on the list regardless of origin. Also, in November 2003, Nigeria banned all container traffic through land crossings. The products manufactured in Benin affected by the ban included various food products such as manioc dough and edible oils, mineral water, textiles, and cement. Following further discussion, however, Nigeria lifted the bans on products made in Benin but not on re-exports.

The Nigerian government has taken some steps to liberalize Nigeria's trade policies and improve the quality of its ports, thereby diminishing the incentive to import via Benin. The memorandum of Badagry also officially commits the Benin and Nigerian governments to foster formal trade relations while curtailing smuggling. Very recently, in June 2004, a series of meetings between officials of the two countries and representatives of the private sector in Benin took place, and a joint committee has been created to identify and lift barriers to formal trade. To facilitate trade in accord with ECOWAS objectives, two border crossings have been identified for expeditious transfer of merchandise: Krake-Eme in the South and Chikanda/Nikki in the North. It remains to be seen how effectively these conflicting tendencies in Nigeria's policies vis-à-vis trade with Benin will be resolved.

***Modes of Cross Border Trade with Nigeria***. There are at present three main modes of transshipment of goods across the border: transit, unofficial re-exports of goods officially imported into Benin, and re-exports of goods after warehousing in Benin.

***Transit***. As noted earlier, goods imported into Benin and shipped to neighboring countries under official transit status are subject to a 5 percent statistical tax rather than import duties. Goods destined for land-locked countries are exempt from this statistical tax. While this is seemingly advantageous relative to the available alternatives, transit status is not accepted for products banned in Nigeria by Benin's customs officials, on the grounds that it would constitute a visible violation of an accord between Benin, Togo, and Nigeria to respect each other's rules on transshipment of banned products. Used cars enter Benin under transit status, with stated destinations the land-locked countries of the interior to avoid paying the statistical tax, and are then diverted to Nigeria.

***Unofficial Exports of Official Imports***. Instead of transit, therefore, goods destined for Nigeria are imported into Benin as if intended for domestic consumption and then re-exported unofficially. Nigerian traders purchase the merchandise in Cotonou, stock it along the border, and then illegally slip it across the border through remote roads and waterways or by bribing border guards. Such imports are subject to normal import duties as they enter Benin but in practice are often discounted, as discussed further below. The very high tariffs or tariff-equivalents of quantitative restrictions in Nigeria (average to 37.2 percent in Nigeria against 14.6 percent in Benin) render such re-exports lucrative even after paying Benin's import taxes. Equally significant, this practice yields substantial revenue to the Benin government. These elaborate deceptions are highly vulnerable to liberalization in Nigeria and inconsistent with WTO agreement on customs valuation, and WCO Kyoto agreements.

***Official Re-exports of goods after warehousing***. Some imported goods originally intended for Benin can be sold under customs control in foreign markets, in most cases Nigeria. Prior approval of the Director of Customs is required and the goods must have a customs escort to the border to ensure that they are not diverted to the domestic market. These re-exports are taxed at a rate of 14.37 percent (Taxe Spéciale de Reexportation of 8 percent, plus the taxes that apply to transit)—a rate exceeding that on transit but below that of ordinary imports, including those that are unofficially forwarded to Nigeria. This regime applies to a number of products, including alcoholic drinks other than beer, rice, sugar, milk, tomato concentrate, textiles, used clothes, new tires, insecticides, and "fer à beton". The volume of this trade is quite small (only 1.6 percent of total imports).

***Fiscal Aspects of Benin-Nigeria Trade***. As noted earlier, Benin collects a substantial fraction of its customs revenue from various forms of re-exports to Nigeria. It is estimated that about one third of customs revenues and 15 percent of total revenues derive from this re-export trade to Nigeria. Indeed, the desire to reap these fiscal windfalls had been a prime reason for Benin's low tariffs on consumer goods prior to the establishment of the CET. In this regard, the effect of the CET in raising tariffs on consumer goods, as noted in Table 3.1, has been to dissuade the re-export trade, and a source of consternation in Benin. To counter the disincentive effects of this tariff increase, it seems that Beninese customs officials have increasingly endeavored to offset the rate increases by systematically lowering the declared taxable value of some merchandise. In effect, a preferential regime is in effect for re-exports relative to goods for local use. These *de facto* reductions in duties are sometimes justified by Togo's alleged attempts to divert goods through Lome by undercutting CET tariff rates. In any event, this two-track system for imports has become increasingly institutionalized within customs. These allegations, if true, constitute violations of WAEMU and WTO rules.

In effect, through this re-export scheme, Benin is diverting fiscal revenue from Nigeria to itself. Naturally, this does not please the Nigerian government, hence its renewed resolve to curb such practices. Nigeria's efforts to crack down have resulted in damage not only to the re-export trade, but also to exports of goods originating in Benin. In fact, the Benin government on occasion has seemed willing to sacrifice domestically produced exports to preserve the unofficial re-export trade, because of the bountiful revenue it yields. The tariff discounting for re-exports inevitably is also partially extended to goods for domestic use, thereby undermining the protection for domestic industry provided by the CET. Moreover, those in the formal sector who accede to the official tariff rates find themselves in competition with products ostensibly intended for Nigeria and therefore receiving unofficial discounts. In this way, there is a tradeoff between productive exports and the re-export trade. The memorandum of Badagry commits the two governments to work together to promote formal trade and reduce smuggling, but it remains to be seen if it will be put into effect.

While Benin reaps substantial revenue gains from re-exports. There is also a lot of smuggling that almost completely escapes taxation. The net effect of the booming informal trade on revenue is therefore unclear.

***Characteristics and Magnitude of Re-exports and Transit to Nigeria***. The shadowy and complex nature of transit and re-export trade by its very nature makes it difficult to measure. The estimates presented here are therefore necessarily subject to wide margins of error, and are intended to provide rough dimensions only. Table 4.4 presents estimates of re-exports by product from Benin to its neighbors, predominantly Nigeria. Table 4.4 includes estimates of unofficial trade as well as officially recorded re-exports.

**Table 4.4 The Structure of Benin's Re-Export Trade, 1995-2002**
**(Billions of CFA francs)**

| | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 |
|---|---|---|---|---|---|---|---|---|
| Edible oils | 0.2 | 0.2 | 0.3 | 2.2 | 5.1 | 1.6 | 0.9 | 0.5 |
| Frozen Chicken | 1.8 | 1.5 | 2.2 | 9.4 | 30.2 | 35.3 | 33.5 | 36.0 |
| Alcoholic drinks | 0.9 | 2.4 | 2.2 | 3.2 | 4.4 | 3.2 | 3.3 | 3.2 |
| Milk products | 1.0 | 3.2 | 5.1 | 8.3 | 7.1 | 7.7 | 8.6 | 7.9 |
| Tomato preserves | 0.6 | 1.2 | 1.9 | 6.7 | 8.1 | 4.7 | 4.5 | 3.3 |
| Vehicles | 12.4 | 13.1 | 16.4 | 17.4 | 15.9 | 14.4 | 14.1 | 16.2 |
| Used clothes | 5.4 | 10.5 | 15.6 | 13.4 | 13.7 | 8.8 | 9.5 | 11.0 |
| Sugar | 3.7 | 0.0 | 0.0 | 3.9 | 4.3 | 0.0 | 1.9 | 2.3 |
| Cloth and Apparel | 13.7 | 19.2 | 26.8 | 20.4 | 17.1 | 12.9 | 15.0 | 3.9 |
| Tobacco products | 2.5 | 1.8 | 2.9 | 1.9 | 1.8 | 0.6 | 0.4 | 0.6 |
| Rice | 30.3 | 20.0 | 5.1 | 4.2 | 0.9 | 0.3 | 0.4 | 0.5 |
| Other | 7.7 | 6.3 | 9.1 | 9.7 | 12.1 | 1.0 | 4.6 | 5.2 |
| Total | 80.1 | 79.5 | 87.7 | 100.8 | 120.6 | 90.5 | 96.7 | 90.7 |

*Source: INSAE/DSEE/SEC and LARES/IRAM (2004)*

The main re-export products are those listed in Table 4.4 as highly protected or banned in Nigeria. These figures combine official re-export data with estimates of unofficial re-exports based on studies by the research institute LARES, with parallel exports constituting a little more than half of total re-exports, and a much larger proportion with Nigeria. Even these figures greatly understate total trade flows, as they do not include transit, i.e., goods explicitly classified destined for other countries, which notably includes most of the used cars that enter in Benin en route to other countries, mostly Nigeria (see Box 4.1 for details)[45].

[45] As Box 4.1 discusses, used cars mostly enter Benin as listed in transit for land-locked countries of the interior such as Niger, but are then almost all diverted to Nigeria.

**Box 4.1: Trade in Used Cars**

As Table 4.4 indicates used cars have become one of the most important re-exports, but as noted in the text, most used cars enter under transit rather than re-export status. Imports of vehicles rose steeply from 50,000 in 1996 to 200,000 in 2000 and nearly 300,000 in 2002. When transit is included along with re-exports, used cars are estimated to account for as much as 43 percent of all trade flows in 2001, up from 37 percent in 1999. This is confirmed by the fact that in 2001 used cars represented an astounding 45 percent of revenues (fees and taxes) for the Port of Cotonou. Indeed the used car trade has become one of Benin's major industries. Huge car parks can be seen in the outskirts of Cotonou. This business employs an estimated 10,000 to 15,000 people directly, in importing, selling, storing and driving etc, and several thousand more indirectly. It accounts for about 9 percent of GDP, i.e., roughly the same as cotton.

The bulk of used cars enter Benin in transit status, officially destined for Niger or other land-locked countries, to avoid paying the statistical tax of 5 percent as mentioned above. For instance of 230,000 cars declared for shipment to Niger in 2001, only 15,000 in fact ended up there. Almost all the rest wound up in Nigeria. After the cars clear the port, they are stored in car parks in Cotonou, before being individually driven to their destination under escort from customs and with police permission. The fact that cars destined for Niger and other land-locked countries are diverted to Nigeria under customs escort suggests complicity of escort officials. Recently, the government has imposed pre-payment of the statistical tax, to be reimbursed upon proof that the cars are shipped to their stated destination. In addition to the efforts of Nigeria to block this trade, this policy in Benin might also explain part of the apparent recent downturn of this trade.

Nigeria's ineffective attempt to protect its own struggling car industry and its chronic balance of payments difficulties motivate its bans on used cars. At the end of the 1970s, Nigeria assembled 100,000 cars against a mere 10,000 today. This diminished production has encountered rising demand associated with population growth and somewhat improved growth performance in Nigeria. In 1994, Nigeria banned imports of vehicles more than 8 years proved old. In 2002, the law was further tightened to a ban of all cars more than 5 years old. Moreover, imports of cars by land routes, notably from Benin, were banned altogether. These bans, however, have until recently impervious to the porous border between the two countries.

Unofficial re-exports are estimated at about 40-50 percent of ordinary exports over the 1995-2002 period, in addition to official re-exports of about 25 percent of ordinary exports. From 1996-1999 re-exports rose sharply and then declined with the establishment of the CET in 2000. This may reflect the effect of the rise in tariffs on consumer goods in Benin imposed by the CET, noted earlier. Higher tariffs in Benin reduce the attractiveness of the re-export trade. At the product level, Table 4.4 reveals sharp swings in individual product categories. For example, re-exports of frozen poultry have jumped sharply in recent years, while rice re-exports have plummeted since the mid-1990s. Fluctuations in individual product flows do not correlate well with the pattern of restrictions shown in Table 4.3 but may reflect differences in the extent of enforcement in Nigeria or changes in that country's sourcing patterns.

Inclusion of re-exports dramatically raises Nigeria's share of Benin's exports destination to over 50 percent in the late 1990s, compared to about 5-10 percent of official Benin exports. Inclusion of transit would raise it even more. Benin also serves as an entrepot for reverse flows, especially petroleum, with Benin importing from Nigeria and then re-exporting to other countries of the region, again mostly via the parallel market. It is estimated that about 70 percent of petroleum products consumed in Benin are smuggled in from Nigeria.

More recent data is not available, but press reports and interviews indicate that the recent decision by Nigeria to crack down has significantly decreased this trade, especially in used cars.

***Prospects***. Benin is both blessed and cursed by its location next to Nigeria. Benin's thriving informal commerce affords many benefits in the form of income, employment, and fiscal revenue. These benefits, however, are fragile. Benin's informal sector is highly vulnerable to the vagaries of economic policy in Nigeria and could face serious difficulties if Nigeria adopts less restrictive trade barriers, improves its port facilities/customs administration and/or makes a serious effort to crack down on parallel trade. Moreover, the culture of tax evasion associated with informal trade is not conducive to sustainable development.

On the other hand, if Nigeria moves towards greater openness and transparency, Benin would be well positioned to benefit if it can make itself a sort of Hong Kong offering high-quality specialized trade services and products to its neighbor, improve governance and strengthen its institutions, including law and order. The implications are clear. Benin has to gradually wean itself from dependence on informal trade, by expanding formal production and exports. The next few chapters present detailed analyses and recommendations to this effect. Benin should also press for continued progress in deepening integration within ECOWAS.

### 4.5 High Priority Market Access and Regional Integration Issues

(e) Within WAEMU, integration has advanced significantly, and the harmonization of policies has provided a powerful impetus for reform. The problem of Togo and Benin's under-invoicing of import values in an effort to attract trade should be investigated further.

(f) Benin benefits substantially from the unofficial or semi-official trade with Nigeria in the form of income, employment and fiscal revenues. But these benefits are very fragile, dependent as they are on the vagaries of economic policy in Nigeria. The apparent recent decline of the used car market and the well-publicized burning of goods at the Nigerian border suggest that the time of reckoning may have arrived.

(g) The large revenues Benin obtains from re-exports to Nigeria raise serious questions about the sustainability of fiscal balance. By orienting fiscal policy towards the objective of encouraging re-export trade, Benin has tended to neglect the productive sector. While such a strategy confers fiscal benefits in the short run, it could be dangerous in the long run. If Nigeria were either to liberalize its market or effectively enforce its bans, this lucrative trade could suffer greatly or even collapse, creating a wrenching adjustment. Benin should therefore urgently seek alternative sources of revenue, both by fostering a productive economy that yields a bigger tax base, and seeking a better balance between the formal and informal sectors' share of the tax burden. Also, the lure of trade to Nigeria creates or exacerbates a culture of corruption and tax evasion that is not conducive to a productive economy.

(h) Benin should strive to re-orient its trade with Nigeria in more constructive and sustainable directions, by developing its capacity to produce goods and services for the Nigerian market rather than trans-shipping goods produced elsewhere. President Obasanjo's efforts to shut off the latter could prove to be a blessing in disguise if Benin is able to translate this threat into an impetus for reform. Benin can position itself to take advantage of a more dynamic and transparent Nigeria by upgrading its institutional environment. Much of the rest of the DTIS specifies the measures that Benin can and should take to increase its business climate and productive capabilities.

(i) Benin and Nigeria should work within ECOWAS to liberalize the high Nigerian trade barriers that provide the basic incentive for illicit cross-border exchange and expand formal trade relations.

# 5. INTERNATIONAL COMPETITIVENESS, FACTOR COSTS AND FOREIGN DIRECT INVESTMENT[46]

International competitiveness compares potential or actual success in: exporting, attracting foreign direct investment (FDI) and increasing real incomes in an increasingly globalized world where countries are competing for export market share and internationally mobile industries. This chapter assesses Benin's competitiveness, beginning with a brief overview of alternative measures of international competitiveness (Section 5.1). The emphasis is on a narrow definition of competitiveness defined as prices and costs in Benin relative to other countries, measured by real exchange rates at the macroeconomic level (Section 5.2) and relative factor costs at the micro level (Section 5.4). The chapter also presents trends on inward FDI in Benin as an outcome-based measure of competitiveness (Section 5.3) and concludes with high priority issues for enhancing competitiveness (Section 5.5).

## 5.1 Measurement of International Competitiveness

In a narrow sense, competitiveness can refer to comparisons of prices or costs across countries. In the larger sense, competitiveness refers to the comparison of favorable economic outcomes or business climates across countries. The outcome-based measures include high productivity, in level or at growth rates.[47] A similar definition of competitiveness is export success accompanied by rising living standards.[48] This chapter focuses on the narrow definition of price and cost comparisons between countries as well as revealed competitiveness as manifested by exports and inward foreign direct investment. The following chapter examines the overall business climate.

Several variables can be used as narrow indicators. At the macro level, international price competitiveness can be assessed based on the real effective exchange rate, using aggregate price indexes to measure relative prices. Other macroeconomics indicators can include FDI inflows, and export performance. At the microeconomic level, competitiveness can be measured by international differences in factor costs and productivity. Micro indicators, such as unit labor costs and production factor costs (electricity, water, telecommunication, etc), can also be used. In a world where capital is mobile and production is footloose between countries, it is the relative price of non-tradable *inputs*, such as labor, rather than *outputs* that matters. Firms will tend to source production in countries where unit costs of non-tradable inputs are low. Outcome based measures can also be used such as export market shares or inward FDI.

Competitiveness measures in the broader sense are available in the International Institute for Management Development's competitiveness rankings published in the *World Competitiveness Yearbook*, and in the World Economic Forum 's *Global Competitiveness Report*. Although these broad scores are composites of a series of indicators (structural and

[46] This Chapter draws on reports prepared by Aly Mbaye, Mireille Linjouom and Edouard Zoungan
[47] For example, Dollar and Wolff (1993), Krugman (1994).
[48] The U.S. Presidential Commission on Industrial Competitiveness (1985), Markusen (1992) and Hatsopoulos, Krugman and Summers (1990).

macroeconomic policies, basic infrastructure, education, labor market rigidities, etc.[49]), their rankings can capture features of the broader business climate.

### 5.2 Macroeconomic Indicators of Competitiveness in Benin

***Real Effective Exchange Rates (REER)***. Real exchange rates can be alternatively defined as the relative price of domestic and foreign tradable goods (the "external" real exchange rate) or the relative price of domestic tradables and domestic non-tradables (the "internal" real exchange rate).[50] External real exchange rates measure the relative price of a basket of goods in different countries, the idea being that low domestic relative prices are conducive to greater competitiveness in the sense that foreign demand for domestic products will increase and domestic demand for foreign products will fall, thereby boosting exports and reducing imports. Real exchange rates are therefore determined by three variables: nominal exchange rates, domestic prices and foreign prices.

Other issues include the choice of a price index and a set of weights in averaging bilateral exchange rates and foreign prices to obtain effective nominal and real effective exchange rates (REERs). In this study, the consumer price index was used for reasons of data availability. Importantly, unofficial exports to Nigeria were considered in the weighting scheme, giving a much greater weight to Nigeria than if official trade statistics were used. Real exchange rates are indexes that show changes over time rather than absolute levels of competitiveness, and by themselves, do not reveal whether a currency is over- or under-valued.

Both external and internal real effective exchange rates were calculated for Benin, with the focus mostly on external rates. In any event, internal real exchange rates are, in practice, quite similar to external real exchange rates. Many empirical models use some ratio of foreign and domestic prices to proxy for the domestic relative price of tradables/non-tradables. [51]

As noted in Chapter 2, Benin's macroeconomic competitiveness is heavily dependent on its membership in the CFA zone, with its currency therefore pegged to the Euro (formerly to the French franc). While Benin gains from the monetary stability of the CFA zone, it is unable to improve its competitiveness by depreciating its currency. Benin's competitiveness is strongly affected by the fluctuations of the Euro vis-à-vis other currencies, notably the U.S. dollar and the Nigerian naira. When the Euro appreciates against these other currencies, so does the CFA franc, thereby adversely affecting Benin's competitiveness in countries not pegged to the euro.

Figure 5.1 illustrates Benin's bilateral real exchange rates against a few key currencies (French franc-Euro, US dollar, Nigerian naira). A rise represents an increase in Benin's relative prices, i.e., a deterioration of competitiveness. Benin's competitiveness improved vis-à-vis these other currencies following the 1994 devaluation of the CFA franc, but then lost some of this

[49] This is the approach of the International Institute for Management Development in the *World Competitiveness Yearbook*'s competitiveness rankings, and the Global Competitiveness Report produced by the World Economic Forum.

[50] See Turner and Van't Dack (1992) and Turner and Golub (1997) for further discussion of concepts and measurement of REERs.

[51] Also, the two models boil down to a similar result: exports and imports depend on real wage in terms of tradable goods. See Hinkle and Nsengiyumva (1999a, 1999b) for a thorough discussion.

ground in the rest of the 1990s, to differing extents depending on the currency. The bilateral real exchange rate against the Naira shows great volatility, reflecting high and variable inflation in Nigeria and erratic fluctuations of the nominal naira exchange rate, marked in particular by sporadic large devaluations of the naira against the dollar. Using Nigeria's parallel market exchange rate rather than the official exchange rate to obtain the bilateral Benin/Nigeria exchange rate does not alter the main trends, except in the mid-1990s when the parallel naira rate depreciated sharply relative to the official rate, anticipating the latter's devaluation in 2000. Following the 2000 devaluation, the parallel and official rates converged again.

The real effective exchange rate (REER) using total trade weights shows a similar pattern. The REER used here is substantially more volatile than the IMF's measure for Benin, reflecting the greater weight on Nigeria. Following the 1994 devaluation, competitiveness improved substantially and then worsened with the devaluation of the naira in 2000. As of end 2003, the CFA remained depreciated by 10 percent relative to its 1993 pre-devaluation level.

Econometric tests indicate that the real exchange rate affects export performance, although the elasticity is small and imprecisely estimated, perhaps due to difficulties of accurately measuring exports.

Based on REER trends observed since 1994, it appears that some of the gains from the 1994 devaluation persisted through 2003. The subsequent appreciation of the Euro against the dollar in 2004, however, has undoubtedly erased some of the remaining gains. Since the CFA franc was generally viewed as overvalued prior to the devaluation, there is some cause for concern that Benin's real exchange rate is again in danger of overvaluation.

**Figure 5.1 Benin: Bilateral Real Exchange Rates for Benin Against Currencies, 1990= 100 (increase= appreciation)**

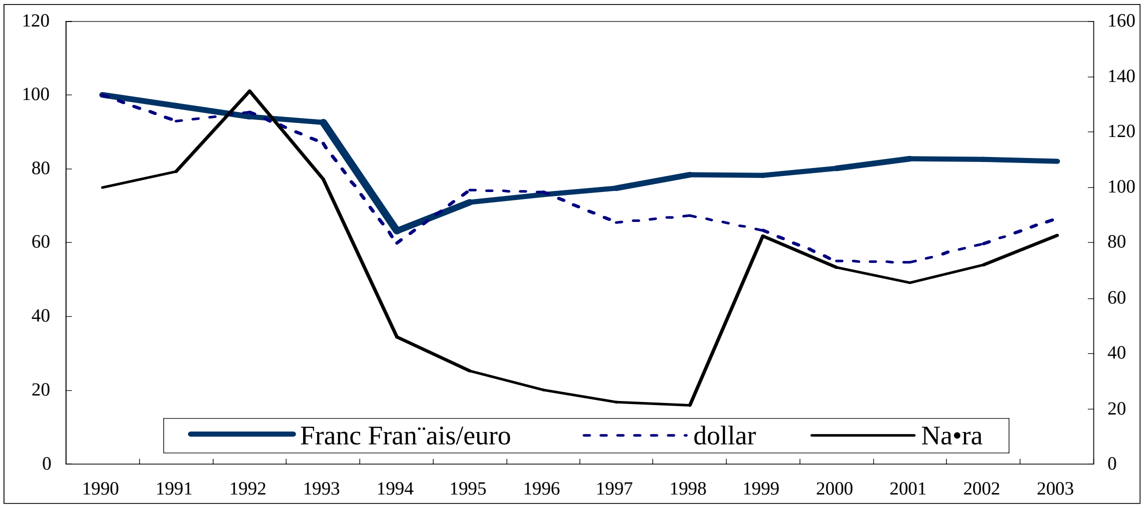



**Figure 5.2 Official and Parallel Bilateral CFA/Naira Real Exchange Rates , 1990 = 100**

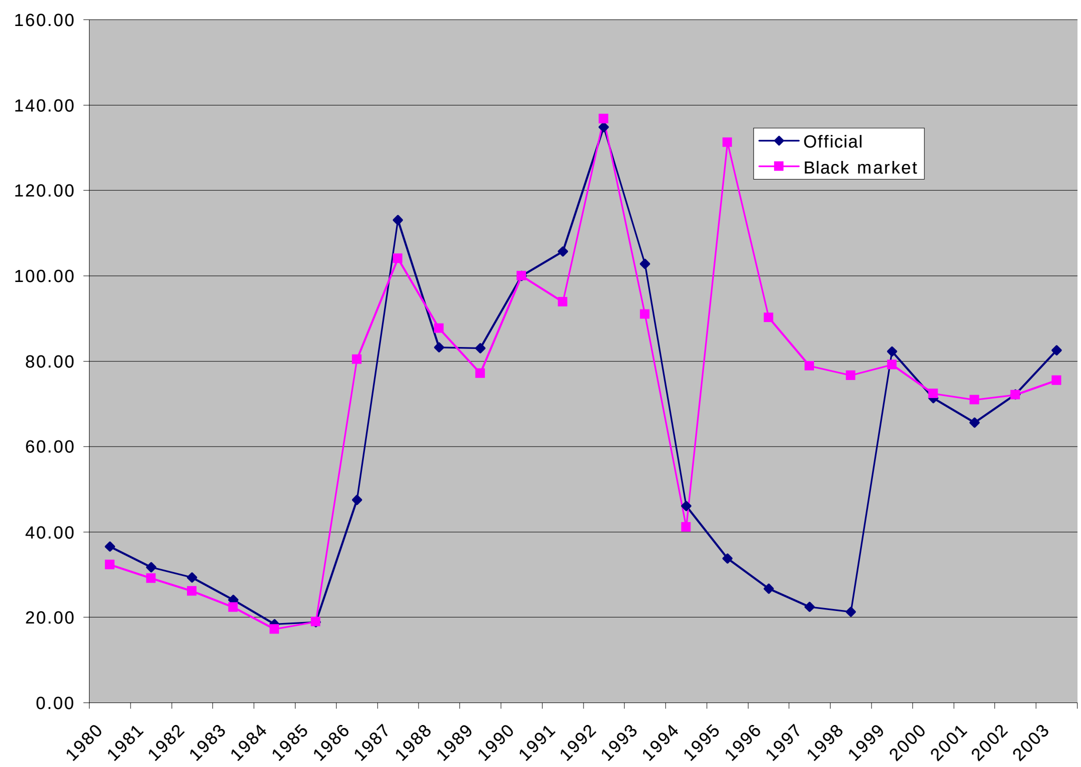
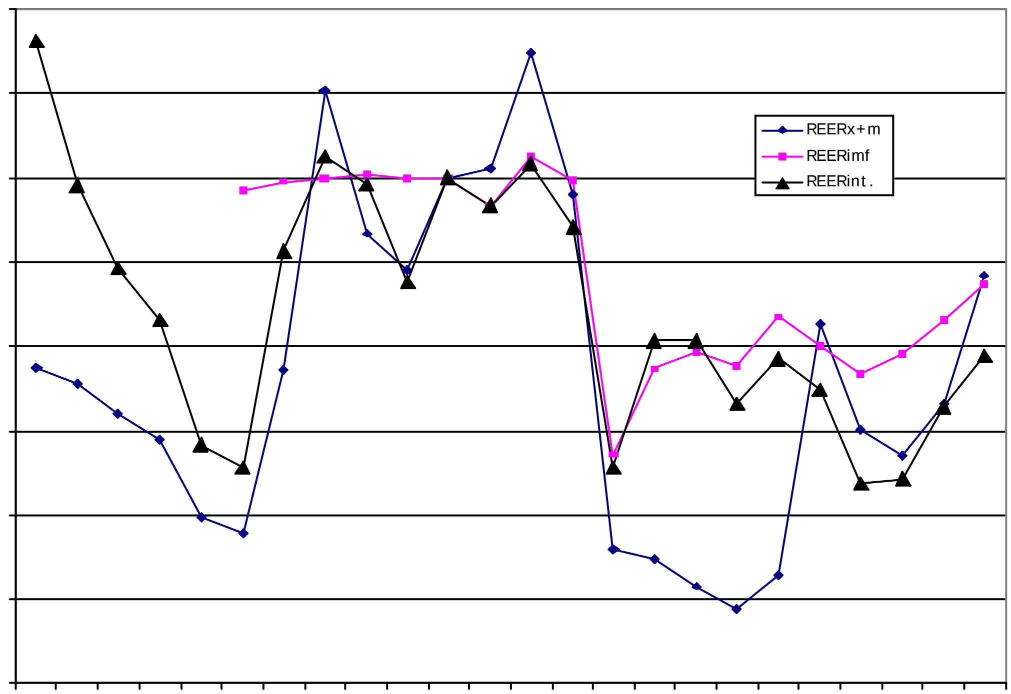


**Figure 5.3 Benin: Real Effective Exchange Rates, 1990 =100 (increase = appreciation)**




| | | |
|---|---|---|
| REERx+m | = | calculated based on total trade weights, including re-exports. |
| REERim | = | IMF REER based on official trade weights |
| REERint | = | Internal REER (traded relative to non-traded goods). |

## 5.3 Foreign Direct Investment as an Indicator of Competitiveness

**.**In addition to prices, competitiveness can also be measured by export and investment performance. As noted in Chapter 3, export performance, at least as measured by official statistics, is less than impressive. An alternative competitiveness benchmark is the ability to attract inward Foreign Direct Investment (FDI). An increasing number of Sub-Saharan African countries now recognize that FDI can play a crucial role in sustained growth and poverty reduction. FDI brings capital, skills, knowledge, and access to technology and international markets. FDI also contributes to job creation, upgrading local firms' competitiveness, and increasing living standards.

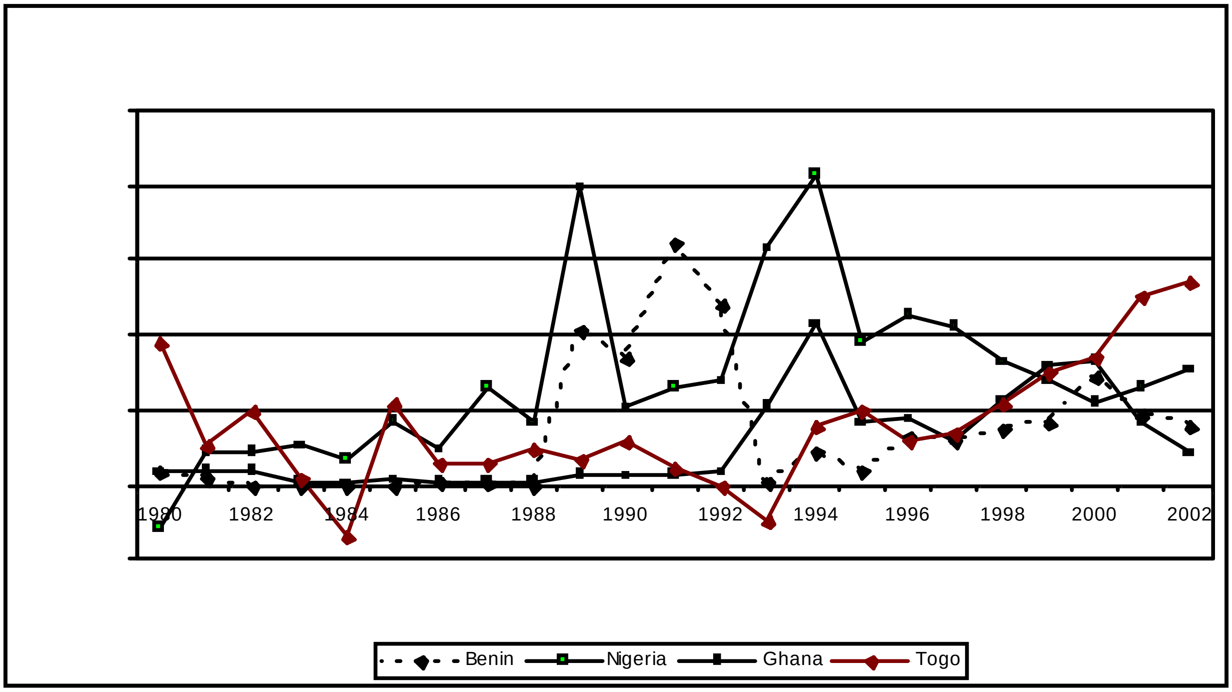
*Figure 5.4 shows the evolution of inward FDI in Benin.* [52] FDI was quasi-non-existent during the Marxist period of the 1980s. Following liberalization in 1990, FDI boomed briefly in the early 1990s, after which it fell back sharply before rising again to modest levels of 1-2 percent of GDP typical of other countries of the region. The surge in FDI in the early 1990s reflected privatization of a number of previously state-controlled industries, such as breweries,

[52] For more information, see UNCTAD's Examen de la Politique de l'Investissement au Benin (2004).

tobacco, cement, textiles and vegetable oils. The stock of FDI stood at 28 percent of GDP in 2000, about typical for the region, but below that of Togo and Nigeria.

Little information is available on the composition of FDI by industry. The bulk of the privatizations were in agro-processing (49 percent), cement (23 percent) and vegetable oils (20 percent). French companies represent 61 percent of the foreign firms operating in Benin, with most of the remainder from the United States, the United Kingdom, the Netherlands and Denmark. A comparison of Benin FDI/GDP to other countries including Ghana, Nigeria, and Togo (see Figure 5.5) indicates that FDI does not play a major rule in Benin's total output.

**Figure 5.4: Benins and Selected Other Countries' FDI/GDPRatio, 1980- 2002**




*Source: UNCTAD, December 2004.*

Overall, the role of FDI in Benin's economy remains modest Flows of FDI are tiny compared to foreign assistance, and the impact of FDI on export diversification, technology transfer and employment remain limited.[53]

**Export Performance As a Proxy to a Country's Competitiveness.** A look at Benin's export performance, in terms of level and diversification, does not suggest impressive competitiveness for Benin. as shown in Chapter 3.

## 5.4 Microeconomic Indicators of Competitiveness

***Wages and Unit Labor Costs in Manufacturing***. Unit labor costs -- the ratio of wages to productivity -- are an important component of cost competitiveness. The small size of the manufacturing sector in Benin and poor quality of the data make comparisons difficult. The

[53] See UNCTAD Investment Policy Review, 2004.

available information suggests that Benin's nominal wages are lower than those of the more developed countries of the region (Cote D'Ivoire and Senegal), but higher than those in Mali and Togo. Since the 1994 devaluation, Benin's unit labor costs have apparently risen relative to those of Senegal and especially Togo, while holding constant relative to Cote D'Ivoire (see Table 5.1).

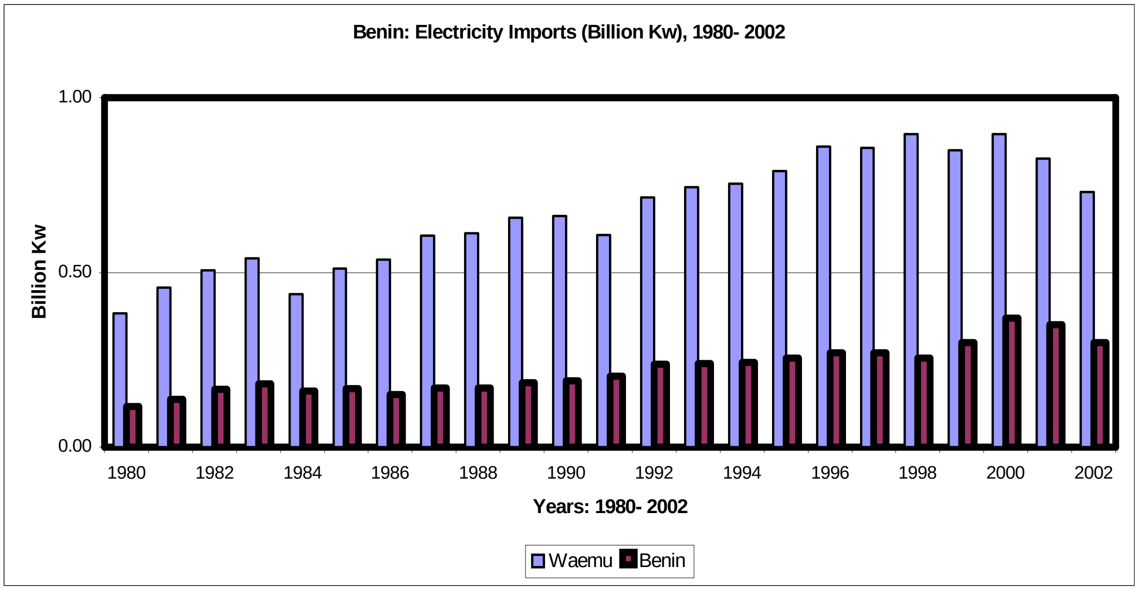
**Table 5.1 Relative Unit Labor Costs in Manufacturing, 1995= 100**

| | **1995** | **2000** |
|---|---|---|
| **Benin/Cote d'Ivoire** | 100 | 104 |
| **Benin/Senegal** | 100 | 135 |
| **Benin/Togo** | 100 | 235 |

*Source: Calculated based on UNIDO data.*

***Electricity***. Electricity is provided by the state monopoly SBEE ( Societe Beninoise de l'Energie Electrique). Benin has a total average electricity capacity of about one-tenth of a million kilowatts (See table 5.2). Benin has consistently imported electricity from neighboring countries, like Ghana and Cote D'Ivoire. In fact, Benin is a net importer of electricity, while the average WAEMU and African countries are net exporters of electricity (see Figure 5.5).

**Figure 5.4 Benin: Electricity Imports (billion Kwh), 1980-2002**




*Source: The US Energy Department, November 2004.*

**Table 5.2 Benin's Total Average Electricity Installed Capacity**

| | 1980-1985 | 1996-1990 | 1991-1995 | 1996-2000 | 2001-2002 |
|---|---|---|---|---|---|
| **WAEMU** | 1.54 | 1.66 | 1.72 | 1.86 | 1.77 |
| **Nigeria** | 2.86 | 4.57 | 5.91 | 5.89 | 5.89 |
| **Benin** | 0.02 | 0.02 | 0.03 | 0.11 | 0.12 |

*Source: The US Energy Department, November 2004.*

Benin's electricity rates are similar to most others in the WAEMU region (see Figure 5.6 and Table 5.3). In theory, the SBEE offers preferential rates to manufacturing firms, but it is unclear how manufacturing is defined. Consequently, most enterprises operating in Benin, such as fruit juice producers and hotels, do not qualify for these preferential rates. Ivory Coast also has a more sophisticated and, generally, lower pricing structure. The quality of service in Benin also leaves much to be desired with frequent power outages and erratic fluctuations in tension. Moreover, the SBEE's transmission efficiency is lower than that of most other countries, and the coverage of much of the country is minimal. Industries in the north of the country have to resort to generators.

**Table 5.3 WAEMU electricity cost (in CFA/Kwh), last revised February 2004**

| | Senegal | Ivory Coast | Mali | Togo | Benin |
|---|---|---|---|---|---|
| **Voltage:** | | | | | |
| **Low** | 107 | 66 | 82 | 62 | 66 |
| **Medium** | 56 | 37 | 55 | 53 | 41 |
| **High** | 36 | 15 | n/a | n/a | n/a |

*Source: Chamber of Commerce of Dakar, November 2004.www.dakarcom.com*

The most pressing need is for greater investment to increase coverage, efficiency and reap economies of scale. Partial privatization is inescapable, although difficult to achieve, in view of the weak condition of the SBEE and the natural monopoly aspect of the distribution dimension of providing electricity.

***Telecommunications***. While almost all countries in the region have at least partially privatized and liberalized their telecommunications industry, Benin's is still operated by the state monopoly "Office des Postes et Telecommunications" (OPT), which remains responsible for both mail and telecommunications. Mobile telephony has been opened to private providers since 1999. In January 2002, new regulations were instituted to separate the telecommunications and postal branches, enabling liberalization and partial privatization on the telecom side of OPT.

Telecommunication rates in Benin are generally higher, sometimes much higher, than other countries in the region and in Asian developing countries (see Table 5.4). The rates for international calls in Benin are below those of Mali and Togo but above those in Senegal, Ghana and the three Asian countries shown. The same is true for local calls except that Senegal has higher rates than Benin until 2001. In 2001, Benin's rates for a local call jumped. The cost of a monthly subscription in Benin rose sharply in 2002 putting it above all the other countries in the Table except Malaysia and Senegal. As for business telephone connection charges, Benin's rates also rose in 2002 and continue to be much higher than those of other African countries as well as Malaysia and Thailand.

**Table 5.4 of Telecommunications in Various Countries**

| | **Telephone average cost of call to US (US$ per three minutes)** | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Benin** | **Ghana** | **Senegal** | **Mali** | **Togo** | **Bangladesh** | **Thailand** | **Malaysia** |
| **1998** | 7.16 | NA | 4.48 | NA | 11.44 | 6.00 | 6.98 | 3.82 |
| **1999** | 6.86 | 2.92 | 3.19 | 14.62 | 7.80 | 4.40 | 2.54 | 2.76 |
| **2000** | 5.93 | 1.65 | 2.23 | 12.64 | 7.90 | 4.14 | 2.19 | 2.37 |
| **2001** | 5.76 | 1.26 | 1.81 | 12.28 | 7.67 | 2.47 | 1.49 | 2.37 |
| | **Telephone average cost of local call (US$ per three minutes)** | | | | | | | |
| | **Benin** | **Ghana** | **Senegal** | **Mali** | **Togo** | **Bangladesh** | **Thailand** | **Malaysia** |
| **1998** | 0.11 | 0.07 | 0.12 | 0.08 | 0.10 | 0.03 | 0.08 | 0.02 |
| **1999** | 0.09 | 0.04 | 0.11 | 0.07 | 0.10 | 0.03 | 0.07 | 0.02 |
| **2000** | 0.09 | 0.03 | 0.10 | 0.07 | 0.10 | 0.03 | 0.07 | 0.02 |
| **2001** | 0.28 | 0.03 | NA | NA | 0.10 | NA | 0.07 | 0.03 |
| | **Business telephone monthly subscription (US$)** | | | | | | | |
| | **Benin** | **Ghana** | **Senegal** | **Mali** | **Togo** | **Bangladesh** | **Thailand** | **Malaysia** |
| **1998** | 4.20 | 1.08 | 4.09 | 3.20 | 2.90 | 3.20 | 2.42 | 8.92 |
| **1999** | 4.02 | 0.94 | 3.92 | 3.12 | 2.78 | 3.06 | 2.64 | 9.21 |
| **2000** | 3.48 | 0.46 | 4.40 | 2.70 | 2.40 | 2.88 | 2.49 | 9.21 |
| **2001** | 3.38 | 0.35 | 4.28 | 2.62 | 2.33 | 2.69 | 2.25 | 5.26 |
| **2002** | 4.22 | 1.26 | NA | 2.75 | 2.45 | 2.59 | 2.33 | 11.84 |
| | **Business telephone connection charge (US$)** | | | | | | | |
| | **Benin** | **Ghana** | **Senegal** | **Mali** | **Togo** | **Bangladesh** | **Thailand** | **Malaysia** |
| **1998** | 299.5 | 172.8 | 39.7 | 86.4 | 184.8 | 392.3 | 81.0 | 12.7 |
| **1999** | 287.0 | 149.9 | 38.0 | 91.8 | 177.0 | 374.8 | 88.6 | 13.2 |
| **2000** | 248.2 | 73.3 | 32.9 | 79.4 | 153.1 | 352.9 | 83.5 | 13.2 |
| **2001** | 241.0 | 55.8 | 31.9 | 77.1 | 148.7 | 329.7 | 75.4 | 13.2 |
| **2002** | 279.8 | 50.4 | NA | 81.1 | 156.4 | 177.9 | 78.0 | 13.2 |

*Source: International Communication Union Database, November 2004.*

Like electricity, coverage for telecommunications is low and the quality of service rated as poor.

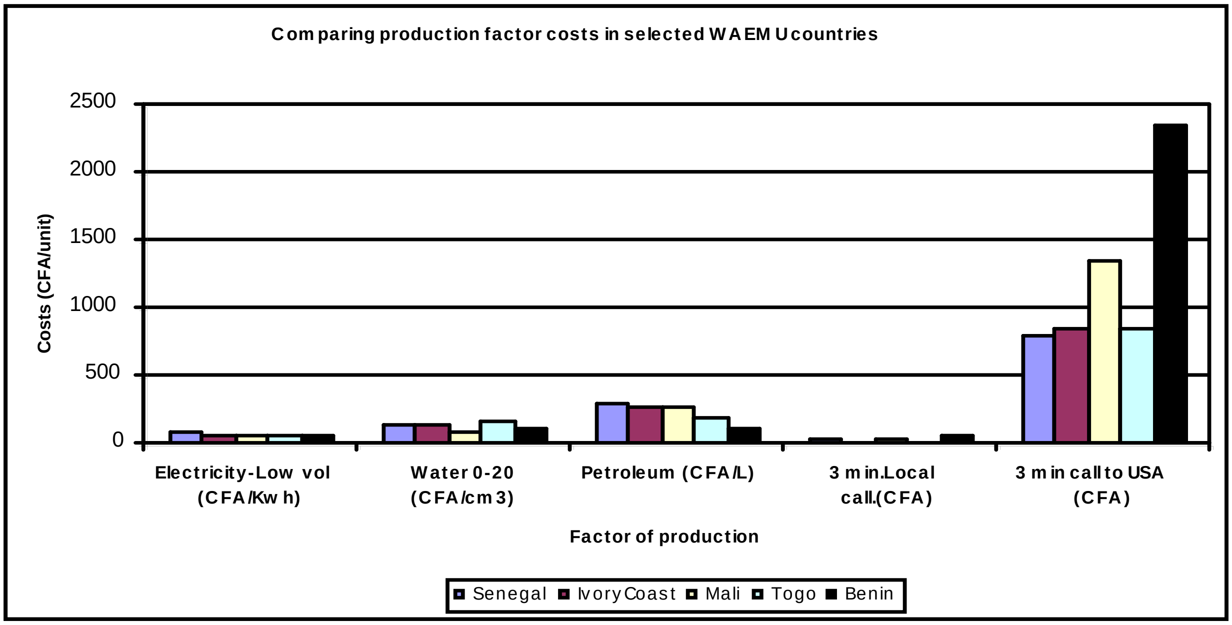
The high cost of a telephone call and a connection carry over to internet access fees, especially since ADSL access is not available in Benin unlike other countries in the area. Internet users are estimated at one per 100 inhabitants in Benin, similar to other countries in the region with minimal internet use. Inadequate access to the internet is symptomatic of poor awareness of world trends and business infrastructure, and is a serious impediment to access to global knowledge and technology, which are key to global competitiveness and capturing market opportunities. The OPT blames customs for this and other problems, claiming that its equipment is blocked at the port. More generally, the lack of managerial autonomy of OPT, vis-à-vis the various ministries to which it is subordinated, handicaps its effectiveness.

As for electricity, the heavy investments required for modernization in telecommunications can only come from the private sector. An abortive effort in this direction was made in 2000, with the selection of the American company Titan as the strategic partner. The partnership between OPT and Titan has been dissolved, however, following a protracted judicial battle over mutual accusations of breach of contract. Although the companies reached an out-of-court settlement, this affair casts a long shadow on the still necessary infusion of private capital into Benin's telecommunications industry.

**Overall Assessment of Microeconomic Competitiveness**. Benin's factor costs generally exceed those of other African countries (see Figure 5.6), themselves usually higher than in other regions. Moreover, the quality of electricity and telecommunication services is quite low.

Benin's government should identify a strategic foreign investor for the SBEE and create a regulatory agency to oversee competition in the sector in order to ensure reasonable prices and regular service delivery. Similarly, the government should resume the search for a strategic foreign partner for the telecoms component of OPT and create a regulatory agency to oversee competition in the sector.

**Figure 5.5 Comparative Factor Costs in Selected WAEMU Countries**




*Source of data: Chamber of Commerce of Dakar.*

## 5.5 High Priority International Competitiveness Issues

(a) Benin's macroeconomic competitiveness is shaped by the fixed exchange rate of the CFA franc against the Euro. The recent depreciation of the dollar against the Euro and the depreciation of the Naira against the dollar have eroded the important gains from the 1994 devaluation, significantly jeopardizing the country's competitiveness.

(b) The role of FDI in Benin is modest. FDI inflows should be encouraged through the measures described in this and following chapters.

(c) At the microeconomic level, and besides macroeconomic rigidities, Benin's factor costs are generally higher than those of others in the region, which themselves are generally not very competitive. Wage rates are low, but low productivity in manufacturing makes for high unit labor costs, although inadequate data make comparisons with other countries difficult. Costs of electricity and telecommunications tend to exceed those of other West African countries.

(d) Privatization of the telecommunications component of OPT should be restarted, along with the creation of a regulatory agency and a legal framework. The regulatory agency should foster a competitive environment with a view to the dissemination of new information technologies in Benin.

(e) Likewise, for electricity, the government should accelerate the lagging privatization of the SBEE, and reform the legal and regulatory setting for the production and distribution of electric power to allow competition in the former.

# 6. THE INSTITUTIONAL ENVIRONMENT AND BUSINESS CLIMATE[54]

In addition to relative costs and prices analyzed in the previous chapter, the business climate and institutional environment have a major bearing on export potential and attractiveness to foreign direct investment (FDI). In this chapter, we consider a broad set of such domestic factors, encompassing the legal and judiciary system (Section 6.1), finance (Section 6.2) and taxation (Section 6.3).[55] Subsequent chapters will look more closely at the institutions that directly affect international trade, notably trade support institutions (Chapter 7) and trade facilitation (Chapter 8).

## 6.1 The Legal/Judiciary Systems and Business Regulatory Framework

The rule of law and respect for property rights are fundamental to a market economy, hence the importance of a well functioning legal and judicial system.

***Legal System***. Benin's legal system is not well defined with residual African traditions coexisting with French colonial laws as well as some more modern statutes. An important recent initiative is the OHADA harmonization of business and commercial laws in 13 mostly francophone African countries. OHADA creates a structure where laws can be enacted and applied in all member countries (*"actes uniformes"*), and institutions can oversee the process. Since the mid 1990s a number of such laws have been agreed to in a wide range of areas, and others are under consideration. Notwithstanding the clear advantages of implementing OHADA laws, Benin has made little use of them. The telecommunications sector is the only one disposing of a specific regulatory framework, but it is not yet operational. Commercial law and land title are the two most deficient parts of Benin's legal system.

***Commercial Law***. Paradoxically, for a country where trading is a dominant economic activity, Benin has no domestic legal structure governing competition. WAEMU has adopted a union-wide competition policy in 2003, but it has not gone into effect in Benin. The agreement provides for the creation of a national commission on competition, which has yet to happen in Benin. Barriers to entry are a serious problem in some industries, e.g. cashew nuts.

***Land Registration.*** This law has not been updated since the 1930s. While buying and selling land is legal and property rights are recognized in theory, only about 10 percent of the land has been registered with clear title. Traditional African practices, built largely on communal ownership of land, often determine land use and transfer, coexisting with more modern practices in a confusing mix. While these traditional practices may provide adequate security in many rural areas with low population density, property rights to land in urban areas and densely populated rural areas are uncertain and insecure, with frequent conflicts over ownership. Also, the lack of land title limits the use of land and structures as loan collateral. Because of an inadequate land registration/recording system, at times the same parcel of land is sold to several different buyers and judicial conflicts are common. Dispute resolution

[54] This chapter draws on reports prepared by Cheick Diawara and Kalamogo Coulibaly.
[55] See also UNCTAD (2004) and Diagnos (2000).

mechanisms are lacking and local authorities are required to expend considerable time and effort in dealing with conflicts over land use. A proliferation of controls and procedures leads to increased costs and delays for investors seeking to obtain tracts of land. East Asia's lessons of successful land titling (e.g. Thailand, Vietnam) could be tested in Benin, especially in urban areas and rural densely populated areas.

***Labor law.*** Labor law is largely based on the French system and has been influenced by the legacy of the Marxist period, with a resulting emphasis on protecting workers against layoffs, as in other francophone African countries rather than on new job creation by the private sector. While unions are generally weak in the private sector, the threat of litigation from disgruntled workers can be dissuasive to foreign investment and thus defeat its ultimate purpose of increasing employment. Harmonization of labor laws between the WAEMU and other francophone countries is being studied under OHADA auspices.

***Judiciary.*** The judicial system in Benin is universally decried by the private sector as corrupt, slow and unreliable. All the major sectors of the economy are negatively impacted by the failure to restrain corrupt and dishonest actors. Any number of well-known cases illustrates the point. Box 6.1 provides a few examples.

**Box 6.1 Benin – The Dysfunctions of the Judiciary: Illustrations**

**SCB LAFARGE versus MYC International.** In 1998, the French conglomerate SCB-LAFARGE was awarded control of the cement complex of Onigbolo, jointly owned by Benin and Nigeria, following an international bidding process. In October 1998, the Beninese Supreme Court suspended the execution of this decision, following a petition by the local company MYC, that claimed that it should have been awarded the contract. In March 1999, however, the Supreme Court rejected MYC's claim and confirmed the adjudication of the contract in favor of SCB-LAFARGE. In August 2001, the Constitutional Court declared that the government did not abide by the original suspension ordered by the Supreme Court. In Februrary 2003, the tribunal de premiere instance of Cotonou cancelled the contract between Benin, Nigeria and SCB-LAFARGE, turning the control over to MYC, and imposing a penalty of 50 million CFA francs per day until SCB-LAFARGE acquiesced in this decision. One month later, SCB-LAFARGE obtained a stay of the transfer to MYC. In December 2003, the appeals court of Cotonou overturned the February decision of the tribunal in favor of MYC. In March 2004, MYC took its case back the Supreme Court. At the time of writing, the case is still pending before the Supreme Court. Should SCB lose the case, it would stand to forfeit its 9 billion CFA franc investment and pay damages of about 24 billion CFA francs.

**SBM/Groupe BOLLORE versus WAT**. The cargo shipping company SBM (affiliate with the French multinational BOLLORE), has been in litigation with a local company claiming compensation for damaged merchandise since 1996. The 300 million CFA francs that BOLLORE deposited with the court in case of an adverse judgment has vanished, and SBM's bank accounts remain blocked.

**TITAN versus OPT**. The American telecommunications firm Titan and the incumbent state firm OPT signed an accord in 2000 in which Titan would provide cell phone service, increase the coverage of rural telephony, and invest in infrastructure. While OPT acknowledges that Titan respected most of its commitments, the contract was terminated in 2003 in disputes over payments. Several judiciary procedures failed to resolve the case, and the parties eventually settled out of court. Titan's failure to obtain a satisfactory court judgment in its case finally led to its departure from the country. Titan's exit leaves the direction of the Benin telecommunications industry and the status of privatization of OPT in a state of confusion.

These and other similar cases have cast a pall on Benin's attractiveness as an investment destination.

The primary problem in Benin is well known: the honesty and competence of judges. Reform is a difficult endeavor but some of the necessary vehicles are already in place in Benin, many of them associated with the OHADA initiative to harmonize business law in the francophone African countries. OHADA establishes a system of mediation and conciliation, which can be used when all parties negotiate in good faith. In cases where dishonesty is involved, tribunals could be established under the aegis of the Chamber of Commerce. On a longer-term basis, more capable and honest judges must be trained. OHADA has created an institute for this purpose, the "Ecole Régionale Superieure de la Magistrature" (ERSUMA), which happens to be located in Benin. ERSUMA functions well, but has not been utilized much by Benin.

***Reform prospects***. Properly functioning legal and judiciary systems are fundamental to a market economy. A number of steps should be taken to achieve that goal, including:

(a) To promote competition, the government should establish a national commission on competition, with adequate resources and staffing to investigate and sanction anti-competitive practices.

(b) As for land title, Benin should integrate disparate registration systems of land registration through the " Registre Foncier Urbain". Titling procedures should be simplified and the public should be educated about such procedures. Eventually laws establishing firmer title to property should be promulgated, such that purchasers can be feel secure that the title they have obtained provides exclusive use and that their property or use of land will not be contested.

(c) Revised labor statutes should seek to reduce the costs to firms, especially for layoffs, reducing the scope for harassment by disgruntled workers, thereby promoting job creation.

(d) Judges should be trained in commercial law, using regional institutions such as OHADA and ERSUMA. Salaries scales should be reviewed so as to be commensurate with judges' responsibility.

(e) Arbitration techniques and specialized commercial judicial procedures should be developed, including a tribunal of commerce.

### 6.2 Business Regulatory Framework (Investment Code and Incentives)

The rules and regulations governing the code are complex and require considerable discretion by the authorities ("Commission Technique des Investissements"). There are three regimes applied to different categories of firms. Eligible firms generally benefit from import duties on capital goods for a 30-month installation period, and for exemption from the BIC business income tax for a pre-agreed period of operation.

The Code accords customs and value added tax exemptions for imports associated with investment programs. Under the Code, such imports are subject to a Statistical Tax of 5 percent. But, since imports of capital goods enter at the 5 percent rate under the CET, augmented by the RS and PCS, very little is gained by obtaining this status. Benin's system of duty and value-added taxation rebates, moreover, are said to be cumbersome and slow. Exporters must apply for refunds of these taxes, which often take a long time to process and deliver. The authorities (Direction Générale des Impots) justify these delays on the grounds that many of the claims for reimbursements are fictitious. Mechanisms for rapidly distinguishing fraudulent and legitimate claims for reimbursement are essential. All-in-all, the cost of the present system of exemptions may outweigh the benefit.

The Beninese investment code (IC) functions quite poorly. Granting of benefits under the IC is cumbersome, time-consuming and expensive, requiring numerous authorizations from different government agencies and a decree from the government following a recommendation from the Commission Technique des Investissements. Moreover, some important sectors, such as tourism, are not covered by the Code.

Reform Prospects. Benin would do well to simplify and streamline its system of investment incentives, possibly along the lines of that instituted in Cote D'Ivoire in 1995. This newer Ivoirian system consolidates the Code into two regimes. The first is granted within 48 hours in a quasi-automatic fashion to all investments. Additional discretionary benefits are available for investments greater than 500 million CFA francs with a maximum decision time of 45 days. Cote D'Ivoire has also put in place tax incentives for particular sectors, which Benin has long planned to do but not implemented.

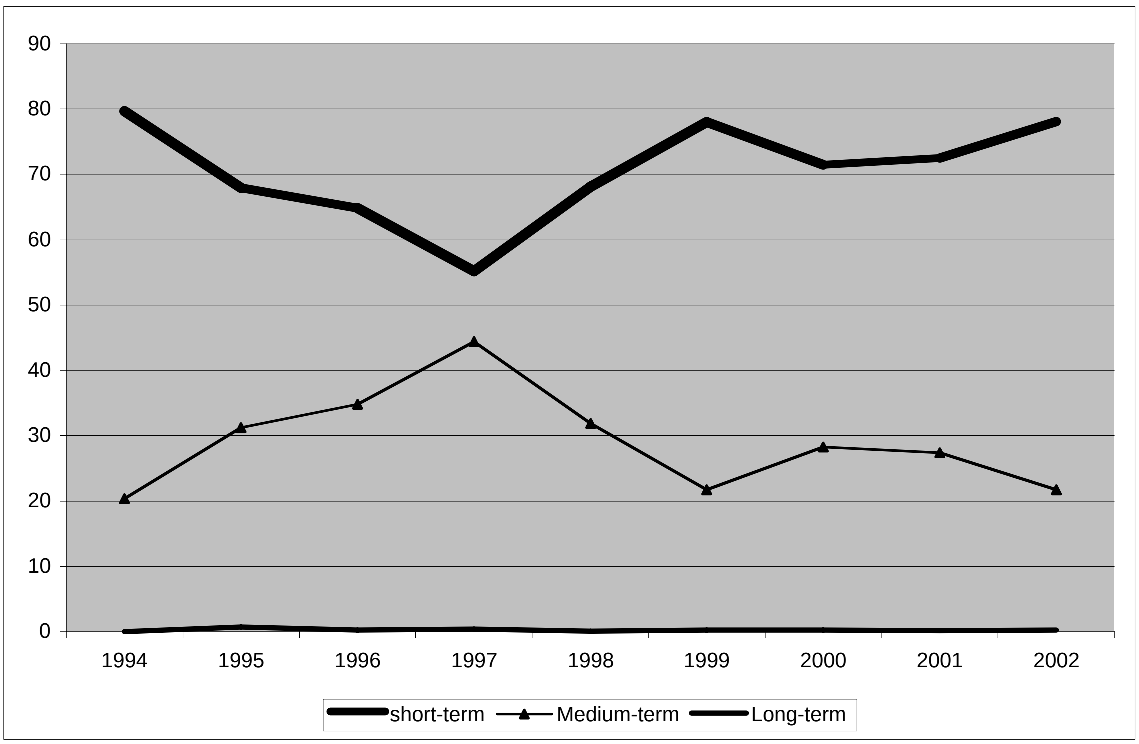
However, the desirability of targeting particular sectors versus ensuring an overall favorable fiscal system for investment, is debatable. More generally, there is a tradeoff between automatic approvals versus discretion in the application of investment incentives. Across-the-board rules have the advantage that they limit arbitrariness and delays in application, whereas discretion allows for greater flexibility or possible corruption or governance problems. For least developed countries such as Benin, where administrative capacity is limited, priority should be given to simplicity and ease of application.

## 6.3 Finance

Following the liquidation of insolvent state banks at the end of the 1980s and the adoption of financial reform, Benin's financial system is now dominated by a handful of financially healthy commercial banks. The seven commercial banks account for 90 percent of the financial system's assets. The two largest of these represent about two-thirds of total bank assets and liabilities. These banks are predominantly subsidiaries of foreign banks, with foreigners controlling 93 percent of bank capital. The insurance sector is very small and is also controlled by foreign companies. No Beninese companies are listed on the regional stock exchange, the Bourse Regionale des Valeurs Mobilières (BRVM), as it serves the needs of large formal firms; few such firms even exist in Benin. Benin has recently seen a flowering of decentralized financial institutions (micro-finance and lines of credit) that seem to have had some success in fostering micro-enterprise development. However, micro-finance is grossly inadequate for financing small and medium enterprises (SMEs).

***Production Financing***. As in many other countries, the reforms have been successful in cleaning up the banking system's bad debts, but largely unsuccessful in fostering long-term credit for productive purposes. Indeed, an examination of bank balance sheets reveals that long-term credit (more than two years) is quasi non-existent, accounting for less than 1 percent of total bank credit in recent years (see Figure 6.1).[56] Short-term credits (less than a year) represented about 70 to 80 percent of credits. Moreover, agriculture and industry receive very little credit of any sort. Most loans are for wholesale and retail trade and other services.

**Figure 6.1 Benin Distribution of Bank Credits by Maturity***
**(Percentage of Total Bank Credit)**




*Note: *Long term credit: more than 2 years; Medium term credit: 1-2 years; Short-term credit: less than 1 year.*
*Source: BCEAO.*

Moreover, these banks cater almost exclusively to large urban customers, thus neglecting agriculture and small and medium enterprises (SMEs). Large firms can generally finance their operations from their own funds or have adequate access to credit. For the informal sector, micro-credits provided by decentralized financial institutions are the most appropriate financing tool. Although banks are generally very liquid, the most significant problem is for SMEs, who have little access to the commercial banks and for whom micro-credit is inadequate. Lending constraints may be explained by constraints in the judiciary system and difficulties in enforcing contracts, weak collateralization traditions and weak commercial bank credit analysis and monitoring capacities.

[56] See also CAPE (2001).

While the problem of financing SMEs is clear, the solution is not simple. Increasing access to credit for SMEs and farmers is not an easy task. Simply mandating banks to provide loans is a proven recipe for disaster. Entrepreneurs complain about the dearth of loans and the inflexibility of loan conditions, notably onerous collateral requirement, while bankers cite the inadequate business plans and high default rates of SMEs as well as inflexible prudential regulations of the central bank BCEAO.

***Trade Financing***. Cumbersome practices[57] by the regional central bank BCEAO on obtaining and transferring foreign currencies limit the ease of exporting and importing in formal markets. Moreover, there is no national export finance guarantee facility, such as Japan or the U.S. EXIM bank. A number of developing countries have instituted export credit guarantee schemes with mixed success. In Cote D'Ivoire, pineapple producers were only able to obtain credit after creating a trade association. Efforts to organize producers, combined with technical assistance to the new or reinforced producer organizations, may be a viable first step in generating financing.

***Reform Prospects***. Improving information, the quality of requests for credit, including SME accounting statements, collateral, and recovery of credit are all part of the solution. These in turn require improvements in the legal framework and judicial systems including property rights to land, as well as technical assistance to both financial institutions and credit demanders. To a certain extent, therefore, the lack of credit derives from other, more fundamental dysfunctions in the business environment discussed elsewhere in the DTIS. Technical assistance to both SMEs and banks could be helpful in bridging the gap. The prudential and foreign exchange regulations of the BCEAO should be revisited to see if some relaxation is possible without threatening bank soundness. In addition, lines of credit and partial loan guarantees can be provided by multilateral and bilateral donors, with due care to ensuring that such facilities reach their intended targets.

## 6.4 Taxation and Governance Effectiveness

***High Tax Rates and Complex Taxation System***. To a much greater extent than even most other least developed countries, Benin's government revenue still depends heavily on taxing international trade. Trade taxes account for more than half of tax receipts and about half of all government revenue (see Chapter 2).

Domestic taxation has been considerably simplified and rationalized under the aegis of WAEMU harmonization. The taxation system nonetheless handicaps Benin's development in several respects.

Tax rates remain rather high and complex for a least developed country (see Table 6.1). Entreprises operating in Bénin as well as business income are subject to several taxes: (i) 'impôts

[57] Although "de jure" transfers within all CFA countries (including Benin) and France are free while transfers between CFA countries and the rest of the world are subject to simple prior authorizations for amounts above CFA500,000, "de facto" private operators in Benin report cumbersome practices and long delays in their foreign currency transfer transactions with the rest of the world.

sur les bénéfices industriels et commerciaux '(BIC), (ii) impôts sur les revenues de valeurs moblières (IRVM)', (iii) impôts sur les dividendes, (iv) taxe sur la valeur ajoutée (TVA), (v) versement patronal sur salaries (VPS), (vi) taxe professionelle unique (TPU) and (vii) *taxe foncière unique* (TFU). Table 6.1 compares domestic business taxation in the WAEMU countries for the most important of these taxes.

**Table 6.1 Tax Rates in WAEMU Countries**

| | BUSINESS INCOME TAX | DIVIDEND TAX | VAT |
|---|---|---|---|
| BENIN | 38% | 18% | 18% |
| CÔTE D'IVOIRE | 30% | 10% | 15% |
| MALI | 35% | 10% | 18% |
| SÉNÉGAL | 35% | 10% | 18% |
| BURKINA FASO | 35% | 25% | 18% |
| GUINÉE BISSAU | 35% | 25% | 15% |
| TOGO | 40% | 20% | 18% |
| NIGER | 42.5% | 18% | 19% |

*Source : Unctad IPR Benin.*

There is relatively little variation, and Benin's rates are at about the median of the WAEMU countries. It is instructive to note, however, that Cote D'Ivoire, the most successful economy by far -- at least until the recent political strife -- has considerably lower tax rates.

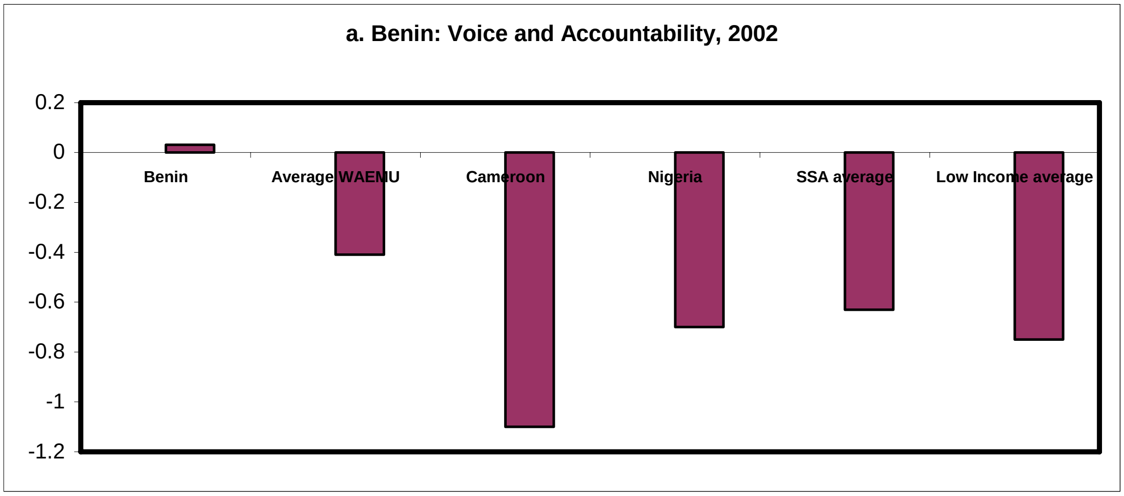
***Low taxation base***. The flip side of high tax rates is a low tax base. Taxation falls disproportionately on the small formal sector, weighing heavily on the latter, and discouraging the transition from informal to formal status for SMEs. The 3 percent advance levy on all imports to ensure that all enterprises pay at least some taxes is a step in the right direction but greater efforts to tax the large players in the informal sector remains necessary.[58] There are estimates that about 70 percent of large enterprises, including some in the formal sector, pay little or no taxes, with many of them claiming that they have no tax liability or are owed refunds. The fiscal authorities have been lax in monitoring and enforcing fulfillment of tax obligations. Special advantages granted in a non-transparent fashion to influential agents in the informal or semi-formal sectors have reduced the tax base and diminished the sense of responsibility in meeting tax obligations across the board. Some of the large firms engaged in tax evasion are well known. The adverse revenue implications of recent efforts by the Nigerian authorities to cut back imports from Benin have raised the stakes in finding a more stable and larger tax base.

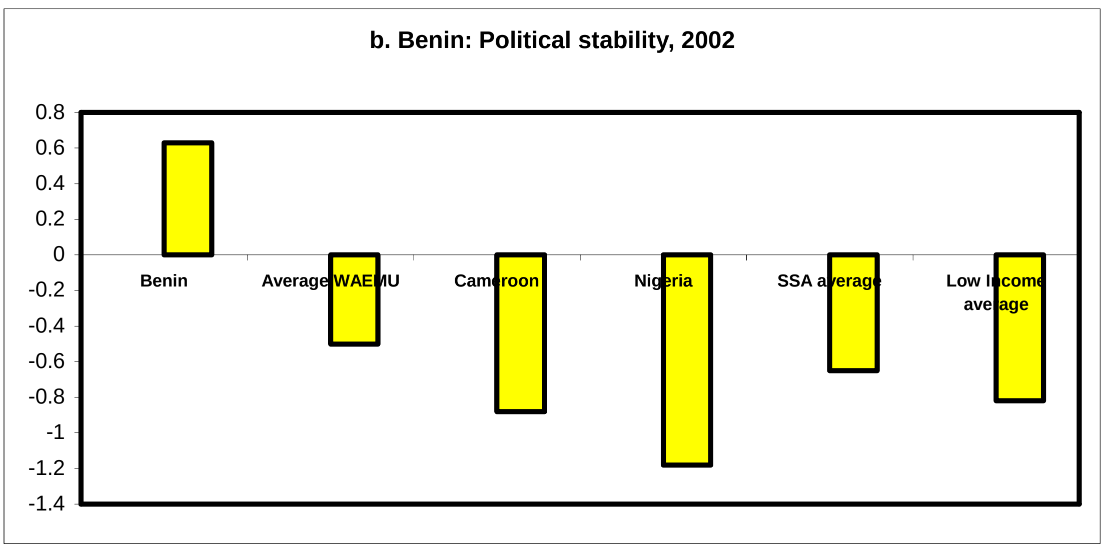
Another problem, discussed in Chapter 3, is that VAT rebates aren't paid or disbursed in a timely manner, further burdening the formal sector.

[58] This tax is intended as a prepayment on the BIC and is reimbursable upon proof of payment of the BIC. It was recently lowered to 3 percent from 5 percent to reduce the pre-payment burden on formal enterprises, given the long lags in reimbursement.

***Governance Effectiveness.*** Benin's ranking in the World Bank governance effectiveness index and control of corruption index are poor (see Box 6.2). The low accountability index (Box 6.2 a) calls for the need to enhance Benin's civil service agents' effectiveness and accountability through effective actions against corruption including, smuggling, customs fraud, administration, transit, and re-export activities. Despite the low accountability index (and its sustained decline since 1996), Benin is politically stable, compared to most other African countries (see Box 6.2 b).

**Box 6.2 Benin**
**Accountability and Political Stability**




*Source: www.worldbank.org/governance/kkz2002*

## 6.5 Measures of Administrative and Regulatory Hurdles

Administrative barriers to creating and operating businesses are generally high in Africa. Inn Benin, they tend to be even higher than those of other African countries. Table 6.2 provides summary indicators of transactions costs in Benin.

**Table 6.2 Benin, Comparative Indicators of the Business Climate 2004.**

| | Benin | Regional Average* | OECD Average |
|---|---|---|---|
| **Starting a Business** | | | |
| Number of procedures | 8 | 11 | 6 |
| Time (days) | 32 | 64 | 25 |
| Cost (% of income per capita) | 196.9 | 223.8 | 8 |
| Min. Capital (% of income per capita) | 333.4 | 254.1 | 44.1 |
| **Contract Enforcement** | | | |
| Number of procedures | 49 | 35 | 19 |
| Time (days) | 570 | 434 | 229 |
| **Labor Market** | | | |
| Difficulty of Hiring Index | 72 | 53.2 | 26.2 |
| Rigidity of Hours Index | 60 | 64.2 | 50 |
| Difficulty of Firing Index | 50 | 50.6 | 26.8 |
| Rigidity of Employment Index | 61 | 56 | 34.4 |
| Firing Costs (weeks of wages) | 54 | 59.5 | 40.4 |
| **Financial Market** | | | |
| Cost to Create Collateral (% of income per capita) | 80.7 | 41.8 | 5.2 |
| Legal Rights Index | 4 | 4.6 | 6.3 |
| Credit Information Index | 2 | 2.1 | 5 |

Note: **Low income Sub-Saharan countries. Source: World Bank*

Starting a business in Benin is generally less costly and time consuming than in other low-income African countries, but more so than in OECD countries, as measured by number of days and number of required procedures. Contract enforcement, on the other hand, is much more costly in Benin than in other low-income African countries. Regulations and transaction costs in labor and financial markets are also generally worse in Benin than in the region, even though Africa generally performs very poorly by such indicators. The labor market in Benin is typical of the situation in Francophone countries that inherited the rigidities of the French labor code, as discussed earlier.

As noted in Chapter 2, Benin is characterized by an unusually large informal sector, even by African standards. Tax evasion and lack of compliance with regulations provide an unfair competitive advantage to the informal sector, and the small formal sector must shoulder a disproportionate proportion of the taxes. As an example, of the some 150,000 used cars imported annually, just 1,000 are sold in official markets. Reducing the onerous administrative barriers along with a more equitable burden of taxation would help to diminish the tendency towards informal activity.

Benin should strive to reduce transactions costs by simplifying procedures and improving contract enforcement, in ways indicated in Sections 6.1-6.3 of this chapter. More specific diagnosis and recommendations concerning the institutional environment pertaining to the port, customs and particular export industries are provided in subsequent chapters of this report.

## 6.6 High Priority Issues Relating to the Institutional Environment

(a) ***Investment Code.*** Benin should revise the 'Code des Investissements' with a view to creating a simplified system of investment procedures and incentives, possibly along the lines of that instituted in Cote D'Ivoire in 1995.

(b) ***Legal and Judiciary Systems.*** The legal system functions poorly, especially regarding competition and land tenure. Court cases drag on for years, and rulings are often aberrant. The dysfunctional legal system is a major barrier to both foreign and domestic investment. The OHADA harmonization within WAEMU is a promising lever with which to address some of these problems such as better training of judges and improved legal codes. Land titling is the most pressing problem and should be addressed through a streamlined title registry system and increasing the number of registrations.

(c) ***Financial System.*** Benin's financial system is dominated by a few commercial banks that cater to the formal sector and fail to meet the needs of SMEs and farmers. There is almost no provision of long-term credit. While the banks are in sound financial condition thanks to the restructuring of the 1990s and the strict prudential regulations of the regional central bank, the current financial system does not serve to finance economic development. Decentralized financial institutions are helpful for micro-enterprise development but inadequate for SMEs. Efforts to increase access to credit for SMEs and farmers should be undertaken through education efforts for both lenders and borrowers, along with limited lines of credit and guarantee funds provided by donors. Creation of an export credit guarantee fund and other export financing mechanisms should be explored. At the regional level, the member states of WAEMU should consider easing the regional central bank's "de facto" stringent prudential and foreign exchange regulations with a view to increasing the flexibility of lending and foreign exchange operations, without sacrificing the hard-won soundness of the banking system.

(d) ***Tax System.*** Benin's tax structure, particularly customs duties and value added taxes, has largely been harmonized within the WAEMU structure, with Benin's rates near the WAEMU average. Business tax rates (particularly VAT and BIC) are rather high for a poor country, however, and Benin should consider lowering them to levels similar to Cote D'Ivoire. Even more importantly, the small formal sector bears almost all the burden of the tax system. Lowering rates can and should be accompanied by an expansion of the tax base, especially to the large players in the informal sector in order to enhance revenue collection.

# 7. TRADE -SUPPORT INSTITUTIONS[59]

While market forces must play the leading role in any country's trade patterns, success in exporting can be abetted by well-functioning trade support institutions, especially in developing countries characterized by pervasive market failures. In Benin, the mission of trade support institutions is critical, given the lack of export diversification and market infrastructure. While plenty of such institutions exist in Benin, their effectiveness leaves much to be desired. This chapter reviews the functions of trade support institutions in a developing country such as Benin (Section 7.1), provides an assessment of individual institutions (Section 7.2), an overall assessment of the system of institutions (Section 7.3) and concludes with high-priority recommendations for streamlining Benin's institutions (Section 7.4).

## 7.1 The Role of Support Institutions

In most countries, both developed and developing, exporting enterprises -- and particularly SMEs -- need to have access to the services of a trade support network. These services essentially include: business and targeted trade information; assistance in product adaptation and export marketing; assistance in the field of standards, quality management, packaging and labeling; a national trade representation service abroad; the possibility of opening new markets by participating in international fairs and exhibitions; the possibility of acquiring skills in export techniques through practical training; assistance with legal aspects of foreign trade; and advice on and assistance in obtaining export financing. Typically, these services are offered by a combination of public and private institutions or consultancy firms, some free of charge or at low cost and some at actual cost. In developing countries trying to achieve export diversification, governments tend to offer these services to the export community through specialized public trade support institutions and trade promotion organizations.

The most important requirement for a trade-support institution is to have credibility with the business sector. Usually, institutions dealing with investment and export promotion are separate. But at a minimum, there should be close cooperation between them. Also, in an effort to economize scarce resources, they can have common representation offices abroad (and even, if applicable, jointly with the national tourist promotion agency). A good practice, which is not always easy to follow in LDCs, is to hire real professionals to staff trade support institutions. The problem is that professionals need to receive market salaries, which are usually much higher than those of the civil service. Furthermore, governments have difficulties in creating autonomous institutions outside the civil service. However, there is no point in maintaining institutions manned by civil servants with no business experience (an exporter has nothing to learn from a civil servant). It is simply a waste of resources. Despite this, in almost all LDCs, including Benin, trade support institutions are static by nature. We therefore have a paradox. Given the underdeveloped state of markets in developing economies, well-functioning support institutions are critical. But in these same economies, these institutions tend to be ineffective, especially in Africa. [60]

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[59] This chapter draws on a report prepared by Georges Papazafiropoulos.

[60] See World Bank (2001) "Why trade promotion organizations failed, and how they can be revitalized" Poverty Reduction and Economic Management (PREM) Notes 56.

In Benin, the industrial sector is embryonic and, aside from cotton, agriculture is disorganized. The need for effective technical assistance is evident. Moreover, the lack of organized industry and agriculture suggests that support institutions must foster new investments rather than merely assist existing firms.

A fair number of trade and investment support institutions exist in Benin. In the public sector there is the Centre Beninois du Commerce Extérieur (CBCE), the Observatoire des Opportunités d'Affaires du Benin (OBOPAF), the Centre Beninois de Normalisation et de Gestion de la Qualité (CEBENOR) and the Centre de Promotion des Investissements (CPI). In the private/ parapublic sector there is the Chambre de Commerce et d'Industrie du Benin (CCIB), the Conseil National des Exportations (C.N.Ex) and the Association pour le Développement des Exportations (ADEX). This last institution, although private, has the benefit of managing a fund for private sector development and export diversification, as a grant from the government through the IDA (World Bank).

## 7.2 Overview of the Institutions in Benin

**The "Direction du Commerce Extérieur (DCE) of the Ministère de l'Industrie du Commerce (MICPE)."** The DCE is the central government body responsible for formulating and implementing trade policies and deciding on all other trade-related matters. Its responsibilities cover a wide scope, including supervision of institutions working in the trade promotion field. It has five services and three secretariats dealing with many important issues including the WTO, regional and bilateral trade agreements, foreign trade regulatory function, statistical service etc. Given its wide responsibilities, the DCE is inadequately staffed, having only 20 workers, half of which are professionals.

The DCE is not directly involved in trade promotion and export development. It oversees a number of government-funded trade support institutions such as the CBCE, the OBOPAF and the CEBENOR. Policy formulation and government priorities concerning trade and exports are supposed to be translated into action programs through these institutions. DCE is also supposed to follow closely the activities of private sector institutions that are similar to the CCIB, the ADEX and the C.N.Ex. It should be noted that the number of professionals working in CBCE and OBOPAF is almost twice the number working in the DCE.

The DCE is also a liaison with the Ministry of Foreign Affairs in matters concerning the commercial representation of Benin abroad. Benin has no established Commercial Representation Service. These functions are supposed to be carried out by its few diplomatic representatives abroad, but they do not have the requisite capabilities.

The DCE (and indeed the MICPE) has no medium-term operational plan with clear objectives, identified outputs and performance indicators. In some developing countries, government services such as the DCE have formulated medium term National Export Development Strategies in consultation with the export community and the other trade-related institutions. Such strategies serve as a blueprint and a roadmap for all concerned, guiding efforts toward clear and specific objectives and goals.

**The "Centre Béninois du Commerce Extérieur "(CBCE)** was established in 1988 as a public institution to promote Benin's exports, and is funded by the MICPE. At present, its annual budget is about 500 million FCFA (760,000 Euros), of which 300 million are for operations. It employs about 30, half of which are professionals. When it was set up CBCE was conceived as the focal point for trade promotion in Benin. It is expected to provide support to the export community in all relevant fields, either directly through its own resources or indirectly by coordinating the work of other support institutions.

Based on the findings of the DTIS mission, 90 percent of CBCE's operational budget is allocated to the participation of Benin's exporters in various international fairs and exhibitions as well as to similar promotional events in Benin. It is a recognized fact that participation in general fairs, without product specialization, has almost no commercial benefits. It is not surprising, therefore, that exporters have indicated that the CBCE's fairs program does not correspond to their needs and has no strategic orientation.

The ***CBCE*** has no product specialists who could provide effective assistance to exporters or work to develop new export products. The CBCE staff does not appear to have the necessary business sector experience or expertise to provide effective support to the export community. Many officers have a civil service background. Over the years the CBCE has received support from various donors and particularly through the JITAP project, which established the Reference Center. Of the export companies interviewed none is using the services of the CBCE.

The ***"Observatoire des Opportunités d'Affaires du Bénin" (OBOPAF)*** was created in 1998, with a mandate to provide business and trade information, a function that duplicates that of CBCE, ADEX and CCIB, and to a lesser extent CPI. OBOPAF has ten regular professional staff, seven support staff and an annual budget of about 50 million FCFA (80,000 Euros).

The ***"Centre Béninois de Normalisation et de Gestion de la Qualité" (CEBENOR)*** was created in 1997 and became operational in 2000 under the auspices of the MICPE with responsibility for overseeing quality control, an increasingly important issue given the rising prominence of phyto-sanitary regulations and norms in international trade.

***CEBENOR*** appears to have a good working relationship with the quality assurance services of the Ministry of Agriculture but it has insufficient resources to carry out its mandate. The quality assurance needs of Benin are addressed by a regional project of technical assistance funded by the European Union and executed by UNIDO, targeting all UEMOA countries (Programme Qualité UEMOA). This 12 million Euro program covers 2002-2005. The program appears to handle most of Benin's essential quality assurance needs, but the government should allocate more staff and equipment to CEBENOR and the Ministry of Agriculture. CEBENOR's mandate is to act as a coordinating agency for the formulation and validation of quality norms, and to assist exporting enterprises and other government institutions in the application of international standards and norms. CEBENOR has five professional staff and five support staff. It has no laboratory of its own but uses the services of other existing laboratories i

The ***"Centre de Promotion des Investissements" (CPI) was created in 1988*** to replace the former Direction de Promotion de l'Investissement of the Ministère du Plan. The CPI was then placed under the supervision of this ministry and fully funded through the national budget. Its mandate is to promote both foreign and domestic investment by fostering an attractive business environment, disseminating information and assisting potential investors.

CPI's offices are located far from the business center of Cotonou and not well suited to attract foreign visitors. It is inadequately staffed and funded, with 14 professionals and seven support staff. Its budget for 2002 was officially 461 million FCFA (about 700,000 Euros) but only 185 million (280,000 Euros) were actually received. The actual budget barely covers salaries and other standard costs and allows almost no operational activities. In addition, most of the professional staff consists of civil servants seconded from the Ministry of Plan with no investment promotion training or experience. The CPI has no office overseas to reach foreign investors and depends upon the services of Benin's diplomatic representatives who also lack business training. CPI does not appear to be proactive in trying to promote investments due both to lack of resources and lack of qualified staff.

The CPI has not been able to fulfill its mandate, in part, due to a lack of adequate resources but mainly because of the unfavorable local business environment. CPI's contribution will continue to be limited, even if adequate resources are allocated to it, unless fundamental reforms take place. Its board "Conseil d'Administration" is composed of an equal number of public and private sector members but it has apparently been unable to push forward any reforms. The system of investment incentives in the "Code des Investissements" is not functional, as noted in Chapter 6. CPI is supposedly revising the system but it was indicated that this will take at least a year.

The ***"Conseil National pour L'Exportation" (C.N.EX)*** is a private sector institution established in 1990. It is supposed to re-group all exporting companies and represent their interests. However, the agency doesn't currently appear to be up and running.

The ***"Chambre de Commerce et d'Industrie du Bénin" (CCIB)*** is the most important private sector institution in the country. It was created about one hundred years ago and has 6,000 members. The CCIB has important sources of income that amount to about 2 billion FCFA annually (or 3 million Euros). About one-third of this is raised from the receipts of a "taxe de Fonds de Garantie" of 0.25% on all imports and exports. Another third is made up of membership dues, and the final third by "special sources"(donations etc.).

The CCIB's main role is to represent business sector and to lobby on its behalf. The CCIB's management changed at the beginning of 2004 and the new team is reviewing its mandate and functions. Until now, it has had no focus on export development and no qualified staff to support exporters. Its Secretary General indicated that CCIB's new management team is currently busy establishing a medium term operational plan that will reflect its new orientations and role in export development.

The ***"Association de Développement des Exportations" (ADEX) and the "Projet d'Appui au Développement du Secrteur Privé" (PADSP).*** The creation of ADEX in February 1999 was part of the export promotion component of a wider project to promote private sector development through the "Projet d'Appui au Développement du Secteur Privé," largely funded by the IDA. The IDA's contribution to all components was US$ 26.4 million, or 51.5 percent of the total, with the Beninese government's contribution expected to be $0.5 million, or 0.8 percent. The beneficiaries of the project were supposed to contribute $24.6 million or 47.8 percent.

In addition to creating ADEX, the project included the nomination of a personality as "Monsieur/Madame Export" who would report directly to the Head of State as well as a study group Comité de Concertation Secteur Public/Privé. Unfortunately, this nomination is still pending due to the opposition of various ministries, particularly MICPE, and the study group has met only three times since 2001.

ADEX is constituted as a private sector body with 19 members, most of which are trade associations having their own membership as well as eight individual enterprises. Its main sources of financing are membership dues (initial membership: 150,000 FCFA, annual membership: 300,000 FCFA) and a lump sum of 140 million FCFA from the Conseil National des Chargeurs du Benin (CNCB), which is taken from their receipts from export operations. Other sources include various grants and donations by the government and other bodies as well as the sale of some of its services to the business community. However, the membership dues are not always paid and CNCB has not yet paid the totality of the lump sum. The income from selling its services, mostly trade information services, is insignificant.

ADEX has 11 staff members, of which eight are professionals. Their main job is to manage the export development fund (Fonds d'Appui à Frais Partagés, FAFP). This fund consists of about 2.6 billion FCFA (4 million Euros) and is used to support trade associations and individual enterprises. Although ADEX was created in 1999, the FAFP only started operations in November 2001. At the time of the mission in April 2004, about 200 projects had been signed with various beneficiaries. Although ADEX is supposed to promote exports, only one-third of the projects involve exports. The others deal with domestic production, tourism etc. This is not surprising in view of the fact that there are so few exporting companies in Benin.

ADEX's management appears to have a good grasp of export development issues but they are very limited in resources despite the existence of the FAFP. ADEX nonetheless appears to be the most capable and promising of the various export promotion agencies.

### 7.3 Overall Assessment of the Institutions

There are numerous agencies, public and private, that have unclear and overlapping mandates, and offer similar services. There is no over-arching strategy in which these institutions operate. The resulting redundancy and incoherence hampers performance measurement, reduces transparency and accountability, and undermines effectiveness. With few exceptions, most of the services offered by these institutions do not correspond to the needs of the export community.[61] The exporting companies that were interviewed by the mission indicated that they almost never use any of the services offered by the trade support institutions mentioned above (with some exceptions for ADEX). There are no product or other similar specialists who can provide advice to exporters on specific subjects. The services of CEBENOR are considered important but not yet sufficiently developed.

[61] Crone *et al* (2002) arrives at the same assessment.

Most institutions do not have sufficient resources and qualified staff to offer relevant services. Staffing and the operational budgets for most agencies are inadequate. In addition, the staff usually has civil service backgrounds with little relevant business experience, and is not in a position either to work out marketing plans or strategies, or even to provide advice on product adaptation and market requirements. The CCIB appears to be the only institution with sufficient funding but it lacks qualified staff. ADEX has the potential to assist the export community through the FAFP but also lacks professionals and specialists; instead, it relies on consulting firms. In addition, the FAFP will cease to exist when the PADSP comes to an end, so there is a problem of sustainability.

Benin lacks effective commercial representation abroad. There are very few opportunities for export companies to benefit from capacity building programs geared to export development. Limited management training facilities for SMEs appear to exist but they do not have export development focus. There is no institution offering effective advice on export packaging and labeling.

Given the shallow pool of existing exporting firms in Benin, a central goal is to create a wider and more diversified export industry by attracting the necessary investment.. But the CPI lacks the resources, clout, and capability to galvanize such an effort.

The PADSP contains most of the essential elements of a solution, with the creation of a Comité de Concertation, the FAFP and ADEX, but implementation has been very slow and its impact since 2001 appears to be quite limited.[62] Furthermore, funding from IDA is temporary, raising the problem of sustainability.

ADEX appears to be the institution with the clearest vision, strongest capability and the greatest resources, which are provided by the FAFP. Its mission remains insufficiently focused on export development, however. Furthermore, current staffing is not sufficient for successfully carrying out the mandate of a central export development institution

### 7.4 High Priority Trade Support Issues

(a) The trade and investment support institutions should eventually be consolidated, merging ADEX with CBCE, OBOPAF, CPI and CEBENOR into a single export and investment promotion agency (EIPA). The new agency should use modern management techniques, and be staffed by qualified personnel, such as product specialists and function specialists with private sector backgrounds, who can provide advice and guidance to new exporters. Career civil servants should not be hired. Also, the agency should work closely with private sector constituents. The rationale for integrating CPI into the EIPA is that for Benin, the pool of existing exporters is small. Export support and investment promotion are therefore inseparable, with significant positive externalities, information sharing and synergy expected from a consolidation into a single entity. It is important to proceed slowly and carefully towards merging these institutions, however, after

[62] "Revue à Mi-Parcours du PADSP", Rapport Provisoire, Janvier 2004.

having carefully examined the strengths and weaknesses of the existing institutions.

(b) Likewise, quality control and adherence to norms are integral for access to foreign markets for agricultural and food products -- the mainstay of Benin's exports. Moreover, all of these institutions are at present under-funded, and there are substantial areas of overlap and duplication. Another rationale for consolidation is to create a strong institution with a mandate to promote broad based export-oriented economic reform. While the specifics of this consolidation are open to further discussion, it is incontestable that some consolidation is necessary to eliminate duplication and use the available resources more effectively.

(c) The head of EIPA should be the "Monsieur/Madame Export" called for in the FAFP, a person of high standing having direct access to the President of the Republic. Monsieur/Madame Export should draw on the PADSP as well as the present DTIS in defining the EIPA mission.

(d) EIPA functions should include:

- Technical assistance to entrepreneurs with regard to credit, marketing, quality control, supervision of standard issues, promotion of new agriculture products, shrimps and fishing products, and tourism.

- Creation of a national capacity building program for entrepreneurs and managers in cooperation with the relevant ministries, e.g., agriculture, tourism, etc.

- Establishment of a few trade representation offices for Benin abroad, in locations to be determined by the head of EIPA and its staff, perhaps jointly with other WAEMU countries.

- A leadership pressure and advocacy role in pushing for urgent remedial action on constraints and bottlenecks to exports as identified in the DTIS and other studies. Starting with an overhaul of the existing incentives in the "Code des Investissements," reform must also cover legal system and particularly property rights to land, access to bank credit, and other aspects of the business climate discussed in other chapters of this study.

- An export and investment development fund managed by the EIPA, which could be funded by special funding arrangements (ear-marked funds similar to Chamber Of Commerce levy), as is the case in a number of other countries, along with an initial injection of funds by donors. The EIPA would be limited to small amounts of co-financing or seed money, with most of the funding for any export development projects coming from financial markets.

(e) EIPA should be staffed by professionals with private sector experience in sectors of importance to Benin, such as tropical fruits and tourism.

(f) The EIPA should work closely with the Chamber of Commerce, DCE as well as the Ministry of Finance and the Ministry of Plan, with the precise modalities of this relationship to be determined by discussions with the government and other stakeholders.

(g) To assist with the transition to a new system of export and investment promotion, donors should fund a resident Senior Trade Promotion Adviser for one year, extendable for not more than two additional years. This advisor could be from a recognized private export promotion firm. This expert would advise the government on implementing the new system. The advisor should be seasoned with a clear mandate and obligations to build local capacities based on a specific capacity building contract plan. In addition, a number of short-term consultants with expertise in products, processes, and capacity building should be hired.

# 8. TRADE FACILITATION: PORT, TRANSPORT, CUSTOMS AND TRANSIT[63]

Benin's strategic location next to Nigeria and as a potential gateway to land-locked countries in West Africa (Burkina Faso, Niger) makes Benin a natural transit hub for the region Benin's Port of Cotonou is the key entry point. However, Cotonou competes with the Ports of Lome in Togo and Tema in Ghana. To reap the full advantages of its geographic position, the quality of trade facilitation services is decisive. Moreover, improvements in port and customs services would send a strong signal to foreign investors and local entrepreneurs that Benin is an attractive location for investment. This chapter analyzes the key trade facilitation issues for Benin, covering the Port of Cotonou (Section 8.1), customs administration (Section 8.2), transit (Section 8.3), and air transport (Section 8.4). High priority issues, recommendations and conclusions are summarized in Section 8.5.

## 8.1 Port of Cotonou[64]

Established in 1965, the Port Autonome de Cotonou (PAC) has aptly been described as the lung of the country, given its importance as an entry and exit point. The port is handicapped by deficiencies in infrastructure, organization, and operation, which have led to loss of competitiveness vis-à-vis Lome and Tema in terms of market shares of transit trade. The port's status as a state enterprise under the authority of the Minister of Public Works and Transport limits its autonomy. Private operators have complained for years about high costs and delays in movement of merchandise, with little success until recently. A well functioning port is of such importance for Benin's ambitions to serve as a trading hub that the government is considering building a second port. Such a move would be unwarranted, however, as improved functioning of the existing facility would be a much less costly alternative.

The port accounts for about 80 percent of the revenues from taxes on trade, which contribute almost half of all government revenue, as noted in earlier chapters. Much of this traffic, consisting of used cars and containers, is destined for Nigeria to a much greater extent than official statistics reflect. The port's functioning, as well as much of government revenue, is therefore tributary to the transit and re-export trade with Nigeria discussed in Chapter 4.

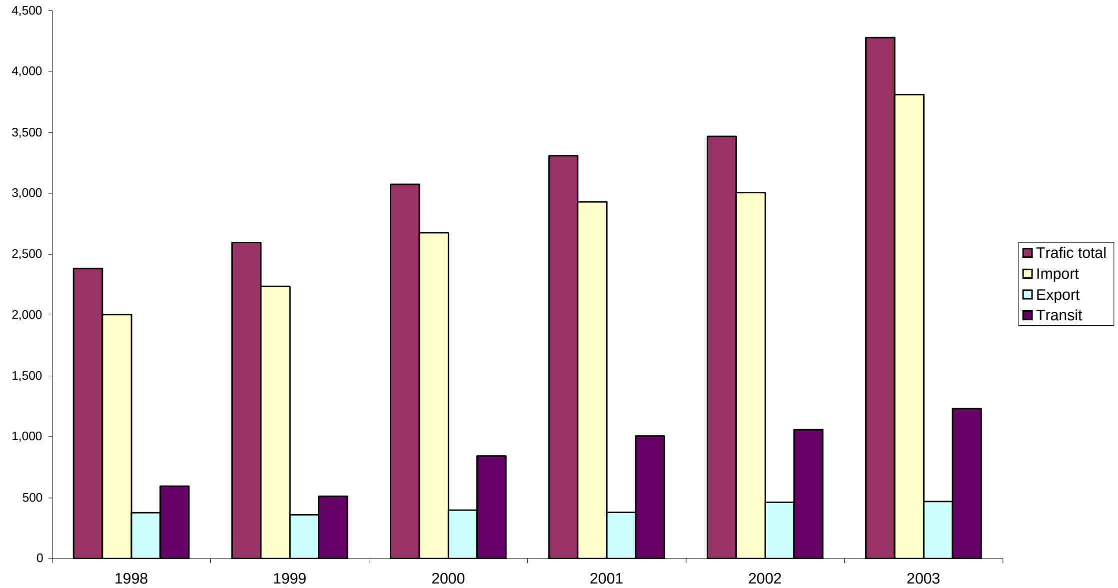
***Evolution of Traffic***. The volume of goods through the PAC has increased sharply in recent years (Figure 8.1), but more slowly than for the port at Lome (Figure 8.2). Export volume is very small relative to imports, consistent with Benin's large trade deficit, discussed in Chapter 2. The traffic growth in Cotonou largely reflects increased unofficial exports to Nigeria, as discussed in Chapter 4. With the crisis in Cote D'Ivoire beginning in 2002, shipments to Burkina and Mali previously transiting through Abidjan have been mostly diverted through Lome and Tema rather than Cotonou (Table 8.1). Only in Niger where Cotonou has a clear

[63] This chapter draws on a report prepared by Zoro Bi Nagoné and Elian Berger.

[64] See Haskoning (2000), SDV Bénin (2004) and Bi Nagoné (2003) for earlier diagnoses and recommendations concerning the port and related issues.

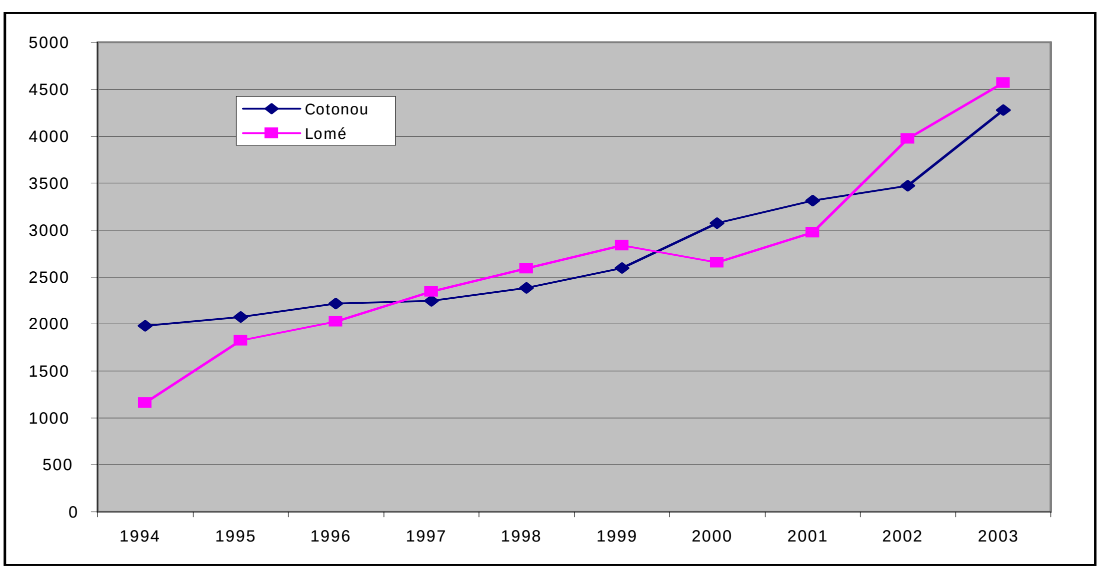
geographical advantage over the other two ports, has Cotonou's share grown of transit to the land-locked countries of the hinterland. Cotonou's failure to attract more transit traffic from Cote D'Ivoire suggests that the other two ports have significant competitive advantages.

**Figure 8.1 Volume of Transactions in the Port of Cotonou (1000 tons)**




*Source: Port of Cotonou.*

**Figure 8.2: Volume of Merchandise, Ports of Cotonou and Lome (1000 tons)**




*Source: Ports of Cotonou and Lome.*

**Table 8.1: Volume of Transit Through the Ports of Cotonou, Lome. and Tema**

| | 2001 | 2002 | 2003 |
|---|---|---|---|
| | | | |
| **TOTAL TRANSIT (2001 = 100)** | 100 | 128 | 135 |
| | | | |
| | ***Shares of Total Transit (Percent)*** | | |
| *Via Cotonou* | 25.4 | 23.5 | 28.6 |
| *Via Lomé* | 19.5 | 21.6 | 37.0 |
| *Via Téma* | 10.6 | 18.2 | 28.0 |
| *Via Abidjan* | 44.5 | 36.6 | 6.5 |
| | | | |
| | | | |
| **TO NIGER (Percent of total transit)** | **34.9** | **31.4** | **35.4** |
| | | | |
| | ***Shares of Niger Transit (Percent)*** | | |
| *Via Cotonou* | 67.1 | 62.3 | 76 |
| *Via Lomé* | 17.6 | 19.3 | 16.6 |
| *Via Téma* | 15.2 | 18.1 | 7.4 |
| *Via Abidjan* | 0.2 | 0.2 | 0 |
| | | | |
| **TO BURKINA (Percent of total transit)** | **36.7** | **37.3** | **36.5** |
| | | | |
| | ***Shares of Burkina Transit (Percent)*** | | |
| *Via Cotonou* | 1.8 | 6.2 | 3.4 |
| *Via Lomé* | 34.3 | 36.7 | 64.8 |
| *Via Tema* | 9.7 | 19.9 | 30.4 |
| *Via Abidjan* | 54.2 | 37.2 | 1.4 |
| | | | |
| **TO MALI (Percent of total transit)** | **28.4** | **31.4** | **28.1** |
| | | | |
| | ***Shares of Mali Transit (Percent)*** | | |
| *Via Cotonou* | 4.6 | 5.3 | 1.7 |
| *Via Lomé* | 2.7 | 6 | 26.4 |
| *Via Téma* | 6.1 | 16.4 | 50.7 |
| *Via Abidjan* | 86.6 | 72.3 | 21.2 |
| | | | |

*Source: Ports of Cotonou, Lome, Tema, and Abidjan.*

***Infrastructure Problems***. Relatively shallow water limits port access by very large ships. Consequently, containers shipped to Benin must sometimes be transferred at other ports such as Abidjan, with resulting risks of damage and delays. The shallow water also means that ships frequently must wait for high tide before entering. These problems could be ameliorated by more frequent dredging and by extending the barrier to block sand movements. However, water depths are only slightly deeper in Lome, and even shallower in Tema (see Table 8.2). Moreover, organizational and procedural problems rather than physical limitations are the primary source of delays, as discussed below.

**Table 8.2: Comparison of Port Infrastructure: Cotonou, Lomé, and Tema**

| | Cotonou | Lomé | Tema |
|---|---|---|---|
| Water Surface | 60 ha | 81 ha | 166 ha |
| Deck length | 1980 m | 1 170 m | 2 615 |
| Number of posts on quay | 12 | 9 | 14 |
| Water depth | 10 m | 11 m | 9,6 m |
| Covered Storage Area | 83 500 m2 | 62 000 m2 | 53 270 m2 |

*Source : Vissiennon and Alix (2003)*

The unloading and storage facilities also suffer from certain deficiencies, namely insufficient space, lack of equipment, and poor quality. Specialized dock facilities, especially for handling used cars, are lacking. The warehouses, specialized terminals *"terre pleins"*, and docks have inadequate capacity and are antiquated. It is impossible to unload more than one boat with bulk merchandise at a time, accentuating the delay problem. Limited warehouse capacity of just 500,000 tons is particularly constraining for goods in transit. Also, there are inadequate electrical outlets for hooking up refrigerated containers with perishable products, which is compounded by a lack of timely container delivery.

While these infrastructural deficiencies are serious, the organizational and procedural problems are far more significant. The PAC's infrastructure is in most respects similar to or superior to Lomé's, except for water surface. Compared to Lomé, Cotonou has more dock and warehouse space, roughly similar water depth, and a greater number of loading posts on the docks.

***Organizational and Procedural Problems***. The Port of Cotonou suffers from significantly higher costs and longer delays than those of Tema and Lome, which offset its advantageous position next to Nigeria. The cost of port services for boats (piloting, tugging and anchoring) are some 10 to 25 percent higher in Cotonou than in Lome, depending on the type of boat. Boats must also wait about one day longer offshore for unloading, and the duration of handling and administrative procedures at the port is also longer in Cotonou, taking from several days to a week depending on the nature of the merchandise. In particular, customs clearance accounts for the largest source of extra time to clear merchandise in Cotonou relative to Lome and Tema (Vissienoon and Alix 2003). Moreover, the Togolese authorities have taken steps to ease barriers to transport from the port by improving roads and reducing checkpoints. Whereas in Benin, road transport remains an obstacle course, as discussed below. The cost of transit shipments to Niger via Benin is higher per kilometer in Benin and only offset by the shorter distance (see Table 8.3).

**Table 8.3: Cost Comparisons of Transit Shipment of a Ton of Rice to Niger, Via Benin, Togo, and Ghana**

| | Cotonou | Lome | Tema |
|---|---|---|---|
| Total Cost (in 1000 CFA francs) | 75.3 | 70.1 | 82.6 |
| Cost Per km (CFA francs) | 71.4 | 47.1 | 66.6 |

*Source: CNUT/NIAMEY.*

While the port is nominally under the control of a director and his staff, the latter lack a mandate and authority to act independently. The Ministry of Public Works and Transport exerts strong influence over port management.

Numerous different agencies and services with varying degrees of autonomy and power operate at the port. Rules and regulations are complex and require submission of multiple documents. Some agencies seem to add little value and contribute only by adding costs and delays. The user fees paid to the Conseil National des Chargeurs du Benin (0.18 percent), the Chamber of Commerce (0.25 percent), and BIVAC (0.7 percent) yield few if any benefits to users. There are multiple and redundant controls, whose main purpose apparently is to increase opportunities to extort fees. Also, there are controls at the storage depots, on truck parking, and during transit within the port. For used cars, the inspections are redundant since there is a fixed fee payable in advance. Only recently, however, has the latter been “officially” scrapped.

Users claim that they are subject to numerous unofficial fees without receipts in order to get the services they have contracted for in a timely manner. To move a container through the port without extra delays costs about 130,000 CFA francs in unofficial fees and bribes at the *“guichet unique”* (single window), for registration at the warehouse, at the exit, and for the various agencies (Securité Presidentielle, customs, police, etc.)[65]

In addition to the unofficial fees, billing is unnecessarily complex. Containers are billed with an assortment of taxes and fees by weight or *ad valorem* rather than by the container, as is now common practice in modern ports. While many of these fees are small, they add considerably to administrative costs..

The introduction of a *“guichet unique”* is intended to ease the formalities and reduce delays by centralizing all payments and documentation. But it exists in name only. That is, all agencies are now located in a single place, but no simplification has occurred so that the problem of multiple fees and requests for documents noted above persist. Nor has computerization of the port advanced very far, remaining under study. It is therefore difficult for port management to evaluate systematically the efficiency of the various services under its supervision.

Management of the interior space of the port has been a critical problem. The situation inside the port is close to chaotic due to:

(a) The absence of a plan for movement of vehicles within the port, leading to confusion and gridlock;

(b) Until recently, there was a single entry and exit point for trucks, leading to bottlenecks. The road from the new second entrance for trucks is not fully operational as the road leading to vehicle parking is not paved or even stabilized and the parking lot is not completed;

(c) The absence of clear zoning within the port, with containers stacked in a rather haphazard way without any computerized tracking of their location. There are no specialized docks, notably for used cars, resulting in conflicts over the use of facilities and ubiquitous movements of used cars along the docks, all of which contribute to reduced productivity and efficiency;

[65] Figures based on interviews with users.

(d) The lack of security against theft, with whole containers sometimes vanishing. Entry and exit checkpoints are lax and allegedly unauthorized entry can be purchased for a mere 5000 CFA francs, and the walls are not high enough to deter intruders; and

(e) The location of the petroleum depot Oryx within the port exacerbates the problems of congestion and security, and also creates a risk of a catastrophic fire. This terminal should be relocated. In short, there is general disorganization, with containers being loaded and unloaded in the midst of vehicles, pedestrians, etc. The influx of used cars, in particular, is a great source of congestion.

Handling of merchandise has improved but remains inefficient and slow in some respects. Until 1998, the *parastatal* SOBEMAP held a monopoly on loading and unloading. Now, the market for handling containers has been opened partially, but with only two private authorized firms: SMTC, an affiliate of the French group BOLLORE, and COMAN, and affiliate of the Danish firm MAERSK. The two firms, who now handle about 85 percent of the container traffic, are obliged to compensate the SOBEMAP with payments of FCFA of 10,000 per container. Investments by SMTC and COMAN and their effective management have greatly improved the handling of containers. The firms can handle 400-500 containers per day, in comparison to 400 at Tema, 350 in Lome, and more than 500 at Dakar and Abidjan, whereas the SOBEMAP can handle only about 200 to 250. SOBEMAP retains a monopoly on bulk (non-containerized) merchandise, with resulting inefficiency, according to private operators.

There are also long delays in removing containers from the port. This can take from six days to three weeks versus three days in Lomé, as containers must go through numerous examinations from various security agencies and must often await customs escort.

***Reform Prospects***. Overall, the procedural, organizational and infrastructure problems lead to long delays and high costs for importers and exporters. Prospects for improvement are good, provided strong leadership can be mustered. This appeared when a new director assumed the post at the beginning of 2004. Most of the basic infrastructure for the port is sound, the overall judicial framework for private investment is in place, and private investors have demonstrated their willingness to work with the authorities. The most important task is to improve the efficiency of the port through streamlined organization, reduced corruption and more efficient port services. Further liberalization of services should be pursued, while maintaining strong government oversight, given the obvious natural monopoly of the port's infrastructure.

Some significant improvements were underway in early 2004. Recently, storage of used cars was moved out of the port, eliminating heavy congestion, to designated car parks in the suburbs of Cotonou. The director general appointed in early 2004 appeared to have a clearer mandate from the ministry of transport and the support of the port community. In March 2004, the government approved the director's new action plan, whose strategy is to enlist the cooperation of the various port entities in a collective effort to improve service.[66]

[66] The unexpected departure of the new director general provides some cause for concern as to whether these improvements will be sustained. It is hoped that his replacement will continue to pursue reforms vigorously.

Efforts are underway to improve security and movement within the port, which have improved considerably according to private sector representatives. Still, clearly much remains to be done. Given that the problems of the existing port can to a large extent be resolved through improved organization and procedures, building a new port doesn't seem to be a priority at this time.

**Reform Prospects**

**Port Infrastructure**, the present DTIS calls for the need to:

(a) Increase area and improve organization of truck parking.

(b) Increase dock space, warehouse capacity, and open-air storage areas.

(c) Move petroleum depot out of port to an area north of Cotonou to reduce congestion, transport costs and risks of fire.

(d) Enhance dredging of the water basin to increase accessibility for large ships.

(e) Create a computer network linking various port entities. Lessons of Port rationalization and simplification in Singapore or Mauritius could be of very high use in the case of Benin.

**Port Organization and Procedures,** actions recommended in this DTIS include.

(a) Reform of PAC statutes to provide greater autonomy.

(b) Reorganization of port facilities: entry, exit, circulation within the port, allocation of storage space, zoning plan, all of which are quite chaotic at present. There should be specialized docks and storage areas according to type of merchandise.

(c) Improvement of port security by establishing and enforcing criteria for entry, improved surveillance, and higher walls.

(d) Improvement of "*guichet unique*" to enhance its effectiveness beyond the simple grouping of services in a single office space.

(e) Pursuit cargo handling liberalization, opening up handling of bulk merchandise and suppression of the 10,000 FCFA fee for container transfers from private operators to the SOBEMAP.

(f) Strengthening of the PAC leadership's commitment to reform and modernization.

(g) Replacement of the 0.18 percent charge on imports allotted to the CNCB by a fee based on service effectively rendered.

## 8.2 Customs Administration

***Organization.*** Given that trade taxes represent nearly half of government revenuem and the ubiquitous presence of customs officials at all stages of transportation, customs has great influence over the efficiency of the distribution system. As part of the effort to reduce the public sector payroll, customs personnel has fallen from 800 in 1983 to about 700 now, of which 565 are agents and 135 support personnel, notwithstanding a near quintupling of port volume during this time. Headquarters has 84 agents with the remaining 481 in the field; 234 of these are responsible for oversight and control of illegal trade.

Computerization using the SYDONIA ++ system is operational since August 2003, but incomplete. As computerization of customs is established some reorganization of the responsibilities of agents is in order, with greater emphasis on analysis and investigations. Computerization should also reduce discretionary control by agents and thus aid in reducing corruption. At present, however, manual declarations are still common, and multiple computer entries are made for a single transaction, creating confusion and leaving much room for arbitrary action by customs agents. Accounts payable are not treated in a clear and transparent way. Computerization by itself does little to resolve problems of fraud in the absence of other crosschecks to ensure accurate record keeping and follow-up.

Goods imported into Benin are subject to pre-inspection by the private firm BIVAC in the exporting country, which delivers a '*certificat d'évaluation douanière'* (CED) to the importer.[67] Recourse to private import verification firms such as BIVAC is intended to serve the dual purpose of (i) reducing smuggling and corruption and (ii) transferring competence to the national customs authorities. BIVAC inspects merchandise intended for Benin in the originating country and provides a customs valuation. When they enter the country at the Port of Cotonou,[68] goods are classified into four circuits to remit any duties and obtain clearance from customs:

(a) Green: merchandise can be removed without any control.

(b) Blue: merchandise subject to a posteriori control only.

(c) Yellow: control of documents required.

(d) Red: control of both documents and merchandise required.

Until cleared, goods are stored in storage depots and lots, often with inadequate security and supervision. Customs clearance is handled by accredited customs administrators (*commissionaires agrees en douane* (CAD)), a certified specialist middleman sends information in electronic form to customs about the merchandise and is responsible for putting together all the requisite documents. In turn, the CAD sometimes employs a large number of "ambulants" to take care of the details. CADs are often poorly trained, lack access to proper equipment and computer access for carrying out their duties effectively, and have a *de facto* cartel on handling

[67] Private pre-inspection of imports started in 1991 in Benin with a contract with COTECNA. BIVAC has operated in Benin since 1994 and its contract was renewed in 2003 with expiration on 25 March 2005. BIVAC's costs are financed by a 0.7 percent user fee, as noted earlier.

[68] When goods enter via the airport or land borders, the procedures are more informal and use an older version of the SYDONIA software.

customs documents. Customs duties are usually paid for with certified checks or cash, with the latter case quite common and, obviously, creating possibilities of corruption.

Once the importer has obtained clearance (Bon a Enlever—BAE), the importer faces controls by customs brigades within and upon exit from the port. Finally, there is a subsequent check on customs declarations by the central office. All of this can be quite lengthy and cumbersome. As noted above, the *guichet unique* is not fully operational and, in any case, is thus far limited to goods in transit for land-locked countries.

In practice, other than used cars, almost all merchandise must go through the red circuit. It would be useful to adopt a more selective approach to verifying customs declarations, such that perhaps only half of imports are subjected to physical inspections. For goods in transit, a customs escort is required, for which the importer must pay. Often, shippers must wait for several days for an escort to become available.

The main import taxes, as discussed in Chapter 3, are the customs duties set by the Tarif Exterieur Commun (CET) and the value added tax (VAT), to which are added a few smaller taxes. In addition, there are a number of minor port user fees that must be paid separately and should be consolidated and simplified:

(a) (i) The "taxe de voirie" of 0.85 percent that must be paid twice, upon entry and exit from the port.

(b) (ii) The "fonds de guarantie" of 0.25 percent levied by the Chamber of Commerce

(c) (iii) The "taxe de sejour" of 10 FCFA francs per day for packages held beyond 15 days, which although very small, can add up due to traffic delays and inefficiency of the parastatal SOBEMAP, as discussed earlier.

(d) The 0.18% levy for the COSEC.

(e) The 0.70% levy for BIVAC.

***Operation of Special Regimes (Regimes Suspensifs)***. There are two main special regimes for imports that allow for exemptions or temporary delays in duties: 1) transit to land-locked countries, and 2) temporary admission. In 2003, 72.5 percent of all imports qualified for special customs status. When other exemptions are factored in, only 23.6 percent of all imports paid all duties.

***Transit, CET and VAT taxes*** are suspended pending delivery of documentation that the goods exited the country as stated. In practice, however, the documentation is rarely delivered and no sanctions are taken. For example, 93 percent of the 2002 transit declarations were never documented. While the bulk of these non-documented declarations concern used cars, they accounted for 68 percent of the total value of transit. Evidently, most of these undocumented shipments wind up in Nigeria. A much more systematic means of tracking transit and recovery of unpaid duties is necessary. The customs escort mechanism is costly and ineffective, and unnecessary given the numerous checkpoints along the roads (see Section 8.3). As noted in

Chapter 3, most used cars are declared for transit to Niger but wind up in Nigeria, apparently with the connivance of the escorts.

***Temporary admission,*** which is intended as a tax incentive to spur local economic activity or as a way to defer customs duties while goods are in storage, is also frequently abused. A proliferation of warehouses and storage areas largely escape scrutiny from customs officials. It appears that in many cases goods in storage are illegally placed on the domestic market.

The difficulties with these schemes suggest caution when implementing an export-processing zone, as it may exacerbate tax-exempt status abuse. Better tracking of special regimes by computerizing records is necessary.

***Customs Valuation***. Valuing imports is a long-standing problem in Benin, with customs officials exercising a great deal of discretion and operating contrary to WTO and newly-instituted WAEMU rules. As noted in Chapter 4, goods intended for Nigeria are not admitted into Benin, as such, both to increase revenues and to avoid overtly flouting Nigeria's import restrictions. Consequently, goods destined for Nigeria often enter Benin as though intended for local use, and are therefore subject to import duties. Occasionally, customs officials arbitrarily under-value these goods so as not to discourage the re-export trade. In theory, the pre-inspection firm BIVAC is supposed to assign values to imports, but in practice it has little influence. A large number of products, notably foodstuffs, are excluded from BIVAC's mandate, amounting to nearly half of imports in value. Even for goods under BIVAC's jurisdiction, valuations are often said to be set above or below BIVAC's on a discretionary basis.

***Reducing Tax Evasion***. Smuggling and tax evasion remain pervasive. While a large proportion of customs agents' responsibilities are to combat such practices, most efforts seem to be directed at small-scale smuggling rather than the large networks that operate with impunity. The agency within customs charged with combating smuggling does not have access to SYDONIA and hence a full database for its investigations. Moreover, customs does not cooperate effectively with other agencies that might provide information or assistance, such as BIVAC.

Despite considerable assistance from donors to combat these problems, smuggling and corruption seem to have become ever more entrenched. Pervasive smuggling and discretionary practices by customs and other government agencies are both the cause and consequence of the spread of the informal sector. The private inspection firm BIVAC (following the previous COTECNA) has been powerless to counter these trends. BIVAC should become more proactive and receive more backing from the government in monitoring and reporting smuggling, with expansion of the proportion of imports to be subjected to pre-shipment inspection.

Benin and Nigeria should establish rules for transit, and all goods trans-shipped through Benin to Nigeria should have official transit status, with a reduction in discretionary actions by customs at all levels.

***Proposed Reforms.*** Customs is a key source of costs and delays at the port and beyond and also plays a decisive role in revenue generation for the country. An overhaul of customs operations is in order to improve efficiency and reduce smuggling and corruption. A number of measure should be taken, including:

(a) ***Personnel management***. Improvements should be sought in the form of greater efforts to train agents, improving incentives through merit pay for good performance and sanctions for corrupt behavior.

(b) ***Procedural simplification and transparency***. Procedures should be much clearer and simpler. In particular, a much greater proportion of merchandise should go through the green circuit, i.e., with minimal controls. Traders should be apprised of procedures through a manual.

(c) ***Modernization of services***. The SYDONIA ++ should be completed and utilized fully in its letter and spirit. It should also be connected to other related services within the country such as the Treasury and the BCEAO, and with regional trading partners. Modern payment methods should become the norm. The latter would also help alleviate smuggling. The *guichet unique* should become functional and lessons learned from the experience of other countries (Singapore, Mauritius, Ghana) factored in.

(d) ***Budget.*** Customs should have adequate personnel and equipment to carry out its duties. A review of customs' budget is in order to determine where constraints are most severe.

(e) ***Special regimes***. For transit, the customs escorts designed to prevent diversion to the domestic market are expensive, a source of delays, and not effective in deterring diversion of transit to either the domestic market or Nigeria. Benin should move towards computerized monitoring of transit shipments and effective sanctions for violations. In the meantime, customs escorts must be reformed, mainly by cracking down on corruption, so as to accomplish their mission. Likewise, temporary admission for inputs used in exports is frequently illicitly extended to goods sold on the domestic market.

(f) ***Targeting anti-smuggling efforts***. More generally, Benin should reorient its anti-smuggling efforts to focus on large-scale organized networks in the informal sector, which are well known and operate openly. A key component is to reduce the discretionary power of customs agents to strike deals with traders and to increase the transparency and predictability of customs operations. A few high profile judicial proceedings against established smuggling rings would send a strong signal that illegal trade and corruption are no longer tolerated. Development of a systematic database on smuggling and exchange of information (by fax, emails or cellular phones) with other agencies and customs at the borders, and in other countries, would be helpful to identify problems such as false value declarations, diverted transit shipments, etc. Many of the reforms identified above will also help alleviate smuggling by increasing transparency and the effectiveness of customs agents.

### 8.3 Internal Transport and Transit

Goods that enter through the Port can be shipped northward to Niger either by rail or road, with market shares of 40 and 60 percent respectively. For transit towards Nigeria, only road transport is available.

**Rail**. The Organization Commune Benin-Niger (OCBN) rail line connecting Cotonou to the North is in poor shape. The line ends at Parakou, whereupon merchandise must be transferred to trucks. The equipment is dilapidated and barely functional due both to vandalism (theft of copper wire) and age (some of it is more than 25 years old and spare parts are no longer available). The equipment at Parakou is also unsatisfactory. It can take up to one month to obtain rail service and returns of containers from Niger take another 2-4 months.

The OCBN has apparently been losing market share and would not be competitive at all were it not for the extra costs imposed on road transport by official and unofficial fees levied on trucks.

**Roads**. All road transport must pay the *taxe de voierie* of 0.85 percent ad valorem and a fixed fee of 20,000 CFA francs payable to OCBN. In addition, for transit shipments, road transport must pay for a customs escort of 52,500 FCFA per truck. There is also the 0.25 percent levy payable to the Chamber of Commerce and Industry (CCI). Perhaps even more problematic than these official fees are numerous police, customs, and municipal checkpoints along the main roads. From Cotonou to the Burkina Faso border, there are still 20-plus checkpoints,[69] each of which is an opportunity to harass truckers and collect a small bribe. Under these circumstances, customs escorts are redundant and serve only to further raise costs and delays.

There is a turf battle between customs and the police over the right to escort to Nigeria (and collect the official and unofficial fees thereof). All told, the 600 km trip from the Port to the Burkina border city of Porga takes on average three days. Consequently, Burkina-based truckers prefer to route merchandise through Lome, Accra or Tema rather than Cotonou. The road to Niger is a similar obstacle course studded with checkpoints. More controls take place on both sides of the border. There is little exchange of information between customs in Benin and countries that border it. Moreover, Benin does not recognize the ECOWAS TRIE (Transit Routier Inter-Etat), providing for unfettered passage within the region, instead substituting a national transit authorization certificate. Also, in some places, road maintenance is inadequate.

**Proposed Reforms.** There is a clear need to:

(a) Enforce the use of clearly-marked sticker or license plate—possibly the ECOWAS TRIE-- on vehicles indicating that the vehicle and its contents have been cleared. This could be an important step in deterring harassment. Mainly, however, corrupt and illegal behavior by security officials must be explicitly forbidden and sanctioned.

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[69] In October 2003, there were 36 checkpoints along the road from Cotonou to Porga on the Burkina border. In spite of instructions from the council of ministers in March 2004 to eliminate all unauthorized controls, the Conseil Burkinabé des Chargeurs reported that there were still 23 stops in August 2004.

(b) Review the 0.25 percent fee owed to the CCI.

(c) Improve road maintenance.

(d) Move to privatize OCBN. If this proves impossible, liquidation should be considered.

### 8.4 Air Travel

Benin has a single international airport situated in Cotonou. The airport has the capacity to handle far more flights than it services at present. Air France has a near monopoly on flights to Europe since the dissolution of Air Afrique and SABENA, with resulting high prices. Passenger flows fell from 335,000 in 1999 to 320,000 in 2003. The situation is in flux with discussions among African countries about liberalizing air travel under the auspices of the Yamoussoukro accord. The airport does not have equipment or storage facilities for goods destined for export, notably refrigeration for perishable goods. The relatively uneasy access and connection to Europe can be a serious deterrent for exports to Europe. This constraint should be addressed.

### 8.5 High Priority Trade Facilitation Issues

The port and customs administration are critical institutions for facilitating Benin's trade. Administrative problems and corruption appear endemic, harming Benin's competitiveness.

***Port***. Some measures to improve the adequacy of port infrastructure and organization would obviate the need for a costly new port. Many -- even most -- of these changes need not be costly, insofar as they involve improvements in procedures and management. These include revising the Port Authority's legal status to give it greater autonomy, improving access to the port for incoming traffic and circulation within the port, and improved security. As for infrastructure, the petroleum depot should be relocated, and improvements made to dock facilities, parking areas for trucks, and warehouses. Much of the cost of the new infrastructure could be borne by private sector service providers. Transfer of information and record-keeping across various port activities should be computerized, which is rudimentary at present.

Rationalization of the various entities operating at the port is needed. The monopoly of the SOBEMAP on handling bulk merchandise as well as the 10,000 CFA franc transfer fee per container from the two private cargo firms to the SOBEMAP should be eliminated. At present, the fees levied by the Chamber of Commerce and the Conseil National des Chargeurs du Benin (CNCB) do not translate into any real services to operators. While pre-inspections provided by BIVAC are at present largely ignored, they could serve a useful role in a more transparent system.

***Air Transport***. A detailed analysis to alternative solutions to the airport/connection constraints to Europe should be carried out in coordination with neighboring countries.

***Customs and Transit***. Customs operations in Benin are characterized by multiple and redundant controls associated with discretionary power of customs officials. Computerization has improved, but customs operations transparency remains problematic. The ASYCUDA ++ should be completed and utilized fully in its letter and spirit. It should also be connected to other related services within the country such as the Treasury and the BCEAO, and with regional trading partners. Lessons of other countries (Singapore, Mauritius, Ghana) should be integrated in the strategy to be developed. ASUCUDA has a risk management module that can be introduced in customs practices gradually. Manual data entry and cash payments should be eliminated in favor of modern electronic data entry and payment methods. The practice of discretionally undervaluing imports or lowering tariffs to undercut Togo should be eliminated.

Transit shipments should be made easier by reducing controls. Stickers or license plates should be issued at the port that exempt a vehicle from further inspections en route. The ECOWAS TRIE could serve this purpose, if it were respected. Customs escorts should be eliminated for most products. Communications and coordination with customs at borders and in bordering countries must be developed. A true *guichet unique* should be established.

The battle against smuggling should target large underground trading networks rather than small players, as is presently the case. Inspections of merchandise should be less frequent and based on careful analysis of trade patterns, relying on more reliable databases. Firms should have a single fiscal identifier recognized by all government agencies. Customs should collaborate with the police to reduce checkpoints.

Nigeria and Benin should pursue a dialogue aimed at fostering formal trade ties while limiting illegal trade. This would include an agreement on legitimizing the status of transit between the two countries.

All in all, a new mission for customs must be fostered: to facilitate trade rather than extract revenue.

# 9. THE COTTON SECTOR: CHALLENGES OF REFORM[70]

Although cotton is the dominant export and plays a major role in generating income, employment and fiscal revenue for Benin, the sector faces major domestic and international challenges. The chapter begins with a description of the evolution of the cotton sector in Benin (Section 9.1). Next, Section 9.2 places Benin in the world cotton market, with particular attention to the adverse effects of production subsidies in developed countries on African producers such as Benin. Section 9.3 describes the far-reaching reforms in Benin to increase the role of market forces and the unexpected difficulties the reforms are encountering. Section 9.4 analyzes the scope for greater local-value-added activities using cotton, notably, textiles and apparel. Section 9.5 concludes with high-priority recommendations.

## 9.1 Evolution of Benin's Cotton Industry

Cotton emerged as a cash crop in French West Africa in the 1950s, under the direction of the French parastatal, Compagnie Française pour le Developpement des Fibres Textiles (CFDT). Following independence, cotton production was shifted to national monopolies, with CFDT retaining a minority share, usually about 40 percent. In Benin, as elsewhere, a monopoly marketing board, the SONAPRA, controlled all stages of the production process: importation and distribution of seeds and inputs, provision of credit and other services to producers, ginning, and exports. The SONAPRA established a single price for seed cotton and inputs once a year prior to the growing season in each country, with some adjustments possible based on its financial outcome. Input credits were reimbursed via a deduction from the purchase price of cotton.

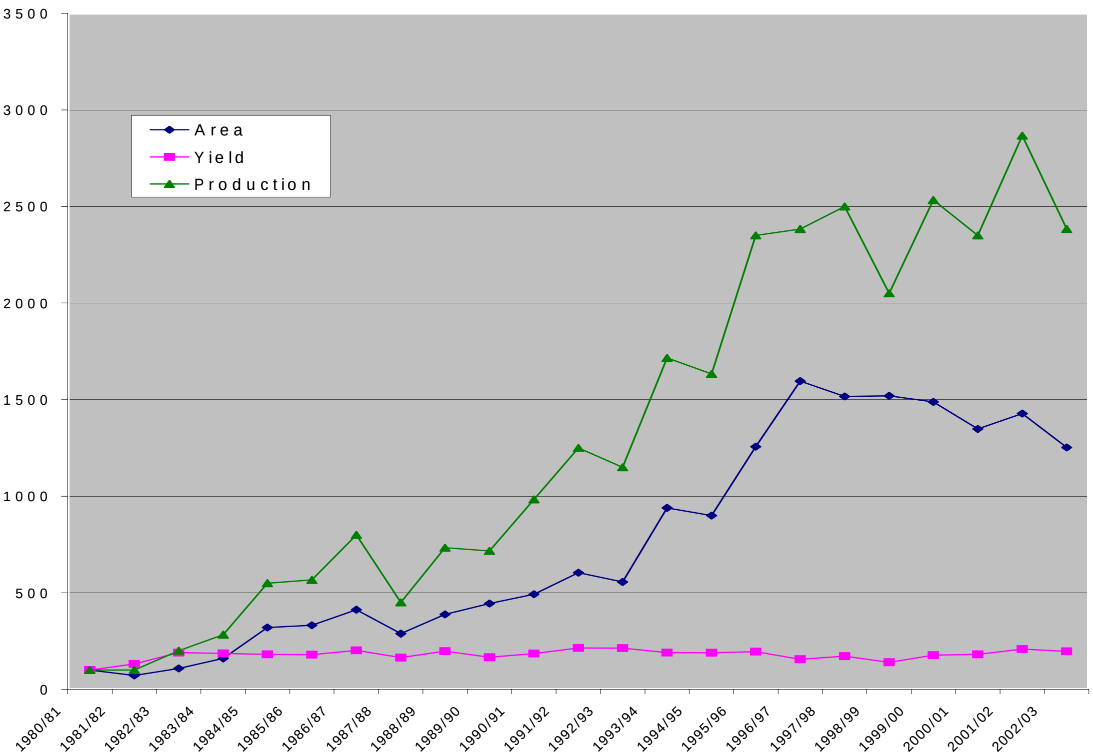
In some respects, this government-controlled system worked quite well and production expanded sharply in a number of countries. In Benin, production rose slowly until 1972, after which it dropped sharply from 1972 until 1982 with the change to a Marxist regime committed to overhauling the colonial system. From 1982 to the present, output soared, with major government investments in the sector (see Figure 9.1).

While the organization and stability of the state-run system were strengths in Benin and elsewhere, there were significant weaknesses too. Prices paid to farmers were well below world prices, and corruption and inefficiency often thrived in the absence of any competition. Production increased in Benin due to increased acreage but productivity stagnated.

Cotton has become a pivotal segment of Benin's economy, accounting for 10-15 percent of GDP and 50-80 percent of merchandise exports depending on world prices and the size of the crop, and contributes directly and indirectly to the livelihoods of some 60 percent of the population. Only a small part of output is processed locally, however, as discussed further below, with Benin importing the bulk of its textiles and clothing.

[70] This chapter draws on a report prepared by Nestor Adjovi.

**Figure 9.1: Benin Cotton Production, Acreage, and Yield (1980-81 crop year = 100)**




Under the impetus of difficulties in the sector and under the guidance of donors including the World Bank, Benin began to liberalize the cotton sector in the mid 1990s, and has been bolder in its reforms than the other Francophone cotton producers.

## 9.2 Benin in the World Cotton Market

**Current Situation.** The francophone countries of West Africa (Benin, Burkina Faso, Chad and Mali) emerged as significant producers of cotton in recent decades, and account for most of African production and exports (see Table 9.1). Between 1980-82 and 2000-03, the CFA zone's share of world production increased from 1.6 to 4.4 percent of global production. Exports from the francophone countries grew even more rapidly, accounting for 13.3 percent of world exports in 2000-03, up from 4.1 percent in 1980-82. African countries export almost all their output, unlike most other major producers. Notwithstanding its small size, Benin is one of the major producers in West Africa, with 2.3 percent of world exports in 2000-03. 71

[71] See World Bank and AFD (2003), World Bank (2002), Fourmann (2002), Badiane et al (2002), Goreux (2003).

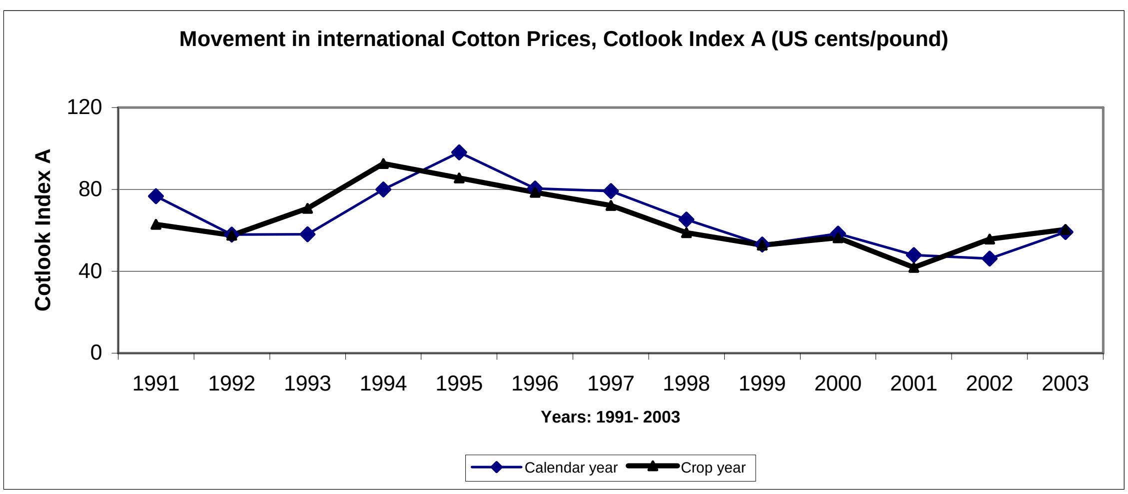
**Table 9.1: Shares of Cotton Production and Exports, as Percent of World Total**

| | Production (%) | | Exports (%) | |
|---|---|---|---|---|
| | 1980-82 | 2000-03 | 1980-82 | 2000-03 |
| Sub-Saharan Africa (SSA) | 3.5 | 6.5 | 6.9 | 17.3 |
| CFA Zone | 1.6 | 4.4 | 4.1 | 13.3 |
| SSA non CFA | 1.9 | 1.9 | 2.8 | 4.0 |
| Benin | 0.1 | 0.8 | 0.06 | 2.3 |
| *memo* | | | | |
| USA | 19.5 | 19.8 | 29.5 | 35 |
| **World** | **100.00** | **100.00** | **100.00** | **100.00** |

*Source: Goreux (2003)*

**Market Access to Developed Countries: The Subsidy Issue**. The world cotton market is anything but free, with developed countries engaging in massive interventions to tilt the playing field towards their own producers.[72] These subsidies are of the same order of magnitude as the world price. U.S. subsidies are the largest in absolute value, reflecting the importance of the U.S as an exporter, although European subsidies are much greater per unit produced. China, the world's largest producer, also provides substantial subsidies. These subsidies distort trade patterns away from comparative advantage and substantially depress world cotton prices, with consequent negative effects on Benin's terms of trade. Figure 9.2 shows the trend in world cotton prices during the last decade, attributable in part to increased global production spurred in part by subsidies. Some studies suggest that eliminating these subsidies could raise cotton prices by the order of \$0.10 to \$0.30 per pound, relative to a world price of about \$1.30 in May 2003. These subsidies affect the livelihood of farmers in producing countries and result in a decline in Benin's real income by the order of 1-2 percent.[73]

**Figure 9.2: International Cotton Prices**




[72] In late March 2004, these issues were discussed at a WTO Workshop on Cotton in Cotonou.

[73] Cotton exports represent roughly 6 percent of GDP. Assuming that developed country subsidies lower world prices by 20 percent, Benin's real GDP will decline by about 1.2 percent. See chapter 11 for further discussion of the effect of lowering cotton subsides. Also, earlier chapters briefly discuss issues related to the measure to which subsidies negatively affect world/producer prices.

***Prospects*.** The West African producers have much to gain from continuing to press for redress and/or compensation at the WTO, as described in Chapter 4. At the same time, Benin should not use the issue of global cotton subsidies as an excuse to slow down its own structural reforms. Even in the face of the developed country subsidies, cotton has proved to be a profitable export commodity for Benin in most years, and the obstacles to domestic supply are at least as significant as those arising from world market conditions. Liberalization of cotton trade at the regional level (WAEMU and ECOWAS) would also help Benin utilize its huge excess ginning capacity. Nigeria frequent import bans from time to time is a further constraint for the full use of Benin production and ginning capacities.

## 9.3 Benin National Reforms Under Stress

***Recent Reforms***. Liberalization in Benin started with some of the activities previously controlled by the SONAPRA, beginning with inputs in 1992 and ginning factories in 1995. The SONAPRA retained control of its ginning factories, but the market was opened to new investment, resulting in a near doubling in ginning capacity from 312,000 tons in 1995 to 575,000 in 1998. Ever since, chronic excess capacity has characterized the ginning sector. The more fundamental disengagement of the SONAPRA from oversight of input supply and marketing occurred in 1999-2000. Instead of a complete liberalization, however, an alternative set of private-sector oversight institutions was established through a collaborative effort by the government, the private sector and donors. The new system is quite elaborate and carefully crafted, recognizing that liberalization by itself is insufficient, and that market-supporting institutional arrangements are required to provide such public services as infrastructure, information dissemination, and contract enforcement. Also, the system takes into account that transition from a state-controlled to a decentralized market system is difficult and must be phased in. The main responsibility for market oversight now resides in the following new institutions:

(a) "Association Interprofessionelle du Coton " (AIC), which brings together all the private participants to act as a voice and agent for the private sector as a whole. (Note: the AIC subsumes organizations listed below.)

(b) "Cooperative d'Approvisionnement et de Gestion des Intrants Agricoles " (CAGIA), to supervise the distribution of inputs.

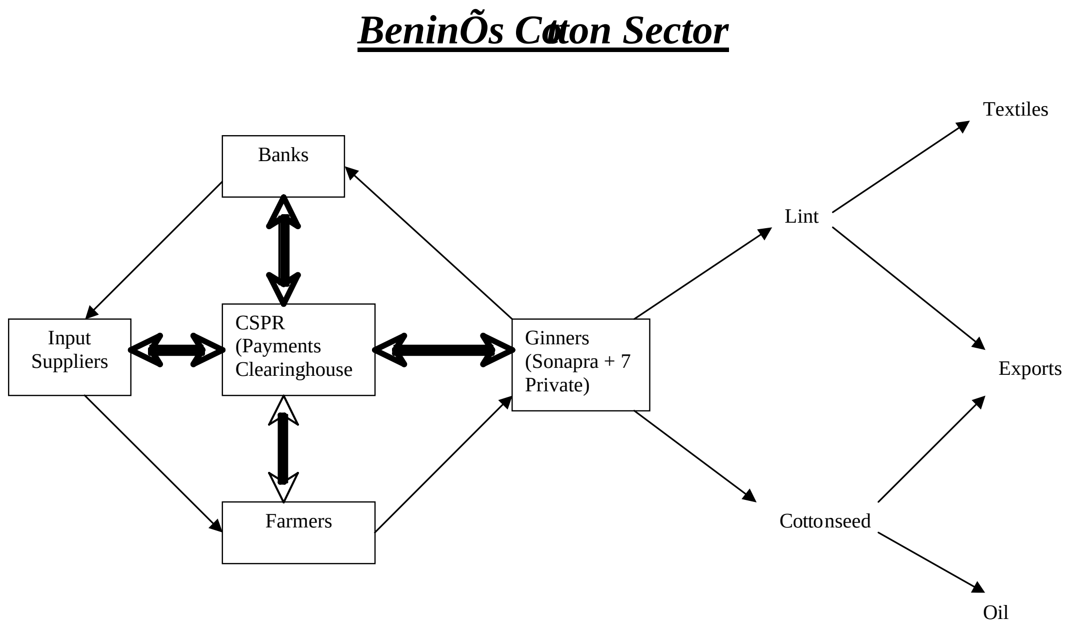
(c) "The Groupement Professionel des Distributeurs d'Intrants Agricoles " (GPDIA) representing the input suppliers.

(d) "The Association Professionelle des Egreneurs du Benin " (APEB), representing the ginners.

(e) "The Federation de l'Union des Producteurs du Benin " (FUPRO), representing the farmers.

(f) "Centrale de Securisation des Paiements et Recouvrements " (CSPR), which oversees the marketing and financing of production and acts as a clearinghouse for all financial transactions.

**Figure 9.3: Benin: Summary of the System Functioning**




At the beginning of the marketing season, ginners are apportioned market shares and must prepay 40 percent of their anticipated cotton deliveries in advance to the CSPR. The CSPR uses these funds to repay the loans the banks have made to input suppliers who have delivered inputs to farmers in advance, effectively providing credit to the latter. Farmers must deliver to their designated ginner and at harvest time the ginners must pay the remaining 60 percent of their bill to the CSPR, which in turn pays the farmers after deducting the input credits. The AIC and the CSPR are also charged with levying fees on the various market participants to pay for public goods such as research and rural roads.

This ingenious and elaborate system seeks to mimic the vertically integrated SONAPRA in ensuring the distribution of inputs, access to credit, and provision of public services, while allowing for a much greater role for the private sector. It remains, however, highly administered, with prices and market shares determined by negotiations between members of the AIC and the government. The privatization of the SONAPRA, which retains an important if diminishing role, has been repeatedly planned and postponed, and is now moving forward again. 74 Overall, the reforms are ambitious, far-reaching, and carefully elaborated.

The system requires cooperation within each of the various organizations and between them. Firms that engage in opportunistic behavior are supposed to be sanctioned with loss of the right to participate in subsequent seasons. For example, farmers who do not sell to their

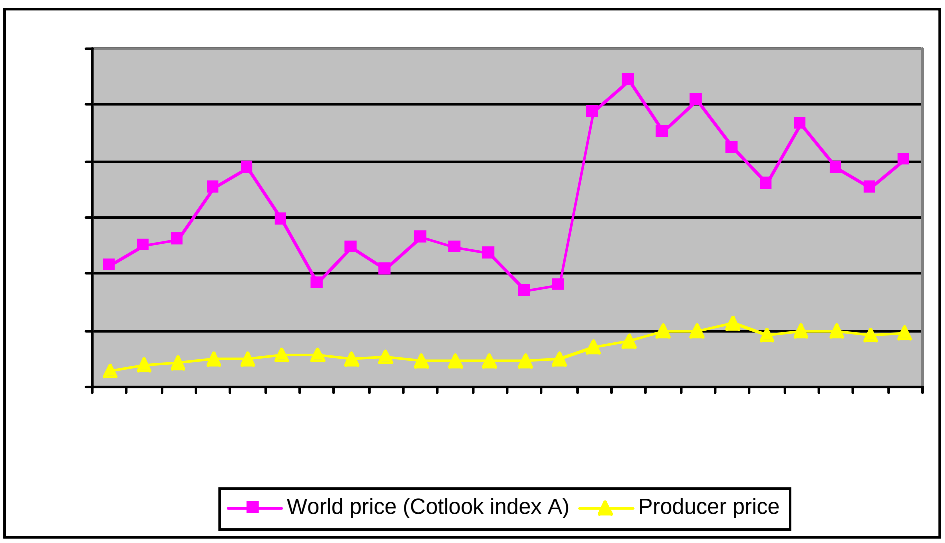
[74] In 2002, the actors in the sector drew up a plan whereby the State would retain 34 per cent of the shares, with 51 percent going to a strategic buyer, 10 percent to producers, and 5 percent to SONAPRA employees. After an initial failure to obtain adequate bids, a second invitation to tender was made in 2003, with the process ongoing at the time of this report.

designated ginners should be refused input credits, and ginners who fail to pay the CSPR on time should not receive cotton the following year.

In the past, the SONAPRA, the state monopoly on cotton, has traditionally played a major role in price fixing and buffering international price shocks. Currently, producer prices are fixed by a "commission" composed of the main actors of the cotton economy (producer organizations, ginners, representatives from the government, etc.), but with the government retaining the key role. The producer price is proposed by the commission and approved by the government, and is the same throughout the harvest regardless of the time seed cotton is harvested or delivered. The behavior of prices suggests that price-setting has not changed substantially—local prices remain sticky in the face of world price fluctuations (see Figure 9.4). Producer prices in Benin have been consistently kept far below the world price, even if producers received a stable price for their output as the international price swung up and down. The gap between world and producer prices reflects SONAPRA's operating costs and margins.

In the period 1986-1993, low international prices combined with an increasingly overvalued CFA franc led to the lowest gap between world and producer prices in the period analyzed. This contrasts with the post-devaluation period when the dramatic increase in world prices in the CFA franc generated a wider gap between the world and producer prices, especially before 1996, when international prices started to follow a declining trend. In spite of steady increases in 1995 through 1998, producer prices represented only about one-fifth of world prices during this period. In real terms, producer prices in 2003 were about the same as their pre-devaluation level, having increased until about 1999 and then fallen back.

**Figure 9.4: World Price and Benin Producer Price of Cotton (US dollars per ton)**




*Note: The producer price is the price of seed cotton "first quality", including possible bonus from the previous season.*
*Source: ICAC.*

Exports of seed cotton are banned, although some exceptions have recently been allowed.

Input prices charged to farmers have also shown substantial stickiness but have tended to rise slightly relative to world prices, suggesting that input firms' profit margins have increased.

**Remaining constraints**. The reforms have generally been praised by the private sector, and in some respects initially worked well. The number of input suppliers as well as ginners has increased. There are serious emerging difficulties, however, that are grave enough to threaten the health of the sector. These have certainly been aggravated by the low world price of cotton until recently. In addition, the reforms are encountering some unexpected difficulties, with a steady rise in non-compliance or delays in meeting obligations in payments, loan servicing and delivery of services, resulting in a dangerous erosion of confidence in the system. Debts and arrears are accumulating. Credit recovery fell to just over 90 percent in 2002-03, down from 98 percent in the two previous years. Distribution of inputs has been disorganized. The use of pesticides has not followed recommended norms and resulted in pest infestation. For these reasons the reforms failed to spur the hoped-for increase in yields, as seen in Figure 9.1. These problems seem to have worsened for the 2003-04 crop year, and some fear that the sector could descend into near-chaos if these problems are not addressed promptly and forcefully.

The main proximate problem is that fissures have developed in the various organizations, with dissident firms violating established procedures with impunity. Some input distributors have been barred for providing substandard inputs but nonetheless continue to supply farmers outside the framework of the AIC-CSPR mechanisms. Several ginners have failed to pay the CSPR as required, but manage to obtain cotton from farmers by circumventing the established procedures. Dissident farmers' groups have split off from the FUPRO and market their cotton through unofficial circuits rather than via the CSPR, thereby evading the fees that are intended to pay for public services (see Box 9.1). The flaws of the new system are manifested in the weaknesses in the producer organizations and the failure of the government to enforce the rules. It is alleged that many of the dissident firms have political connections. In Burkina Faso, the lack of politicization and more efficient functioning of the SOFITEX, the analogue of the SONAPRA, seem to account for the greater success there of the reforms. At a deeper level, the new system's elaborate set-up is overly bureaucratic and provides inadequate scope for competition. Some of the violations of the rules can be viewed as the emergence of competitive pressures; in other cases, however, private-sector behavior involves cheating and violations of contracts. In the longer term, greater flexibility of pricing and freedom of entry are necessary for a market-based system.

The difficulty lies in transitioning towards a framework that allows more competition while also providing the public goods and institutional framework that the old system supplied. The privatization of the SONAPRA should be the first step in this transition, setting the stage for the weeding out of the less efficient ginners through competition. Enforcement of contracts is also a crucial immediate priority.

**Box 9.1 Fissures and Dissidence in the New Institutional Structure**

Since 2002, splits have emerged in the main producer organizations, created to provide an organizational structure to supplant the previous government-controlled system, as described in the text. In 2002, parallel organizations for input distributors (ADIAB) and farmers (AGROPE) emerged as competitors to the officially recognized bodies GPDIA and FUPRO respectively. In 2003, the fissures increased, with AGROPE itself splintering into 3 parts: AGROP, FENAPRA, and FENAPROP. In addition, there was the creation of an alternative cotton marketing agency (IDA) and the continued functioning of two dissident ginning companies (MCI and SODICOT), contravening their suspension for violation of AIC rules.

These new structures arose from the dishonest behavior of certain market participants in the context of incomplete liberalization of the system. Some input producers and cotton ginners failed to satisfy their obligations in 2000-01 and were prohibited from participating in the subsequent campaign. Instead of abiding by this decision, these firms sought to operate outside the AIC-CSPR circuit. In the process, they exacerbated opportunistic behavior on the part of some farmers and their organizations, by offering to sell inputs at lower prices and buy cotton at higher prices, but in some cases delivering low quality inputs and failing to pay for their cotton purchases. Some village associations, encouraged by leaders of dissident peasant organizations, also actively sought parallel circuits to avoid servicing their debt and paying user fees.

While the bulk of all transactions (about 90 percent) still follow the official channels, the trend is ominous and is leading to acrimony and chaos in the system, in particular:

- arrears in payments for inputs
- failure to pay fees destined for the sector's public services (roads, research, etc)
- rising indebtedness of farmers
- spreading distrust by all parties that contracts will be honored
- indications of a decline in cotton cultivation, partly explaining the drop in output in 2003.

The government issued several decrees in 2003 affirming that AIC rules must be respected and all financial transactions must go through the CSPR, but so far, these decisions have been largely ignored by the dissident actors and they have not been enforced by the government.

These difficulties suggest the need for greater enforcement of contracts and rules in the short run, along with further liberalization of entry and pricing in the medium run to allow for greater competition and flexibility.

***Reform Prospects***. Reforms undertaken by the government have enabled much greater participation of the private sector. The system remains highly administered, however, with little scope for price or quality competition. In the longer term, the government should move towards a more complete liberalization of prices and entry, seeking alternative ways to shelter producers from price volatility. Privatization of the SONAPRA should be completed. At the same time, the government must remain a vigilant overseer to ensure that system rules are respected and that all agents respect their obligations. In the shorter run, opportunistic behavior by dissident organizations must be promptly sanctioned, by enforcing the 2003 government decrees affirming the primacy of the CSPR.

## 9.4 Can Benin Increase Local Cotton Processing?

***Benin's Textile and apparel Industry***. Benin's textile industry consists largely of three wholly or partially state-owned firms: SOBETEX, COTEB, and SITEX. Benin's textile industry began in 1969 with the creation of the SOBETEX (Société Béninoise du Textile), which dyed grey cloth, followed by an integrated spinning, weaving, and apparel firm, now named COTEB

(Complexe Textile du Benin). In 1987, the SITEX (Société des Industries Textiles du Benin), which manufactures grey cloth, was created with Chinese aid. All three firms are struggling.

The SOBETEX was successful in the 1970s but has floundered ever since due to the inability to compete effectively with imports from Nigeria and, especially, China. COTEB was slated for closure in 2002 and has only been kept alive with subsidies from the government and the SONAPRA, which remains its largest shareholder. It has antiquated equipment, high costs (for a variety of economy-wide reasons discussed in previous chapters) and poor quality. The SITEX suffers from many of the same problems, and has failed to service the loans from China. It was shut down in January 2004. Recently, the Chinese government formed a joint venture with the SITEX to create another factory, the Compagnie Béninoise du Textile (CBT) in the same location as SITEX. It is operating at low capacity, due to the difficulties of competing with imports. There are two cottonseed oil firms in Benin that are also experiencing difficulties, although less dire than those faced by the textile industry.

Due to the difficulties of existing textile firms and the lack of new private investment in the sector, Benin's yarn and fabric production is very limited while exports are insignificant. Less than 2 percent of cotton lint and cottonseed production is processed locally. In 2002, Benin's textile production represented 20 million linear meters, or only 2.9 percent of West African production, overwhelmingly dominated by Nigeria[75]. There is literally no export of cotton yarn while exports of fabrics reached US $7 million in 2002 (see Table 9.3). Domestic demand for textile products is partially satisfied by imports. In 2002, imports of cotton yarn and fabrics amounted to US $239,000 and US$ 59 million respectively.[76]

As for apparel, there is almost no formal production, despite the fact that apparel is far more labor-intensive than thread and fabric. Exports of apparel and clothing articles amounted to a tiny US $181,000 in 2002, against US$ 10 million worth of imports. Yet, Benin is eligible for tariff-free access to the U.S. market through the African Growth Opportunity Act (AGOA).[77] Benin's Least Developing Country Status under AGOA further increases the export incentive, since AGOA's restriction that thread and cloth must be produced either in Africa or the United States for clothing exports to benefit from U.S. tariff preferences is waived through September 2007. The restriction on textile sourcing applies to countries such as Mauritius and South Africa, which therefore have an incentive to source thread and cloth production in African countries such as Benin. For instance, in February 2004, a new factory producing thread destined for Mauritius' clothing industry opened in Mali. Apparently, the Mauritian investors had also considered Benin as a possible location but found the business climate more favorable in Mali. Other African countries have also boosted clothing production and exports under AGOA, moving up the cotton value-added chain despite competition from Asia and the influx of used clothing.

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[75] See World Bank (2004). Nigeria: Value and Supply Chain Study. First Draft Report prepared by Consilium International Inc., Seattle, November 2004.
[76] Some of these imports are smuggled into Nigeria where the import of textile products are banned.
[77] AGOA does not provide preferential treatment to Africa's exports of fabric and yarn.

**Table 9.2: Benin's textile and apparel exports**

| Product Name | 2000 | 2001 | 2002 |
|---|---|---|---|
| **Exports:** | | | |
| Cotton | 128,398 | 118,567 | 128,025 |
| Textile yarn* | 240 | 161 | 2 |
| *Cotton yarn*** | *221* | *119* | *2* |
| Fabrics*** | 4,086 | 3,406 | 7,061 |
| Articles of apparel and clothing**** | 102 | 124 | 181 |
| **Imports:** | | | |
| Cotton | 34 | 2 | 9 |
| Textile yarn | 99 | 203 | 239 |
| *Cotton yarn* | *13* | *157* | *189* |
| Fabrics | 53,947 | 60,641 | 58,930 |
| Articles of apparel and clothing | 6,471 | 6,946 | 10,269 |

*Data source: UN COMTRADE (in US'000)*
*Note: * corresponds to the tariff line 263 of the SITC rev. 2.*
*** = tariff line 651 of the SITC rev. 2.*
**** = tariff lines 6513, 652, 653, 655 and 657 of the SITC rev. 2.*
***** = Tariff line 84 of the SITC rev. 2.*

A recent study of Nigeria's cotton industry highlights the critical need to drastically reduce the high cost of value added activities at all stages of the value chain process to become profitable and competitive (World Bank 2004). In particular, capital charges, utility costs, labor productivity and logistical costs are the key cost components to minimize. For instance, according to that study, capital charges (depreciation and debt interest charges) represent 28 percent of yarn production costs, 43 percent of the cost to produce grey cloth and 15 percent of wax print production cost in Nigeria. Utilities, in the form of electricity and water account for 22 percent of yarn production costs, while electricity, water and steam (fuel generated) account for 46 percent of dying and printing costs. Without significant reduction of these costs, textile production in Benin will hardly be competitive. This is a serious handicap for existing firms, and a severe deterrent to potential new private investors. Intense competition from China at cheap prices in the lower segments of the market (including African prints) adds urgency to this problem. WAEMU has recently launched a regional initiative aimed at increasing the "regional" processing of raw cotton to 25 percent. Part of the initiative is to reduce energy costs through the West Africa Power Pool, which seeks to reduce costs by increasing trade and supply of energy. This is a step in the right direction and may help attract investment in the sector.

***Reform Prospects***. Notwithstanding the ambitious official goal to increase the percentage of locally processed cotton to 25 percent from less than 3 percent at present, it is not evident that Benin has a comparative advantage in textiles, such as spinning and weaving. The textile industry—as opposed to apparel assembly—is capital- and energy intensive. On the other hand, preferences granted under AGOA to clothing made with African thread and cloth provides an impetus for increasing textile production, as demonstrated by Mali's success in attracting investment away from Mauritius.

An alternative for Benin is to export raw cotton and import cloth to make clothing, taking advantage of the high labor intensity of clothing. At present, Benin has no industrial-scale production of apparel. The preferences accorded to African garment makers through AGOA could provide an impetus to both textile and apparel production in countries such as Benin.

First, AGOA gives preferential access to the U.S. market for clothing exports that use African-made thread and cloth.[78] Mali has taken advantage of this incentive and Benin could follow suit. However, the development of a viable textile industry can only be considered if the business climate becomes much more attractive, as discussed in previous chapters. Certainly, cotton farmers should not subsidize through lower producer prices any quixotic attempts to jump-start a local textile industry.

Second, since Benin is exempt from the sourcing requirement in Africa, it is eligible to export clothing to United States free of duty using cloth made in Asia or elsewhere, through 2007. Therefore, at this moment, Benin could in principle export raw cotton, import cloth, and export apparel. This, too, would require an improvement in the business climate, notably a reduction in trade transactions costs. The state-owned textile factories should be privatized while encouraging entry of apparel producers.

### 9.5 High Priority Issues for the Cotton Sector

(a) Benin has adopted bold reforms, but faces grave difficulties, because of the downward trend of world prices and, more importantly, the unraveling of the elaborate new structures.

(b) At the international level, Benin should work with its WAEMU and ECOWAS partners to lobby for more open world markets, and especially a reduction of developed country subsidies and agricultural support. Benin does not have the luxury, however, of using developed country subsidies as an excuse to avoid further domestic restructuring of the cotton sector.

(c) The government should urgently address the flaws in the reforms, not by going back to the old-vertically-integrated system, which is out of the question, but by enforcing the new system and reconfiguring where necessary, particularly with regard to the role of the government. Further liberalization of pricing and greater scope for competitive bidding should be combined with tougher enforcement of rules and sanctioning of opportunistic and illegal behavior. The two 2003 government decrees affirming the primacy of the CSPR must be enforced. Given the weaknesses of the judiciary in Benin discussed in Chapter 6, strengthening the existing arbitration system should be considered.

(d) The possibilities of further up-stream processing of cotton fibres should be explored, but it is not at all clear at this moment that Benin has a comparative

[78] The AGOA restriction that textiles (thread and cloth) must be produced either in Africa or the United States for clothing exports to benefit from U.S. tariff preferences is waived for least developed countries, including Benin, through September 2007. The restriction on sourcing of textiles applies to countries such as Mauritius and South Africa, who therefore have an incentive to source thread and cloth production in African countries such as Benin.

advantage in industries such as thread and cloth, which are quite capital-intensive, and any attempts (e.g. lower prices) to promote cotton processing should not be at producers' expense. Improving the overall business climate to attract private investors, as discussed in previous chapters, is the precondition for a viable cotton-processing sector. The state-owned textile factories should be privatized or liquidated.

# 10. EXPORT DIVERSIFICATION : *AGRICULTURE, FISHING AND TOURISM*[79]

Reducing dependence on cotton and transit is a central priority for Benin. Several promising sources of export diversification are discussed in this chapter. This list is meant to be illustrative rather than exhaustive. Indeed, it is difficult to predict in advance which sectors will be most successful, and this must be left to market forces for the most part. Instead, the purpose is primarily to ascertain the broader constraints facing all fledgling sectors rather than to identify future "winners" and "losers". Section 10.1 focuses on agriculture, Section 10.2 on agro-processing, Section 10.3 on shrimp and Section 10.4 on tourism, with summary recommendations for high priority actions presented in Section 10.5.

## 10.1 Agriculture

With about two-thirds of the population still residing in rural areas, raising the demand for labor via non-traditional agricultural exports seems both desirable and feasible in a country with generally favorable soil conditions and rainfall. At present, aside from cotton, most agricultural production is oriented towards self-sufficiency or local consumption, with low and erratic levels of exports. Maize and manioc together occupy about 50 percent of cultivated land, but a negligible fraction of exports. Cotton dominates exports, but uses only 15 percent of cultivated land. Aside from cotton, a few other sectors appear to demonstrate comparative advantage, but have only scratched the surface of their full potential. These include cashew nuts, pineapples, shea butter, and, most recently, hot peppers. Figure 10.1 shows that fresh fruits and nuts have risen to close to 10 percent of merchandise exports.

**Cashew Nuts**.

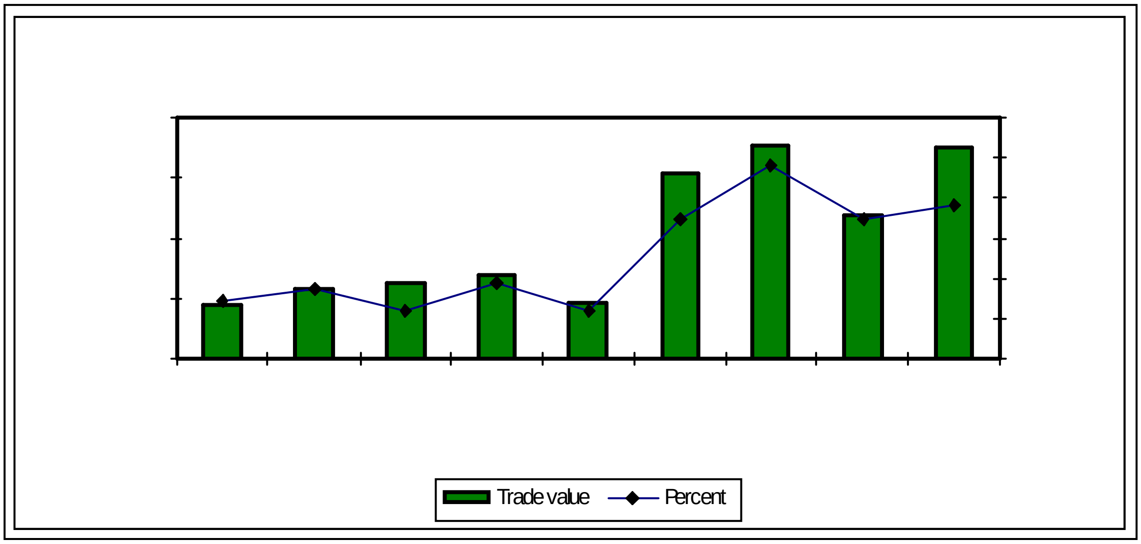
**Recent Developments.** Cashew nut exports have risen sharply in recent years, tripling in volume and quadrupling in value between 1998 and 2002, and are now the second most important export after cotton. Production is increasingly organized to take advantage of export opportunities. The sector is dominated by five Indian and Pakistani firms, and the bulk of exports are shipped unprocessed to India, where they are shelled and then re-exported to developed countries, particularly the United States.

The superior quality of Benin's cashews, along with rising world demand for this product, suggests substantial potential gains from developing this sector. In addition, cashew nut trees have environmental benefits in that they arrest deforestation.

**Constraints.** Notwithstanding the impressive growth of cashew nut production and exports, the sector remains handicapped by a number of constraints.

[79] This chapter draws on reports prepared by Semako Yebe and Joseph Tomatis.

**Figure 10.1: Benin: fresh fruits and nuts, 1994- 2002.**




*Source: UN COMTRADE August 2004*

(a) **Technical assistance** to producers is insufficient. Government assistance has shrunk in the wake of budget cuts and has only partially been filled by the PADSE and some NGOs, adversely affecting quality control and productivity.

(b) **Inputs** such as fertilizer and insecticides are not readily available. Producers fall back on products intended for cotton, which unfortunately are not always appropriate, resulting in vulnerability to pests and lower crop yields. Inputs for cashew nuts do not benefit from the same tax advantages as cotton inputs.

(c) **Producers lack access to credit** from financial markets for working capital. They either have to pay cash for inputs or borrow from wholesalers and buyers at very high interest rates.

(d) **Marketing** is disorganized and haphazard. Furthermore, producers are in a weak bargaining position due to lack of information and organization. There is no organization that defends the interests of the producers. There are a variety of unregulated intermediaries between the farmers and the large cashew nut trading companies that operate in a disorganized and sometimes dishonest way. According to a recent study (INRAB-PAPA 2004), producers have much lower profit margins than purchasers. There are indications that the foreign buyers act as effective monopsonists and use their political clout to limit competition, by predatory pricing and through their political influence. It is alleged that when they face incipient competition from local processors, these traders raise their price temporarily to eliminate competition, and then lower it again when the local processors shut down. Article 5 of a December 1999 edict from the Ministry of Commerce prohibits exporters from transacting with cashew nut producers, further limiting competition.

(e) **Infrastructure** is inadequate. There are no storage depots for nuts at the village level. Producers sometimes store their nuts for up to eight months in their huts in rather primitive conditions, adversely affecting product quality. The poor condition of rural roads handicaps transport of the product, which is sold in small quantities, carried by bicycle or motorbike to the village wholesaler before they are sent to national wholesalers in Cotonou. On the way to Cotonou, truckers must contend with frequent police and other checkpoints and the associated payoffs, further raising costs and lowering the price paid to producers. A detailed value-chain analysis of the cashew nut sector could highlight where reforms could enhance value-added in Benin.

**Other Promising Agriculture Exports.**

**Shea butter.** Since the privatization of the SONICOG (Societé Nationale des Industries de Corps Gras) in the mid 1990s, formal production of shea butter (*beurre de carité*) has largely disappeared. Shea butter is now mostly exported in unprocessed form by the same trading companies that dominate the cashew nut business. The INRAB (Institut National de Recherche Agricole du Benin) is trying to promote this crop, but it faces the same array of constraints as cashew nuts.

**Pineapples.** Pineapple exports started in 1992 for Benin, and have rapidly acquired a good reputation in Europe, particularly France and Belgium. Production and exports have been erratic, however. Exports surged to over 2,000 tons in 1995, dropped precipitously to under 300 tons in both 1998 and 1999, and have since gradually risen back to just over 1,000 tons in 2002. Pineapple production suffers from some of the same types of problems faced by cashew nut producers. Unlike cashew nut producers, however, pineapple producers have several organizations representing their interests, and do not have to contend with an analogue of the Indo-Pakistani lobby. Nonetheless, they remain quite weak and disorganized. The absence of technical assistance with regard to production and quality control, lack of access to credit, and high transport costs all adversely affect production and sales. CEBENOR has been very slow in assisting the sector in upgrading norms to European market exigencies. Transport costs and infrastructure are particularly important impediments, from the farm gate to the European market. Road transport from the farm to the airport is impeded by the same types of hassles faced by cashew nut producers. The airport has no refrigerated warehouse for fresh produce, and air freight is very expensive.

**Box 10.1: A tale of two products: manioc and hot peppers**

In a well-intentioned attempt to diversify exports, President Kerekou launched an initiative in 1999 to promote manioc pellets (*cossettes*) with the goal of exporting them to France for animal feed. One billion CFA franc in subsidies and subsidized loans (at a 5 percent interest rate) to manioc producers have been provided every year since 1999 by the Benin government with support from some multilateral development institutions (the West African Development Bank and the International Fund for Agricultural Development). Unfortunately, this effort proved disastrous. Production rose sharply, but buyers were nowhere to be found, resulting in plummeting prices. The recovery rate on the loan component of the program has been a paltry 25 percent. The problem was that the government had neglected the marketing component. Producers lacked the requisite knowledge of product specifications for the French market, so their *cossettes* did not meet French quality standards. Moreover, the expressions of interest on the part of certain French buyers with connections to the Benin government proved to be opportunistic and ephemeral. The peasants ultimately suffered the most from this fiasco. Hoping to find a lucrative alternative to cotton in regions less well suited to the latter, peasants ended up even worse off. A second attempt to spur manioc exports is underway under the JITAP II program. It is to be hoped that the errors of the first episode will have been properly remedied.

In contrast to manioc, hot peppers have emerged as an unanticipated new export crop. Since 1999, they have been exported to Senegal, Nigeria and France, with exports going from negligible in 1999 to 127 tons in 2003. This was achieved with no assistance from government of any sort. Private Beninese entrepreneurs introduced the *elysée* variety of peppers from Cote D'Ivoire that is well suited to local conditions and superior to the varieties previously cultivated in Benin with regards to shelf life, and commercialized the product themselves. Notwithstanding the success of this venture, production remains handicapped by lack of appropriate inputs—as for other producers they use inputs intended for cotton— and the total absence of any technical assistance. Some regions are still producing the older, inferior varieties of hot peppers, reflecting lack of information about the new products and export opportunities.

The contrasting cases of manioc and hot peppers illustrate in a nutshell the lessons for government policy. Government cannot usurp the proper role of markets in finding unexpected opportunities for products which are in demand in foreign markets and in which Benin has a comparative advantage. Heavy-handed attempts to target certain products risk failure. At the same time, market forces must be supplemented by government provision of public goods such as technical assistance and market infrastructure.

**Reform Prospects and Recommendations for Other Export Products.** As seen in the case of cotton, the availability of market-supporting institutions is a precondition for the development of markets. Export sales to developed country markets require attention to quality, price, timeliness and regularity of deliveries. Such capabilities cannot easily be developed and should be facilitated by government support agencies. But, as noted earlier, these support agencies apparently perform poorly. Success in exporting products such as cashew nuts and pineapples require a coherent set of government policies that create a more propitious environment and aid producers, all while leaving ample play for market forces.

The proper role for policy is to provide a generally favorable environment for investment and the requisite public services. such as infrastructure and assistance to growers (research, dissemination of information, contract enforcement). The government should probably stop short of targeting particular crops, however, as the ill-fated example of manioc suggests. The manioc example also points to the importance of marketing and attention to quality control and norms. It would be helpful to study the lessons from other countries that have had some success in diversifying agricultural exports, e.g., Tanzania and Mozambique in cashew nuts and Ghana in pineapples. In that context, the government should consider the following concrete measures:

(a) Encourage the creation of a producer organization for cashew nut growers and strengthen the organization for pineapple growers. Because producer organizations may hardly have countervailing monopoly power, and because growers need alternatives it would be useful to attract "fair trade" or " alternative" trade organizations to help develop alternative outlets and provide competition in face of monopsonistic buyers .

(b) Provide technical assistance to farmers in the areas quality control, access to credit, marketing, etc.

(c) Improve rural roads, storage facilities, including refrigerated storage at airport

(d) Give similar treatment to cashew nut producers, other farmers and cotton growers to ensure equity in fiscal incentives and other benefits received.

## 10.2 Agro-processing

**Current Situation**. Benin's agro-processing industry, aside from cotton, is in an even more embryonic state that non-cotton agriculture. Palm oil production, formerly exported to France and the region, has declined dramatically since the 1980s, and nothing has replaced it.

There were several ill-fated attempts to spur cashew nut processing, which is quite labor intensive, unlike cotton spinning and weaving. In the 1970s a cashew nut processing plant was established by the SNAFOR but it closed in the early 1980s due to low productivity associated with frequent machinery breakdowns and poor management. Another cashew nut processing plant SEPT started operation in 1999 but it lasted only until 2002, having failed to operate profitably. AGRICAL was also recently set up but has never operated because of a problem of dust from a nearby upwind SONAPRA cotton-ginning mill.

As in the case of cotton discussed in the previous chapter, improvements in the business climate are the place to start. Beyond that, the government should engage the Indo-Pakistani firms in a dialogue to ascertain the barriers to local processing that would appear to be in everyone's self-interest, since the trading firms would save on transport costs and Benin would gain employment and income.

Aside from cotton- and cashew-nut processing, there are a few small fruit juice bottlers and other fruit and vegetable processing plants that struggle to compete locally let alone export.

**Constraints**. The underdeveloped state of agricultural processing seems like an opportunity to be seized. The case of cashew nuts is both puzzling and revealing. Why can't Indo-Pakistani process Benin's cashew nut locally for direct export to the United States and

Europe? Why can't local factories compete with Indo-Pakistani traders who buy the raw nuts, ship them to India and then export the shelled nuts to developed countries?

It seems that local cashew processors are unable to compete with the price offered by the Indo-Pakistani traders, notwithstanding the extra transport costs that the latter must incur. Insofar as this is true, it suggests that Benin's factories are inefficient and the country may be better off exporting raw nuts rather than engaging in processing. On the other hand, if there are high start-up costs, perhaps an infant industry argument can be made that Benin has a potential comparative advantage in processing, but that government assistance is necessary in the initial stages.

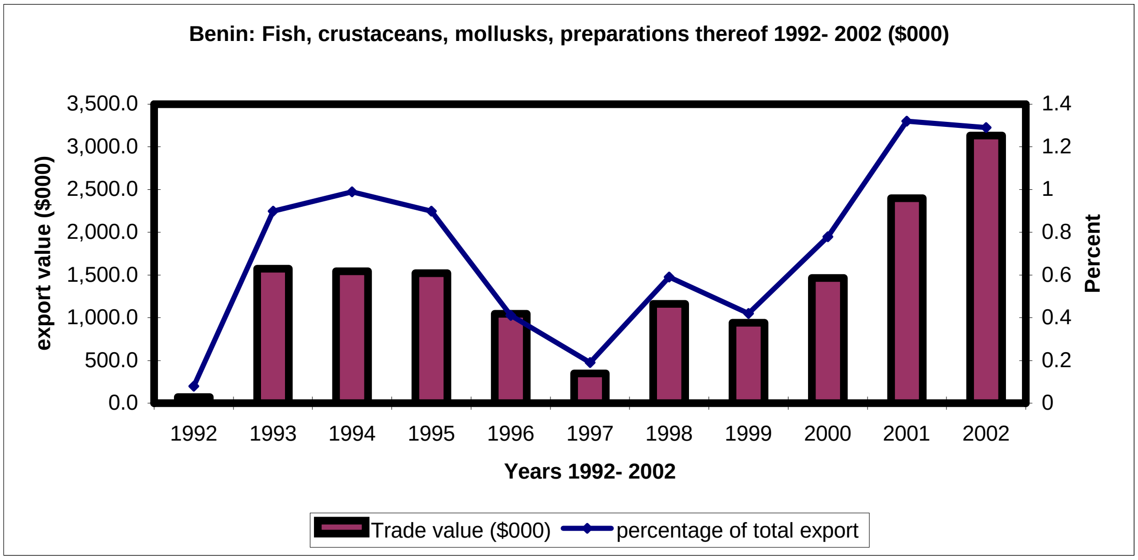
If the goal is poverty alleviation, any assistance to processors cannot take the form of reduced prices to growers or large subsidies that bleed the government budget. Such old-fashioned industrial policies are largely discredited throughout the world and especially in Africa where they have almost never led to competitive industries. Certainly, tax exemptions in an improved Code des Investissements can play a useful role. The most important step, however, is to increase competitiveness by raising productivity. Low productivity in agro-processing has the same fundamental origins as low productivity in primary products: lack of managerial and technical know-how, poorly functioning infrastructure, and high transport costs. The fundamental problem, therefore, is providing effective technical assistance to producers and improving the quality of public services: the port, customs, support institutions, the judiciary, infrastructure, etc.

**Reform Prospects and Recommendations**. The new EIPA in cooperation with efforts from multilateral institutions and bilateral donors should provide technical assistance to entrepreneurs in access to credit, quality control, and marketing. Barriers to entry and anti-competitive practices should be investigated and sanctioned.

### 10.3 Shrimp and Fishing products.

**Current Situation**. As with tropical fruit, fishing products are in rising demand in Europe. Benin's fish exports, consisting mostly of shrimp, represent about 1 percent of exports (see Figure 10.3). Benin's shelled shrimp are of very high quality and are highly prized in Europe, commanding a premium of 1.5 to 2 Euros a kilo over other shrimp from the region. The whole sector is highly labor intensive. Shrimp processing factories currently employ about 10,000 workers, with the capacity to increase to 18,000. The factories are supplied by 45,000 artisanal fishermen.

**Figure 10.2: Benin: Fish, crustaceans, mollucks, preparations thereof.**




**Constraints**. Unfortunately, the government has imposed a "voluntary" moratorium on exports of shrimp since July 2003 due to concerns that the industry is not up to European norms. This moratorium has nothing do with the quality of the shrimp themselves. Instead, it reflects lack of quality control mechanisms and supervision by the designated governmental authorities. A mission from the EU in 2002 found that the Direction des Peches (Fishing Authority) had failed to implement the EU-mandated HACCP (Hazard Analysis Critical Control Point) quality control system in effect since 1995 but with a grace period until 2003 for Benin. Moreover, the absence of accredited laboratories for sanitary analysis is a further obstacle to meeting European norms. The government is now taking firm measures to deal with both of these dimensions of satisfying European norms, and it is hoped that the auto-suspension of exports will soon be lifted.

If the problem is not resolved soon, firms such as CRUSTAMER that have invested heavily in Benin face serious difficulties and may relocate to other countries. At present, these firms are exporting their shrimp to Nigeria at a 20 percent discount.

The shrimp industry is additionally handicapped by high factor costs and tax burdens. As it is not considered an industrial sector, shrimp processing does not qualify for preferential rates on water and electricity. The disincentives associated with the system of taxation noted in Chapters 6 and 8, involving various small taxes (*taxe de voirie*) and port fees adding up to about 5 percent, and the failure to promptly reimburse value added taxes on inputs, are sources of competitive disadvantage relative to other shrimp producing countries, namely Senegal, Mauritania, Tunisia, and Morocco.

**Reform Prospects.** Raising quality and norms to European levels is again an example of a partial public good where the government must assist the private sector in establishing viable structures such as laboratories and qualified inspectors. Government efforts, however, remain insufficient, and should be accelerated. CEBENOR and/or the new EIPA should work with the

European Union to make sure the laboratories and inspectors are functioning effectively, with the EU providing financial and technical assistance.

### 10.4 Tourism.

**Current Situation.** With political stability, a favorable climate, and a friendly population, tourism seems to be a promising industry for Benin**.** Tourism is very labor-intensive and a good source of employment growth, but is embryonic in Benin. In 2000, there were only 16,000 arrivals of holiday travelers. About 7,000 were Europeans, and half those were French. The other 9,000 were predominantly from other West African countries. This compares unfavorably with other countries like Ghana and Senegal. Business travel, mostly associated with development assistance and public sector activities, accounts for the bulk of foreign visitors to Benin.

Benin has substantial tourist attractions but little effort has gone into their development. The little investment to date has focused on the game parks in the northern part of the country. A case can be made, however, that the most promising tourist destinations are in the south, with its coastal beaches and historical attractions. While Benin's geographical and cultural assets may be inferior to those of Senegal, they are not negligible. Benin's significant advantages feature:

- A relatively short distance from Europe
- A warm and dry weather for tourists seeking a break from the European winter
- A friendly population and relative security for visitors
- Attractive and diverse natural scenery
- A rich cultural heritage and folklore: the birthplace of Voodoo; the historical legacy of the slave trade and the colonial period; and picturesque villages, especially Ganvié, a sort of African Venice.

Benin has taken only limited steps so far to develop its tourism potential. Starting in the mid-1990s, the Ministry of Culture, Traditional Crafts, and Tourism (MCAT) initiated various projects, mostly in the north, but obstacles remain. These include:

(a) **The high cost of airfare** associated with Air France's near monopoly on serving Cotonou, since the dissolution of Air Afrique and the withdrawal of charter companies. The market for air travel in West Africa is in considerable flux with a number of new entrants in Cote D'Ivoire and elsewhere. Therefore, the air travel constraint may to some extent automatically resolve itself should sufficient demand for travel to Benin emerge.

(b) **The near-absence of resort hotels on the coast**, the most promising site for tourist development. To start, Benin's long-term aim is a threshold of some 2,000 beds in hotels of international standing on the Route des Peches. To draw tourists, Benin must establish itself as a combination beach resort and cultural discovery. To do so, Benin must protect and enhance its natural and cultural attractions such as Abomey, Ouidah, Ganvié, Porto Novo and Cotonou.

(c) **Insecure land title and high land prices**. Land in the Cotonou area is four times more expensive than in Cote D'Ivoire because property rights to land are not well defined in Beninese law. Investment in hotels will not occur until the government improves property rights to land, as discussed in Chapter 6.

(d) **Non-existent investment promotion**. The fiscal system is not conducive to investment in tourism facilities. The tax burden of nearly 20 percent on hotels in Benin (mainly due to the value added tax of 18.6 percent) is far above those in other countries in the region (e.g., 5 percent in Cote D'Ivoire). Hotels do not qualify for reduced industrial electricity rates. Countries such as Egypt and Morocco have boosted hotel construction by granting significant temporary tax exemptions to new hotel installations as well as ensuring secure land title, as suggested above.

(e) **Weak Institutional Support**. The MCAT lacks resources as well as know-how. Historic and environmental enhancement and preservation as well as marketing Benin's image in Europe receive very little attention. There is no hotel that acts as a training facility for hotel management and staff.

Benin's long-term objective should be to spur investment in small tourist-oriented hotels. Investment in hotels must be based on commercial considerations rather than government subsidies. The government can, however, help ameliorate the above constraints, in particular, by increasing the attractiveness of Benin as a destination by promoting its most prominent cultural sights in the Ouidah-Abomey-Porto Novo triangle. An additional potential marketing ploy would be to sponsor an annual Voodoo and/or music festival. If successful, these ventures could perhaps attract some 20,000 to 30,000 additional tourists to Benin. A secondary emphasis would be to upgrade the game parks in the north. All of this requires a commitment by the government to operate in a transparent and effective manner.

**Reform Prospects and Recommendations.** The government should consider developing a section of the coast for a hotel/resort complex in the Ouidah, Porto Novo, Abome vicinity and opening a competition for a lead developer. The MCAT could promote a Voodoo and/or music festival as a way to attract additional visitors. This in turn could lead to additional supply of airlines serving Cotonou, increasing competition and reducing costs. In addition, fiscal and other incentives should be made more conducive to tourist development, and technical assistance to MCAT should be provided. The proposed EIPA, acting as tourism board, should take the lead for promoting tourism.

### 10.5 High Priority Trade Diversification Issues

(a) Benin has had limited success in diversifying exports away from cotton and transit. In fact, most of the limited agro-processing industries of the 1970s and 80s have either collapsed or are dysfunctional. Yet the country seems to have potential in various raw and processed tropical agricultural products, tourism, and fishing.

(b) Institutional weaknesses appear to account for many of the difficulties faced by these fledgling industries. Successful export diversification requires a partnership between the private and public sectors. Investment must be left to market forces, but such investment will not be forthcoming if the public sector does not provide a supportive environment in the form of adequate infrastructure and public services, assistance to entrepreneurs and farmers, and attractive investment incentives. Unfortunately, these conditions are not fulfilled in Benin.

(c) **Agriculture**. Rural Benin is dominated by smallholder farms. Such farmers can only prosper in the presence of certain basic public goods: infrastructure and knowledge about production techniques, quality control, and foreign markets. In addition, in the absence of a well-defined legal environment, access to credit is problematic. In the case of cotton, an elaborate market infrastructure with substantial government oversight has been constructed such that farmers receive technical assistance, inputs, credit, and are not responsible for marketing their product abroad. Other crops have been almost completely ignored by the government. The result is that production is erratic and may fail to satisfy foreign norms and quality stipulations. Farmers resort to using cotton inputs for other crops given the unavailability of more appropriate inputs. The Ministry of Agriculture and the trade support institutions must collaborate to provide targeted production, marketing and credit assistance and incentives, and reinforce producer organizations. Investments in infrastructure such as rural roads and storage areas must be undertaken, with assistance from donors. Non-cotton inputs should receive the same duty exemptions as cotton inputs.

(d) **Agro-Processing**. Agro-processing is almost non-existent outside of cotton. Again, technical assistance with production, quality control, marketing, etc., is necessary. The system of investment incentives is ineffective and should be reconfigured. Most importantly, however, is to improve the business climate: factor costs, the judiciary, the port and customs.

(e) **Fishing**. The paramount problem is satisfying European norms. Here the ball is in the government's court. The establishment of accredited laboratories and inspection mechanisms are critical to lifting the moratorium on shrimp exports.

(f) **Tourism.** The MCAT should work with private developers in identifying a tract of land on the coast for hotel development, and then make this land available securely to the private sector, upon the condition that the investors respect the overall plan of development, namely a number of small tasteful hotels well adapted to Benin's environment and potential. At the same time, the government must invest in the preservation of the natural and environmental attractions of the country, such as Abomey and Ganvié. Technical assistance must be offered to both the MCAT and traditional crafts. Tourist events such as a Voodoo festival should be considered. The export promotion agency should market these attractions in Europe and possibly to people of African descent in the United States and Brazil.

# 11. TRADE AND POVERTY[80]

This chapter analyzes the links between product markets, trade, and poverty.[81] As discussed in Chapter 2, rapid growth in cotton exports and re-export activities to Nigeria were essential growth factors in the 1990s. These two engines have played a major role in generating employment, income, and fiscal revenue for the country, thus contributing to poverty reduction and to the significant improvements in some key social indicators. Since 2001, however, these two economic pillars face profound difficulties. The causes include: developments in global agricultural markets, sporadic trade policy tightening by Nigeria, and cotton sector domestic management problems. This chapter looks at the distributional and macroeconomic impacts of these events in Benin.

Section 11.1 examines the short-run effects of global agricultural trade liberalization on the well being of the poor in Benin. The starting point is that world markets for Benin's major exports (cotton) and food imports (cereals, dairy products, meats and sugar) are heavily distorted by domestic supports, high tariffs, and export subsidies, resulting in artificially depressed world prices (Aksoy and Beghin, 2004). Removing these distortions will increase world prices but Beninese households would be affected differently across product categories and income groups. Using new, nationally representative household survey data and a simple micro simulation model, we analyze the distributional welfare impacts of given increases in the price of cotton.

Section 11.2 examines the longer-run macro-economic effects of trade policy changes in Benin and its trading partners. In particular, a comparative static general equilibrium model (CGE) is used to estimate the macroeconomic effects of the following two trade regime shifts: (i) An improvement in the world price of cotton, notably due to the elimination of the support in high- and middle-income countries and; (ii) reform in Nigeria that would dampen if not eliminate the significant entrepôt activities developed in Benin for neighboring importers to avoid the burdensome trade barriers. Section 11.3 concludes with a chapter wrap-up.

## 11.1 Direct Effects of Global Agricultural Trade Liberalization on Benin

***Possible Trade Regime Changes in World Cotton and Food Markets.*** Because world agricultural markets are heavily distorted by high tariffs, domestic assistance and export subsidies, agriculture has emerged as one of the most contentious issues in the current Doha Round multilateral trade negotiations. Lack of agreement on agriculture between developed and developing countries was one of the major reasons for the failure of the Cancun Ministerial Meeting in 2003. Since then, some progress has been achieved, with developing countries extracting some concessions. In July 2004, as noted in Chapter 4, a framework agreement was reached on the general principles of trade liberalization in agriculture. While the crucial technical modalities are yet to be determined, it was agreed that export subsidies will be eliminated, distorting farm subsidies will be reduced, tariffs will be cut to a "significant" extent, and cotton

[80] This chapter draws on a report prepared by Ndiame Diop and Dominique Van Der Mensbrugghe.
[81] See Winters (2000), McCulloch (2003), Dollar and Kraay (2001), Berg and Krueger (2002) for analyses of the links between trade, growth, and poverty reduction.

will be given appropriate attention within the framework of agricultural negotiations[82]. This section analyzes the potential short-term impacts of agricultural trade liberalization on Beninese households. [83]

As noted in Chapter 3, Benin's trade pattern is marked by the overwhelming dominance of cotton on the export side. Benin is a substantial net importer of food, however, so the country's overall position vis-à-vis agricultural trade liberalization is less clear-cut than sometimes presented. Net food imports amounted to about half of cotton exports in 2002, or $55 million (Table A11.1). Meat products are the single largest net import item ($28.7 million) followed by cereals ($23 million), dairy products ($15.1 million) and sugar ($9.2 million). Benin's net exports of oils ($12.3 million) and fruits and vegetables ($5.6 million) are too low to overturn the food trade deficit.

A fraction of Benin's food imports, however, are re-exported to Nigeria, especially meat, dairy, and sugar products (see Table 4.4, Chapter 4). Effective net food imports may therefore be substantially lower than official figures suggest. Benin's trade deficit in food products reflects the combination of two sets of factors: a low productivity in agriculture and heavy distortions in world food markets. According to FAO data, if cereal yields in Benin are slightly above the Sub-Saharan Africa average, they represent only 32 percent of developing Asia's yields and 18-20 percent of the yield levels reached in the EU, the United States and Japan. The low level of agricultural productivity reflects the use of backward technologies, low fertilizer use and state under-investment in agriculture (World Bank 2003b)

The major agricultural products imported and exported by Benin are subject to heavy distortions in world markets. Table A11.2 shows the extent of these distortions in the OECD countries for cereals, sugar, meats and dairy.[84] OECD support to farmers, measured by the Producer Support Estimate (PSE),[1] is largest for milk ($41 billion), followed by meats ($37 billion), rice ($22.5 billion), maize ($7.6 billion) and sugar ($6.4 billion). The support received by rice is, however, the highest among all crops supported when measured as a percentage of its price, leading to a nominal protection rate of 4.6. Rice support represents 80 percent of its price, against 45 percent for dairy and sugar, and 35 percent for maize[1].

Global cotton subsidies are much lower than for these food products. But its impact on Benin is much larger, due to the importance of this product in Benin's overall trade and economy (see Chapter 9). Indeed, as noted above, the total net food imports are only equal to half the value of cotton exports. Thus the focus on the cotton effects of global trade liberalization. Since distortions in agricultural markets artificially lower world prices, their partial or complete removal will have the effect of increasing the latter.[85] For cotton, FAPRI (2002) showed that under global agricultural liberalization world cotton prices would increase, on average, by 12.7

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[82] For export subsidies, the main unknown is the date of complete elimination; for tariffs, the exact degree of tariff reduction (bands and thresholds) are to be negotiated; for farm support, the level of reduction in distorting subsidies is also left for future negotiations.
[83] We focus here on the direct short run impact; analysis of the indirect effects is beyond the scope of this chapter.
[84] OECD grants over 90 percent of export subsidies and trade-distorting domestic subsidies that are notified to the WTO.
[85] Predicted world price effects of multilateral elimination of distortions in rice, dairy, sugar and meat markets are shown in Table A11.2.

percent. Using similar methods, Sumner (2004) reports price increases following different scenarios for cotton reforms. On average, his findings indicate an expected increase of 11.58 percent in world cotton prices.[86] Most of the price increases stem from elimination of U.S. domestic supports. The simulations in this paper will be based on an increase of 13 percent of world prices as a result of trade liberalization. As we shall see, the impact on Benin's cotton households will be significant on average, but different across farmers.

***The Distributional Impact of World Price Changes.*** We use an extended version of Deaton's (Deaton 1989) net benefit ratio (NBR) to assess the short and medium term direct distributional impact of cotton price changes on household welfare in Benin.[87] Under this framework, the short-run effects of cotton price changes on household incomes are directly proportional to the share of income derived from cotton in total income. The NBR can be interpreted as the "before-response" or "impact" elasticity of real income with respect to the price of that commodity. It captures a *short-term welfare impact*, i.e., before households adjust their consumption and production through substitution effects. From the NBR, it is straightforward to calculate an extended version that captures the effects after adjustment of supply and demand. Since cotton is almost entirely exported, the extended version only includes a supply response. The calculations were made assuming hypothetical supply elasticities of 0.5, 1 and 1.5 (See Minot and Daniels 2002).

Data on household income used for this analysis are taken from the 2003 *Questionnaire des Indicateurs de Base du Bien Etre* (QUIBB or Core Welfare Indicators). The QUIBB is a nationally representative survey of 5,350 households conducted in 2002. Reflecting national patterns, the majority of the households interviewed live in rural areas, where the incidence of poverty is highest. About three-quarters of the Beninese poor reside in rural areas, where agriculture in general, and cotton farming in particular, is the main economic activity. We adopt a relative poverty line, set at the 30th percentile of per capita income, implying that the three bottom deciles are considered as poor. Defined as such, the national poverty incidence is 42 percent.[88]

Table11.1 characterizes Beninese households by showing the structure of income by expenditure decile, using data from the QUIBB survey.[89] Sale of agricultural products (food crops and cash crops) is the major source of income for the average household in Benin but is particularly important for the poor for whom it provides almost half of total income (Table 11.1). Cotton makes up 7.8 percent of average income (8.4 for rural households versus 4.6 percent for urban households). However, when we look at cotton growers, cotton represents a very large share of their incomes. In particular:

- Cotton represents 48 percent of cotton farmers' income, on average;
- It makes up 45.6 percent of poor growers' income (bottom three deciles), versus 37.8 percent for the richest (top three deciles). The income group that depends most on cotton

[86] See also Baffes (2004), Goreux et al. (2003), FAPRI (2002), Sumner (2003) and Quirke (2002).
[87] See Diop and Van Der Mensbrugghe for more details.
[88] This definition of poverty is convenient since we are comparing poverty before and after a shock.
[89] See Table A2 and A3 in annex for a breakdown of income sources and consumption composition along various lines.

for income is the middle class (4th through 7th decile), for which it represents 53.5 percent of total income;

- The breakdown by farm size shows a contribution of 52 percent to the income of small cotton farmers versus 48 and 47 percent for the medium and large farmers;[90]

- Finally, the contribution of cotton to income varies widely across Benin's 12 *"departements,"* or provinces, reflecting differences in agro-ecological conditions and availability of other economic opportunities. Cotton is most important in the north and central provinces (Borgou, Atacora, and Zou), which are Benin's poorest. In the richer southern part of the country (coastal region), the availability of other economic opportunities makes cotton a small contributor to total incomes. The poverty-reducing effects of cotton price increases will thus tend to have high spillover impact on overall poverty.

**Table 11.1: Structure of Income by Decile**

| Decile | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
|---|---|---|---|---|---|---|---|---|---|---|
| | Poorest | | | | | | | | | Richest |
| Sale of agric. products | 47.6 | 43.8 | 48.5 | 43.5 | 40.2 | 36.3 | 31.6 | 30.6 | 33.5 | 14.4 |
| Sales of food crops | 23.2 | 24.5 | 22.3 | 19.9 | 16.5 | 14.0 | 12.2 | 10.6 | 9.8 | 4.0 |
| Sorgho/riz/mais/mil | 12.9 | 11.9 | 10.6 | 9.0 | 8.5 | 6.9 | 5.9 | 4.7 | 5.2 | 2.1 |
| Fruits | 0.8 | 0.6 | 0.6 | 0.9 | 0.6 | 0.6 | 0.5 | 0.3 | 0.7 | 0.4 |
| Sales of industrial crops | 10.3 | 13.1 | 15.7 | 15.0 | 15.1 | 14.4 | 11.3 | 14.0 | 17.1 | 3.9 |
| Cotton | 2.8 | 6.0 | 8.7 | 8.5 | 9.3 | 8.9 | 6.9 | 10.8 | 14.1 | 2.3 |
| Groundnut | 4.1 | 3.5 | 4.0 | 3.5 | 2.9 | 2.5 | 2.2 | 1.8 | 1.9 | 0.7 |
| Other industrial crops | 3.1 | 2.9 | 1.9 | 2.0 | 1.5 | 1.8 | 1.5 | 0.9 | 0.8 | 0.3 |
| Livestock sales | 7.0 | 3.0 | 3.5 | 3.7 | 3.5 | 3.1 | 3.8 | 3.5 | 4.1 | 3.4 |
| Sale of dairy products | 0.7 | 0.3 | 0.5 | 0.6 | 0.3 | 0.4 | 0.2 | 0.1 | 0.3 | 0.9 |
| Sale of other ag products** | 6.3 | 2.9 | 6.4 | 4.3 | 4.7 | 4.4 | 4.2 | 2.3 | 2.3 | 2.3 |
| Agricultural wages | 6.3 | 5.0 | 4.0 | 4.2 | 3.4 | 1.9 | 1.7 | 1.7 | 0.8 | 1.3 |
| Non-ag activities*** | 28.6 | 30.7 | 30.9 | 32.6 | 38.2 | 39.4 | 41.9 | 44.1 | 37.5 | 42.4 |
| Private sector wages | 3.8 | 3.5 | 4.7 | 5.6 | 9.3 | 10.5 | 12.4 | 11.9 | 10.4 | 15.1 |
| Public sector wages | 1.4 | 0.9 | 1.0 | 1.1 | 2.1 | 5.0 | 6.2 | 7.2 | 11.5 | 18.3 |
| Gifts | 14.1 | 14.0 | 9.0 | 11.3 | 6.1 | 5.9 | 5.1 | 3.9 | 3.5 | 3.7 |
| Transfers | 3.6 | 4.2 | 4.2 | 3.6 | 2.3 | 3.0 | 3.5 | 3.3 | 4.6 | 5.0 |
| Rent | 0.5 | 0.3 | 0.3 | 0.9 | 0.9 | 1.2 | 0.8 | 0.5 | 1.2 | 3.2 |
| Total Income | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |

Source: Calculated from the Questionnaire on Welfare Indicators ("QUIBB"), 2004.
Note: * Coffee, sugar and tobacco
** Sale of maize and sorghum beer, fisheries and coal
*** Commerce, handicraft, etc.

Using the methodology briefly described above and assuming hypothetical supply elasticities,[91] we have conducted several simulations of the potential impacts of global

[90] Small farms are those below 1 ha, medium farms have a size between 1 and 5 ha, and large farms are those above 5 ha. The average farm size among cotton growers is 2.1 ha.
[91] The hypothetical elasticities are found in the literature on Benin. The wide range of elasticity provide for a sensitivity analysis.

liberalization in cotton. Table 11.3 reports the changes in real income (welfare) resulting from a 13 percent increase in cotton producer prices.[92]

A uniform cotton producer price hike of 13 percent would raise producers' income by 7.6 percent on average, a significant increase. This average, however, hides differentiated impacts across various income groups and locations. In particular:

- Poor cotton producers would enjoy a 6.3 percent increase in income, reflecting the importance of cotton in their incomes. This income boost would reduce poverty among cotton farmers by 7.6 percent on average, a significant increase.

- The largest short term income increase occurs in the "upper-middle" class among cotton farmers. Producers in the 8th decile would enjoy, on average, a 9.2 percent increase in income, reflecting the high contribution of cotton to the income for this group;

- Not surprisingly, there is a wide disparity in the effects by province, mirroring the regional importance of cotton. The northern provinces, which are the poorest, will benefit the most from cotton price increases. Cotton producers in Borgou would experience about an 8.5 percent increase in income, while those located in Mono would see a rise of only about 4.5 percent. Households in the Atlantic department province, where the capital is located, are unaffected since they do not produce cotton.

- Small cotton farmers would enjoy a greater increase than large farmers, with an income boost of 10 percent against 7 percent for producers with farms that exceed 5 ha;

- Finally, the impact of cotton price increase on cotton farmers' income is, as expected, stronger in the medium run, when supply adjustment takes place. Furthermore, the higher the supply elasticity, the larger the welfare gains. Cotton farmers' average income would jump to 8.7 percent with a supply elasticity of 1.5, against +7.9 percent with a supply elasticity of 1. This underscores the importance of facilitating supply response to maximize the potential benefits from producer price increases.

These findings are consistent with estimates found in the literature overall. Minot and Daniels (2003) have found a strong impact of cotton prices changes on rural welfare in Benin. However, they are based on a sample of only farm households from a 1998 survey. Specifically, these authors find that a 40 percent reduction in farm-level prices of cotton results in an increase in rural poverty of 8 percentage points in the short-run, and 6-7 percentage points in the long run.

[92] Producer prices are averaged by arrondissement such that farmers in the same arrondissement face the same producer price.

**Table 11.2: Impact of a 13 percent increase in cotton prices on real income**

| Decile | Share of cotton income | Short-term impact on real income | Change in real income after supply adjustment: elasticity=1 | Change in real income after supply adjustment: elasticity=1.5 |
|---|---|---|---|---|
| poorest | 0.32 | 0.053 | 0.055 | 0.061 |
| 2 | 0.56 | 0.062 | 0.065 | 0.071 |
| 3 | 0.50 | 0.077 | 0.082 | 0.092 |
| The "poor" | **0.46** | **0.064** | **0.068** | **0.074** |
| 4 | 0.54 | 0.074 | 0.078 | 0.084 |
| 5 | 0.52 | 0.082 | 0.086 | 0.094 |
| 6 | 0.55 | 0.078 | 0.081 | 0.087 |
| 7 | 0.45 | 0.080 | 0.084 | 0.092 |
| 8 | 0.52 | 0.093 | 0.098 | 0.107 |
| 9 | 0.45 | 0.084 | 0.089 | 0.098 |
| Richest | 0.17 | 0.034 | 0.037 | 0.042 |
| Total | 0.48 | 0.076 | 0.080 | 0.088 |

*Source: authors' calculations using Benin CWIQ*

**The Mediating Effect of the Producer Price Fixing Mechanism**. The simulations above show that to the extent provided they are *fully* transmitted to producers, increases in world cotton prices will unambiguously benefit Beninese households while decreases in international prices will hurt them. As noted in Chapter 9, Benin's cotton sector is, however, not yet fully liberalized and the extent to which world price changes translate into changes in producer prices still depends on the producer price setting mechanism put in place by the government.

The short-term welfare impact of a Doha agreement on cotton will thus depend partly on the evolution of the price fixing mechanism as the cotton economy is liberalized in Benin.[93] A complete liberalization of the cotton economy (symbolized by the privatization of SONAPRA, which has been launched but is unfinished) means that cotton farmers might receive higher prices for their output, increasing their income. On the other hand, the dismantling of SONAPRA and efforts to deregulate other aspects of cotton production also mean that the government will no longer buffer the impact of international price movements, exposing farmers' incomes to greater risk. The decision to completely liberalize the cotton economy should also take into account the fact that SONAPRA offers critical services to small farmers (seeds, fertilizer, transport, quality control, technical advice, etc.) and disruption of such services will jeopardize production and exports.

Nevertheless, the poverty impact of world cotton price shifts is in any case likely to be important in Benin insofar as an increase in cotton revenues may translate into higher government expenditures on social programs.

[93] Many segments of the cotton economy have been liberalized gradually since 1992, to allow the private sector to play a greater role. These include: subcontracting to private firms the transportation of seed cotton from collection markets to ginneries, and of lint to ports; allowing local private companies to market the lint and arrange exports (1996-97); and giving a more important role to the cotton producers' organizations in input management and the collection of seed cotton (initiated in 1991-92 and completed in 1995-96).

### 11.2 Macro Effects of Policy Changes

This section examines the longer-run macroeconomic effects of trade policy changes in Benin and in its trading partners, based on a comparative static general equilibrium model.[94] The following scenarios have been analyzed:

- A 20 percent rise in the world price of cotton, notably due to the elimination of the subsidies in high- and middle-income countries.
- A cutoff of re-exports due to reform in neighboring countries—particularly Nigeria—that would dampen if not eliminate the significant entrepôt activities in Benin.

We use a classical comparative static general equilibrium model (CGE) to assess the macroeconomic impact of such trade regime shifts. The first change is captured by an increase of 20 percent in the world price of cotton. This is most likely in the upper range of potential changes in world cotton prices from elimination of high- and middle-income country support for cotton. Since output is based on a CET transformation function, the change in the producer price will not line-up directly and perfectly with the change in the export price.

Setting the volume of re-exports to zero captures the second change.[95] This has two impacts on the national economy. First, it lowers tariff revenues. We have assumed that imports destined for re-export enter at the same tax rate as imports destined for the local economy. These are compensated by an increase in household taxation (or a decrease in public transfers to households).[96] The second impact is on the domestic trade and transport sector. This will notably have labor multiplier effects as the national demand for trade and transportation services decline. Those associated with the re-export sector are estimated to represent around 4 percent of GDP.[97]

Table 11.4 provides a summary overview of the macroeconomic impacts of these three possible policy changes. The first simulation, labeled "COTTON", indicates that a rise in cotton prices would be highly beneficial for Benin in the aggregate. GDP would increase by some 1.3 percent, with significant rises in both private consumption and investment. There is a downside for non-cotton exporters. The rise in the price of cotton would lead to almost a 10 percent real appreciation for Benin, leading to a loss of competitiveness for non-cotton exporters and a sharp decline in these exports (an un-weighted average of 28 percent). This is the standard

[94] The results should be viewed as suggestive, particularly given the somewhat imprecise nature of the underlying database and the assumptions required to close the model.

[95] This is somewhat of an extreme assumption. Even if its neighbors were to significantly reform their trade regime, it is quite likely that Benin would continue to act as an entrepôt, and could even conceivably see an expansion should imports towards (and exports from) its neighbors take off. Clearly, Hong Kong has seen significant benefits from China's trade expansion.

[96] There are three critical closure rules in the model. First, the government's net fiscal position is exogenous. Hence changes in tariff revenues are compensated by changes in household taxes (in the form of lump-sum taxes). Second, investment is savings driven. With public and foreign savings fixed, changes in investment are largely driven by changes in domestic private savings. However, relative price changes can also have an impact on investment. If for example imported investment goods are taxed, a reduction in tariffs will lead to a boost in investment all else equal.

[97] We have estimated re-exports to represent roughly 13 percent of total imports (at CIF prices), and 26 percent of total exports (at FOB prices). The total domestic markup is about 70 percent allocated between import tariffs and the trade and transport margin.

manifestation of the 'Dutch' disease, where non-traditional exports are crowded out by a boom in the traditional sector.

The elimination of re-exports would entail a fall of GDP in Benin, according to the simulation REEXPORT, for two reasons. First, it lowers tariff revenues. We have assumed that imports destined for re-export enter at the same tax rate as imports destined for the local economy. The second impact is on the domestic trade and transport sector. Those associated with the re-export sector are estimated to represent around 4 percent of GDP.

**Table 11.3: Macroeconomic Impacts of Trade Regime Changes**

| | Cotton | Re-Export |
|---|---|---|
| GDP | 1.3 | -1.6 |
| Private consumption | 2.5 | -2 |
| Government expenditures | 0 | 0 |
| Investment | 4.4 | -2.1 |
| Exports | 3.8 | -16.7 |
| Normal exports | 5.1 | 12.8 |
| Re-exports | 0 | -100 |
| Imports | 7 | -14.7 |
| Normal imports | 8 | -2.2 |
| Re-exports | 0 | -100 |
| Nominal disposable income | 9 | -3.3 |
| Real disposable income | 2.6 | -2 |
| Real exchange rate | 9.4 | -1.9 |
| Terms of trade | 5.4 | -1.2 |
| Absorption price | 5.5 | -1.2 |
| Consumer price index | 6.3 | -1.3 |
| Wage rate | 8.6 | -1 |
| Real wage | 2.3 | 0.3 |
| Return to capital | 10.3 | -3 |
| Real return to capital | 4 | -1.7 |

*Cotton: 20 percent decline in cotton prices. Re-Export: Elimination of re-export trade*
*Source: World Bank staff simulations*

## 11.3 High Priority Trade and Poverty Issues

A multilateral trade liberalization package will have multiple effects on Benin. Any liberalization of the global cotton market and reduction of subsidies in developed counties will benefit Benin substantially, although the short run effects on poverty are mitigated by the administered producer price-fixing mechanism. On the other hand, liberalization of food prices could adversely affect the country in the short run, given that Benin's is a net food importer. In the longer run, simulations show that increases in cotton prices could spur growth as investment and consumption increase. Macroeconomic simulations also highlight Benin's vulnerability to reductions in re-exports to Nigeria.

To fully benefit from the opportunities presented by a potential multilateral trade agreement along the lines of the Doha agenda, Benin should move to shore up its cotton sector, as described in Chapter 9, promote export diversification (see Chapter 10) and more generally improve the institutional environment for business (see Chapters 5-8).

# 12. STRATEGY AND ACTION PROGRAM FOR MAINSTREAMING TRADE

This chapter summarizes the central conclusions of the report and the plan of action to promote poverty reduction and economic growth through integration in the global economy, in light of the particularities of Benin's economic and political situation and the constraints it faces abroad and at home. Section 12.1 stresses the key messages from the study and the Action Matrix. Section 12.2 focuses on the technical assistance dimension of achieving these objectives. Section 12.3 provides a list of more specific actions to be taken. Section 12.4 highlights prerequisites for success. Section 12.5 summarizes implementation and progress monitoring. Section 12.6 concludes with next steps.

## 12.1 Key Messages

This DTIS has emphasized a number of Benin's strengths and achievements to date. The transition to a market economy since 1990 has paid off in solid growth and some moderate improvements in social indicators. At the same time Benin's economy remains highly dependent on transit and re-exports trade with Nigeria, and on cotton, both of which are in crisis. The industrial sector is embryonic and non-cotton agriculture is disorganized. The twin challenges are to shore up Benin's strengths in cotton and transit while promoting export diversification.

The most important precondition for achieving these objectives is improvement in the institutional environment rather than sector-specific subsidies that the country can ill afford and are subject to abuse. Benin's favorable geographical location, calm social climate and political stability are conducive to foreign and domestic investment, if only the business climate improves.[98] Moreover, with appropriate reforms at home, Benin's booming informal trade can mutate into more diversified and organized forms as Nigeria liberalizes its economy, just as Hong Kong adapted to China's opening in 1978.

(a) **Trade Facilitation.** To consolidate its position as a trading hub for the region, Benin must reduce trade transaction costs, via improvements in the functioning of port customs. Reduced delays, costs and hassles at the port and in transit within the country would boost Benin's competitiveness directly. Equally important, this would send a strong signal to investors that Benin is an attractive place to do business. Customs should focus its efforts on improving trade facilitation and dismantling the large smuggling networks that operate with relative impunity, while reducing controls on formal enterprises.

(b) **Trade Support Institutions**. The plethora of trade and investment support institutions must be consolidated and rationalized into a single Export and Investment Promotion Agency (EIPA). At its helm should be an individual with the clout to advance the cause of Benin's productivity and integration into the global economy. The EIPA should be staffed with private sector product and process professionals, not public servants.

[98] The importance of the investment climate is emphasized by World Bank (2004).

(c) **Public Services.** The quality of public services for business must be improved. The highest priority areas are: deficiencies in the judiciary and legal system (notably training of judges and property rights to land) and the high cost and poor quality of telecommunications and electricity.

(d) **Cotton Sector Reforms**. Benin should continue to press for reductions in global cotton subsidies, while consolidating domestic reforms. The latter entails enforcing sanctions on opportunistic agents and continuing to liberalize pricing and entry.

(e) **Regional Integration.** Benin should continue to use regional integration as a vehicle for reform. In particular, Benin should work with its neighbors, most notably Nigeria, to encourage official trade while curtailing smuggling and corruption.

The Action Matrix proposes a detailed list of specific recommendations to these ends.

## 12.2 High Priority Reforms to Promote Poverty Reduction, Growth Through Trade

*Macroeconomic Policy*

- Increase revenues by improving customs and domestic tax collection and expanding the tax base and pursuing delinquent taxpayers.

*Trade Policy*

- Continue to work with the Nigerian government to implement the memorandum of Badagry to regularize the status of transit between the two countries and promote official trade while curbing smuggling.

- Implement the free trade zone in such a way as to avoid the failures of the existing duty drawback and exemption mechanisms, which have been dysfunctional in Benin for a long time. This involves application of strict eligibility criteria while encouraging new investment through simple and transparent procedures.

*Overall Business Climate and Competitiveness*

- Efforts to improve infrastructure through privatization and improved regulation should be pursued. In this regard, the telecommunications part of OPT should be restarted, along with the creation of a regulatory agency and a legal framework. The regulatory agency should foster a competitive environment with a view to the dissemination of new information technologies in Benin. Likewise, for electricity, the government should accelerate the lagging privatization of the SBEE, and reform the legal and regulatory setting for production and distribution of electric power to allow for competition in the former.

- The legal system must be developed and made more transparent, especially regarding competition and land tenure. Likewise, the performance of the judiciary must be addressed. The OHADA harmonization within WAEMU is a promising lever with which to address some of these problems such as better training of judges and improved legal codes. Land titling is the most pressing problem and should be addressed through a streamlined title registry system and a simplification of registration procedures.

- Benin should revise the Code des Investissements with a view to creating a simplified system of investment procedures and incentives, possibly along the lines of that instituted in Cote D'Ivoire in 1995.

*Trade Facilitation*

- Improved functioning of the port, including a revised statute providing greater autonomy to the private sector, a defined traffic plan, greater security at entry and exit points and within the port, computerization, improved parking for trucks, expanded warehouse space, and liberalization of cargo handling services.

- Reformed customs operations focusing on reducing discretionary actions by officials, simplified and transparent procedures, more selective inspections, increased use of modern payment methods, and making the one-stop-stops (*guichet unique*) operational. Transit should be tracked via record-keeping rather than customs escorts, which have proved ineffective. Most important, the strategy against smuggling should focus on identification and sanctioning of large smuggling rings rather than harassment of traders and shippers.

- Improved road transportation through better maintenance of roads and sharply reduced number of checkpoints. The ECOWAS TRIE or other fiscal identifier should identify a truck as having fulfilled its customs obligations and be recognized at checkpoints without further inspections.

*Trade Support Institutions*

- The EIPA should be involved in assisting entrepreneurs obtain credit and provide marketing, quality control and other technical assistance. In addition, the director of the EIPA should be a strong advocate for improvement of the business climate, working closely with key ministries.

*Cotton Sector*

- At the international level, Benin should work with its WAEMU and ECOWAS partners to lobby for more open world markets, and especially a reduction of developed country subsidies.

- The government must urgently address the flaws in the reforms, not by going back to the old-vertically-integrated system -- which is out of the question -- but by enforcing the new system and reconfiguring, where necessary, particularly with regard to the role of the government. Further pricing liberalization and greater scope for competitive bidding must be combined with tougher enforcement of rules and sanctioning of opportunistic and illegal behavior. The two 2003 government decrees affirming the primacy of the CSPR must be enforced. Given the weaknesses of the judiciary in Benin, strengthening the present arbitration system should be a priority.

*Export Diversification*

- Agriculture. The Ministry of Agriculture, donors and the trade support institutions must collaborate to provide targeted production, marketing and credit assistance and incentives, and reinforce producer organizations. Investments in infrastructure, such as rural roads and stockage areas, must be undertaken with assistance from donors. Non-cotton inputs should receive the same duty exemptions as cotton inputs.

- Agro-Processing. Technical assistance with production, quality control, marketing, etc. is necessary and should be provided by support institutions. The current system of investment incentives is ineffective and should be reconfigured. Most important, however, is to improve the business climate, namely, factor costs, the judiciary, the port and customs.

- Fishing. The establishment of accredited laboratories and inspection mechanisms through joint efforts of CEBENOR (or the new EIPA) and donors are key to lifting the moratorium on shrimp exports.

- Tourism**.** The MCAT should work with private developers in identifying a tract of land on the coast for hotel development, and then lease this land securely to the private sector. At the same time, the government must invest in the preservation of the natural and environmental attractions of the country. Technical assistance must be offered to both the MCAT and traditional crafts. Tourist events such as a Voodoo or music festival should be considered. The export promotion agency should market these attractions in Europe and possibly to populations of African descent in the United States and Brazil.

### 12.3 Areas in Need of Trade-Related Technical Assistance.

Trade-related technical assistance would be beneficial in reinforcing progress in the following areas:

1. **Port Organization, Procedures and Infrastructure**. Port management should be assisted in its efforts to reorganize the port, including making the *guichet unique* functional, improving circulation within the port, rationalizing the various agencies operating at the port, and computerization.

2. **Customs Administration**. Customs requires help in designing a more effective strategy to combat smuggling. This would include improved recording of trade flows, especially to ensure that transit shipments' destinations are verified, thus

eliminating the need for costly and ineffective customs escorts. Outside expertise should be sought in establishing a single fiscal identifier that would obviate multiple controls at the port and along the roads.

3. **Trade Support Institutions**. Benin's government should be apprised of current best practices in terms of export and investment promotion, and in implementing a consolidation of its multiple existing support institutions.

4. **Export Promotion.** The implementation of a well-functioning free trade zone should be guided by the lessons learned from the successes and failures of other countries.

5. **Legal and Tax Reform**. Technical assistance is required to help Benin move towards a more modern legal and tax system, notably in the areas of land titling, competition policy, investment code, and increasing the tax base. As much as possible, Benin should continue to harmonize its legal, taxation, and regulatory policies within WAEMU.

6. **Public Utilities.** Modernization of electricity and telecommunications infrastructure can only be achieved by adapting Benin's regulatory environment to attract strategic foreign partners. Assistance is required to revamp the regulatory environment.

7. **Cotton Sector**. To defuse the crisis in the cotton sector, Benin would benefit from assistance in strengthening the new private sector institutions and the legal framework in which they operate.

8. **Non-traditional Exports**. While largely the purview of the new Export and Investment Promotion Agency, international organizations and bilateral donors can also directly help provide technical assistance to farmers, fishing, agri-business and other emerging sectors with regard to quality control, marketing, finance, etc. For example, the European Union could assist shrimp firms in meeting EU norms, working in conjunction with CEBENOR and the new EIPA.

## 12.4 PrerEquisites for Success

The analysis of this DTIS draws on and complements on-going work in formulating an effective poverty-reduction and growth strategy. Implementing such a strategy, including an action plan for policy reform and elimination of obstacles to Benin's integration into regional and global markets would require:

(a) **Political commitment.** The Government of Benin will need to show a sustained, high level of commitment to, in words and deeds, to trade facilitation, investment climate, and institutional reforms needed to accelerate the country's integration into regional and global markets.

(b) **National ownership and shared vision of stakeholders.** National ownership of the reform process is a second absolute condition for success. Successful implementation of reforms requires that all stakeholders, including government institutions, the private sector, civil society, professional associations, and donors, accept and support the process. This requires coordination and sustained dialogue among the various private and public actors. A series of trade-specific workshops bringing together all concerned parties to raise trade issues in the context of the PRSP will contribute to that aim.

(c) **Enhanced coordination of implementation and monitoring of reforms**. Given the wide range of reforms envisaged in the proposed Action Plan, an effective institutional framework needs to be developed to oversee implementation. As part of the PRSP, this coordination strategy should be closely linked to the PRSP Secretariat. Quarterly progress reviews of ongoing actions will be essential, with priorities re-evaluated and adjusted as needed.

(d) **Continued peace and political stability**. Any success in meeting the challenges faced by Benin will depend on continued peace and stability to avoid the mistakes of some neighboring countries.

(e) **Prioritization of actions.** This will be critical to maximizing the returns to the overall economy.

## 12.5 Implementation and Progress Monitoring

Successful implementation of the proposed strategy and Action Plan will depend on the effectiveness of coordination and monitoring arrangements. The development of monitoring indicators for the economic impact of this strategy is the first step toward ensuring sustainability. The Action Plan provides action-specific monitoring indicators that will enable stakeholders to monitor progress in fulfilling each of the strategy components. In addition to these micro-level indicators, effective impact measurement will require the monitoring of a range of macro-level, socioeconomic non-oil sector indicators. Possible macro-indicators are summarized in Box 12-1.

**Box 12.1: Checklist of Macroeconomic Indicators**

- Exports of high-quality cotton
- Non-traditional export flows (exports, re-exports
- Foreign and local direct investment
- Number of new enterprises in traditional and non-traditional sectors (gross receipts, wages and salaries, imported inputs, local expenditures
- SME investments (value and number of enterprises) and exports
- Value-added in non-traditional sectors
- Employment in non-traditional sectors
- Poverty levels in rural and urban areas
- Public expenditures in infrastructure (transportation)
- Private investments in public utilities (water, electricity, telephone)

## 12.6 Next Steps

This strategy and Action Plan are just the first steps in the proposed reform process. They will be discussed in a trade National Workshop at which findings will be presented, stakeholders informed, and a broad based consensus reached on the Action Matrix. The National Workshop will be convened in March 2005, and will bring together government officials, academia, professional associations, the private sector, and the diplomatic community. Participants will review the preliminary findings and policy recommendations of this report, as well as the draft Action Matrix. Preparatory debate and discussion of the draft DTIS will be organized at the technical level to provide vital input prior to the National Workshop.

When a consensus is reached on the orientation of policy reforms, the intent of the government is to implement reform measures as soon as possible. However, timing will be linked to the availability of appropriate external financial and technical-assistance support.

Following discussions of the report at the workshop, the next step involves formal government endorsement of the Action Matrix, adoption of the DTIS, and indications of donor interest.

**Government endorsement.** High-level endorsement and approval of the strategy set out in this report will launch implementation. Endorsement of the initiatives by the government and private sector leaders -- and announcement of the initial priority projects -- will generate momentum and demonstrate the government's ownership of, and commitment to, the trade agenda. A public awareness-building campaign will be formulated and executed.

**Presentation to donors.** Benin would not be able to achieve its social and economic objectives without the support of the international community. This report has identified urgent needs for trade-related technical assistance to the government. Effective communication of the strategy and its rationale will encourage donors and multilateral institutions to respond quickly and generously to these needs. Full implementation of this strategy will require substantial financial resources.

**Public awareness campaign.** The campaign, using radio, TV, press, and pamphlets, will enlist local support.

**Integration into the country's CAS and PRSP.** Following government endorsement of the strategy and action plan, it should be integrated into the PRSP as a full-fledged pillar of Benin's Poverty Reduction Strategy, and its implementation reflected in the Bank's CAS.

**Table 12.1: Strategy Endorsement and Launch**

| Key Event | Timeframe | Responsibility |
|---|---|---|
| National workshop to present findings and recommendations | June 2005 | Ministry of Trade and Industry (MTI), Min. of Finance (MOF) |
| Government endorsement of the strategy and agreement on priority actions | July 2005 | President, PRSP, MTI MOF, MOP, & key inst. |
| Presentation to donors and other stakeholders | September 2005 and thereafter | MTI, MOF,MOP |
| Public awareness campaign | September 2005 and thereafter | MTI, Min. of Communications. |
| Integration in CAS and PRSP | Around end 2005, as part of the CAS and PRSP update | MTI, MOF,MOP |

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