



Report Number: ICRR0023331

## 1. Program Information

**Country**

Benin

**Practice Area (Lead)**

Macroeconomics, Trade and Investment

**Programmatic DPF**
**Planned Operations**

2

**Approved Operations**

2

**Operation ID**

P168668

**Operation Name**

Benin FMST DPO1

**L/C/TF Number(s)**

IDA-65260,IDA-66940,IDA-D5460,IDA-D6670

**Closing Date (Original)**

31-Dec-2020

**Total Financing (USD)**

151,644,023.96

**Bank Approval Date**

12-Dec-2019

**Closing Date (Actual)**

31-Dec-2020

**IBRD/IDA (USD)**
**Co-financing (USD)**

Original Commitment

100,000,000.00

0.00

Revised Commitment

150,000,000.00

0.00

Actual

151,644,023.96

0.00

**Country**

Benin

**Practice Area (Lead)**

Macroeconomics, Trade and Investment

**Operation ID**

P172749

**Operation Name**

Benin FMST DPO2 ( P172749 )



<b>L/C/TF Number(s)</b> IDA-65260,IDA-66940,IDA-68060,IDA-D5460,IDA-D6670,IDA-D7530	<b>Closing Date (Original)</b> 31-Dec-2021	<b>Total Financing (USD)</b> 103928776.59
<b>Bank Approval Date</b> 16-Dec-2020	<b>Closing Date (Actual)</b> 31-Dec-2021	
	<b>IBRD/IDA (USD)</b>	<b>Co-financing (USD)</b>
Original Commitment	100,000,000.00	0.00
Revised Commitment	100,000,000.00	0.00
Actual	103,928,776.59	0.00

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## 2. Program Objectives and Pillars/Policy Areas

### a. Objectives

The Fiscal Management and Structural Transformation Development Policy Financing for Benin consisted of two single-tranche operations (FMST DPO1 and FMST DPO2) that were “designed to support GAP [Government Action Plan] to achieve faster, more inclusive, and sustained growth between 2016 and 2021” (ICR, para. 7; Program Document 2 [PD2], para. 4.1). The program development objectives (PDOs) were “to (i) strengthen fiscal and debt management, (ii) improve the financial sustainability of the energy sector, and (iii) foster the development of the digital economy” (ICR, para. 18).

### b. Pillars/Policy Areas

The series’ three pillars corresponded to the PDOs (ICR, paras. 20-22):

**“Pillar 1: ‘Strengthen fiscal and debt management’** to broaden the tax base, create fiscal space, and promote debt sustainability...was structured around (a) improving the efficiency of tax revenue mobilization and tax administration, and (b) strengthening debt management.

**Pillar 2: ‘Improve the financial sustainability of the energy sector’** to consolidate the Government of Benin’s (GoB’s) efforts to achieve the long-term sustainability of the energy sector... by: (i) improving the operational



performance of Benin Electricity Company (SBEE); (ii) ensuring the financial viability of SBEE; and (iii) promoting the use of renewable energy sources and increasing access to electricity.

**Pillar 3: ‘Foster the development of the digital economy’** to support the government’s efforts to reduce the digital divide and accelerate Benin’s structural transformation...[by] (i) fostering the development of trusted service providers; (ii) supporting investments in telecommunications infrastructures—chief among them fiber optic backbones; and (iii) supporting the establishment of the interoperability framework for digital platforms to allow for the development of the national portal for public services.”

### **c. Comments on Program Cost, Financing and Dates**

The total program cost of US\$ 250 million was financed through IDA grants in the amount of SDR 90.1 million (US\$ 125 million equivalent) and IDA credits in the amount of EUR 110.8 million (US\$ 125 million equivalent). FMST DPO1 originally was for US\$ 100 million, but received a supplement of US\$ 50 million in 2020 to help cope with the fiscal costs of the COVID-19 pandemic. FMST DPO2 was for US\$ 100 million. Each of the three operations (FMST1, FMST1 supplement, FMST2) was financed equally from an IDA grant and an IDA credit. Actual FMST1 disbursement on 27 December 2019, amounted to US\$ 100,487,914, with the supplement disbursed on 30 December 2020, in the amount of US\$ 51,156,110. FMST2 was disbursed on 30 December 2020, in the amount of US\$ 103,928,777. Actual disbursements totaled US\$ 255,572,801, exceeding the estimated amount due to exchange rate fluctuations.

## **3. Relevance of Design**

### **a. Relevance of Objectives**

This DPO series built upon the prior Fiscal Reform and Growth DPF series with the overall objective “to create fiscal space and bolster the structural transformation of the economy” (PD2, para. 1.1). The reform areas were critical for implementation of the GAP 2016–2021, which was “oriented toward accelerating structural transformation and enabling private sector development” (ICR, para. 3).

The PDOs directly addressed two of the “three binding constraints to medium-term economic and productivity growth identified in the 2017 Systematic Country Diagnostic (SCD): scarce public resources, low competitiveness, and infrastructure constraints - notably low access to electricity and digital services” (PD2, para. 1.5). Tax reforms under PDO1 to increase public resources were based on the analytical work and recommendations of the World Bank’s FY19 tax policy study in Benin (ICR, Table 5). PDO2 directly addressed “the poor financial viability of the electricity sector,” which was identified as a critical “bottleneck to its development” in a 2015 Policy Note on Energy (ICR, Table 5). PDO3 responded to background analysis for the SCD and Country Partnership Framework (CPF, 2018) regarding the legal and strategic frameworks needed for digital transformation.

These objectives and reform areas were suitable for World Bank involvement, and indeed the DPF series supported parallel investment projects (Public Investment Management and Governance Support; Energy Service Improvement; Digital Rural Transformation).



**Table 1: Objectives and Prior Actions (PAs) for Benin FMST DPO Series**

<b>PAs under DPO1</b>	<b>PAs under DPO2</b>
<b>Objective 1: Strengthen Fiscal and Debt Management</b>	
<i>Tax mobilization and administration</i>	
PA1: To increase tax revenue, the Recipient's President has adopted a decree transmitting to Parliament the Budget Law 2020: (i) elimination the exemptions of fees on property transactions, by re-institution of a 5 percent fee; (ii) increasing the excise tax rates on tobacco, alcoholic beverages, energy drinks and fruit juices; and (iii) increasing the corporate minimum tax by 0.25 percent.	PA2: To increase tax revenue, the Recipient has: (i) adopted a harmonized three-rate tax framework on personal income, property and profits from industrial and commercial activities, and capital gains on property as evidenced by the Budget Law 2020; and (ii) defined the application of the Transfer Pricing Tax Framework by the adoption of three arrêtés.
PA3: To improve tax administration, the Recipient's Ministry of Economy and Finance (MEF) has (i) adopted an <i>arrêté</i> which (i) sets up certification terms for an electronic tax payment system used by companies; issued (ii) a <i>circulaire</i> which contains its technical specifications; and (iii) a <i>circulaire</i> that expands electronic notification and payment coverage to medium-sized businesses located in the <i>Littoral, Atlantique and Borgou-Alibori</i> departments of the Recipient's territory.	PA4: To improve tax administration, the Recipient has (i) established a risk-based system for the accelerated reimbursement of Value-Added Tax (VAT); and (ii) set out the modalities for taxpayers to pay their Motor Vehicle Tax obligations through electronic means on a digital platform.
<i>Debt management</i>	
PA5: To improve debt management, the Recipient's MEF has adopted an <i>arrêté</i> on external borrowing requiring the prior approval of the National Commission for Indebtedness (CNE), through the issuance of a formal opinion, on the basis of (i) a face-to-face meeting for the approval of non-concessional or commercial loans, and concessional loans greater than FCFA 67 billion; or (ii) a virtual consultation by mail for other concessional loans.	PA6: To improve debt transparency the Recipient has instructed the Debt Management Agency (CAA) and the General Directorate in Charge of State-Owned Enterprises to: (i) annually publish the debt of SOEs on the CAA website no later than June 30 of the following Fiscal Year; and (ii) publish state-owned enterprise (SOE) debt for Fiscal Years 2017 to 2019 no later than December 31, 2020.
<b>Objective 2: Improve the Financial Sustainability of the Energy Sector</b>	
<i>Operational performance</i>	
PA7: To improve the technical performance of SBEE, the Recipient's Ministry of Energy and MEF have approved a recovery plan for the electricity sector for the period 2019-2022, including policies to reduce technical and non-technical losses.	PA8: To improve the operational performance of SBEE, SBEE and the Recipient have established key performance targets for SBEE for the period 2020-2023 consistent with the Recovery Plan for improving the financial performance of the electricity sector.
<i>Financial viability</i>	
PA9: To ensure the financial balance of the SBEE, the Recipient has (i) initiated a process to ensure that electricity bills are paid regularly to SBEE by public sector companies by signing Memoranda of Understanding with Benin's Stadiums Management Office; and (ii) approved an inter-ministerial <i>arrêté</i>	PA10: (i) To ensure financial viability of SBEE, the Recipient has caused the SBEE and Benin Electric Community (CEB) to enter into a Transport Service Agreement providing specific obligations for each entity to ensure an efficient and financially sustainable transmission of electricity, including an electricity



establishing a compensation mechanism under which it ensures the periodic payment of the revenue gap arising from electricity tariffs approved by the regulator and actual tariffs to enable SBEE to achieve its financial equilibrium.	transmission tariff; and (ii) to increase transparency, the Recipient has mandated that all SOEs annually publish the annual audit reports of their financial statements (including SBEE).
<b>Renewable energy</b>	
PA11: To promote renewable energy sources, the Recipient's Council of Ministers has adopted and submitted to Parliament, a draft Electricity Code which includes (i) a chapter on renewable energy and whose objective is to increase its share in the energy mix; and (ii) the designation of the responsible entity for its implementation.	PA12: To promote the use of renewable energy sources, the Recipient has (i) adopted a National Renewable Energy Development Policy; and (ii) specified the modalities to facilitate private sector participation in the energy sector.
<b>Objective 3: Foster the Development of the Digital Economy</b>	
<b>Trusted service providers</b>	
PA13: To guarantee the quality of digital services, the Recipient's Ministry of the Digital Sector, has adopted an <i>arrêté</i> creating the supervisory body for the trust[ed] service providers in accordance with the Recipient's <i>Code du Numérique</i> .	PA14: To improve the quality of digital services the Recipient has adopted a decree relating to the assignment, organization and operation of the Supervisory Body for Trust[ed] Service Providers.
<b>Investment in telecommunications infrastructure</b>	
PA15: To develop digital infrastructure, the Recipient's Council of Ministers has adopted a decree defining the new regulatory framework for the mutualization of Fiber-to-the-Home (FTTH) infrastructure.	PA16: To develop digital infrastructure and ensure competition in the telecommunication sector, the Recipient (i) has set up a regulatory framework establishing the modalities for obtaining authorization to deploy optical fiber cables throughout the country for all telecom operators in the Recipient's territory, and (ii) through the Beninese Agency for Universal Electronic Communications and Postal Services has adopted a universal access policy 2021-2025
<b>Interoperability for digital platforms</b>	
PA17: To promote the use of digital platforms, the Recipient's President has adopted a decree creating and operationalizing the National Agency for Security Information Systems (ANSSI).	PA18: To promote the use of digital platforms, the Recipient has (i) adopted a single framework for interoperability of digital platforms, and (ii) established the national portal for public services and established setting the rules for its management and use of said portal.

Source: ICR, Table 2.

## b. Relevance of Prior Actions

### Rationale



Each of the two DPOs had nine policy actions (PAs) in eight policy areas, with a total of 18 PAs and 31 specific sub-actions. The PAs in DPO2 directly built on those in DPO1 in each policy area. Although neither the ICR nor the PDs presented explicit results chains, the PDs clearly stated the rationale underlying each set of PAs, especially in terms of overcoming constraints and addressing gaps. Many of the actions established the regulatory, supervisory, and policy framework that was necessary for the intended results to be realized, although the ICR and PDs did not always spell out the further steps needed to achieve those results.

### Objective 1: Strengthen Fiscal and Debt Management

The design of PA1 and PA2 focused on the need “to increase tax revenue.” These measures directly addressed important sources of Benin’s low tax revenue collection relative to neighboring countries by eliminating exemptions, reintroducing fees, raising rates, and closing loopholes, covering all the major sources of revenue. Thus the reforms were comprehensive and capable of having a significant impact on total revenue collection. **Rating:** PA1: Highly Satisfactory; PA2: Highly Satisfactory

PA3 and PA4 addressed the need “to improve tax administration”. Most of the specific sub-actions laid the groundwork for expanded use of electronic means for tax payment, and thereby supported PDO3 as well as PDO1. These measures represented substantial contributions to the objective of strengthening fiscal administration. Accelerating VAT reimbursements was also expected to result in enhanced liquidity of private firms and an improved business climate. **Rating:** PA3: Satisfactory; PA4: Satisfactory

PA5 and PA6 carried forward measures to improve debt management and transparency, consistent with the post-Debt Management Performance Assessment (DeMPA) 2019 (PD, para. 2.13). The measures addressed gaps in the oversight and transparency of debt management, especially regarding non-guaranteed commercial debt of state-owned enterprises (SOEs) and on-lent loans, which can result in budgetary risks (PD2, para. 4.18). The TTLs reported that, while Benin had been making substantial and steady progress in improving debt management, lack of transparency and prior consultation to approve new debt had been identified as important weaknesses. These measures addressed the observed weaknesses in reporting and monitoring in order to strengthen the efforts of the National Commission for Indebtedness (CNE) to “bring together all the institutions involved in the debt chain” (PD2, para. 4.19). PA6 measures to increase transparency and accountability were intended to “reinforce the existing incentives to limit non-guaranteed debt of public enterprises” (PD2, para. 4.20). **Rating:** PA5: Satisfactory; PA6: Satisfactory

### Objective 2: Improve the Financial Sustainability of the Energy Sector

PA7 and PA8 were intended to improve the technical and operational performance of the *Société Béninoise d’Energie Electrique* (SBEE). The ICR (para. 31) reported that “the government started implementing a recovery plan in 2019, with both financial and technical measures,” so it is not evident based on the program documentation what value was added by PA7 requiring that such a recovery plan be adopted. PA8 was more relevant in introducing performance targets to be included in agreements signed with the operator, but there was no clear results chain from the setting of targets to defining and implementing the measures needed to achieve them. In-depth prior investigation of what steps are actually required to address technical challenges and to enhance revenue collection could have generated more specific actions to overcome barriers and an assessment of the time and resources required. **Rating:** PA7: Moderately Unsatisfactory; PA8: Moderately Unsatisfactory





PA9 and PA 10 were aimed at ensuring the financial balance, viability and transparency of SBEE. Key underlying causes of “the poor financial performance of both the public utility distribution company SBEE and the Togo-Beninese energy importing and transporting company CEB [were] technical losses, underpricing, and bill collection losses” (ICR, para. 31). PA9 addressed only the latter issue, with respect to payments by public sector companies and filling gaps resulting from tariff limitations imposed by the regulator. Program documentation was not clear how large a share of the collection losses was represented by these two types of shortfalls. Nonetheless, PD1 (para. 4.24) indicated that these measures would more closely align SBEE revenues with operating costs, with the expected result that it could better make needed capital investments that had been postponed when shortfalls were compensated by subsidies on an irregular basis. PD2 (para. 4.34) asserted that the Transport Service Agreement supported by PA 10 should ultimately reduce costs to consumers as a result of greater transparency with respect to costs and tariffs, making it easier to avoid hidden subsidies. And reducing electricity costs was seen as an important step toward improving the business climate for investment in Benin, given that the relatively high cost of electricity (“among the highest in the developing world”) was seen as “significantly hampering the competitiveness of the private sector” (PD1, para. 4.24 and Benin Electricity Sector Review Note, 2019,). **Rating:** PA9: Moderately Satisfactory; PA10: Moderately Satisfactory

PA 11 and PA 12 promoted renewable energy sources, which were seen as important to “achieving a sustainable energy mix through the adoption of new technologies,” increased competition, and “development of a least cost generation plan,” as specified in the 2020 Electricity Law (PD, para. 4.31). The actions were appropriate to strengthen the legal, policy and regulatory framework for investment in renewable energy and to clarify “Government responsibility of granting tax exemptions and/or subsidies to companies producing or promoting the production of renewable energy sources... and implement[ing] a national policy setting sound regulations on off-grid tariffs, off-grid coverage, incentives, etc.” (PD1, para. 4.28). The measures were seen as critical “to comply with the Nationally-Determined Commitments (NDCs) under the Paris Declaration,” in particular to facilitate implementation of contracts with independent power producers and the “development of solar plants ... with the support of the French Development Agency and the Millennium Challenge Corporation” (PD1, para. 4.28). While the intention to facilitate private investment in energy was explicit, the results chain from these actions to actual supply of renewable energy was not well articulated, and the “modalities” were not clearly specified, perhaps because the actions were carrying forward momentum that had already been established through those programs. **Rating:** PA 11: Moderately Satisfactory; PA 12 Satisfactory

### Objective 3: Foster the Development of the Digital Economy

PA 13 and PA 14 were intended to guarantee and improve the quality of digital services. Broadband penetration and the use of digital payments had been severely constrained in Benin by the monopoly role of the Benin Telecom SA and the consequent deterrence of investment by private operators in fiber optic infrastructure, internet exchange points and data centers (PD1, para. 4.32). The Benin Digital Sector analysis indicated that an additional constraint was that “private telecom operators willing to deploy fibre faced an unpredictable and unreliable regulatory process to obtain the authorization from the regulatory authority” (PD, para. 4.45 and Annex 4). These actions appropriately set up a supervisory framework as a condition for more competitive and well-regulated service provision, although the PD and ICR did not elaborate on what further steps would lead from establishment of the supervisory/regulatory framework to achievement of the desired result of increased investment by private service providers. Hence the need for a “study assessing the potential of the sector” (ICR, para. 47) to provide appropriate data and recommend incentives to attract private investors. **Rating:** PA 13: Moderately Satisfactory; PA 14: Moderately Satisfactory



PA 15 and PA 16 likewise addressed the regulatory framework needed to develop digital infrastructure and ensure competition. Development of the digital economy was at risk of being stifled by an “alarming lack of infrastructure on the fixed market” associated with the monopoly position of the public operator, which in 2020 was permitted to operate in the retail as well as wholesale market (PD2, para. 4.45). Mutual access to FTTH infrastructure was expected to “eventually decrease the marginal costs of investments....[and] unlock the operators’ ability to invest in coverage in rural areas” (PD1, para. 4.34). The measures to facilitate authorizations for fiber optic cables and adopt a universal access policy were especially important contributions to establishing conditions for the PDO to be achieved. **Rating:** PA 15: Satisfactory; PA 16: Satisfactory

PA 17 and PA 18 established further conditions to promote the use of digital platforms. Establishment of ANSSI to oversee cybersecurity was an enabling condition to build confidence in digital systems. The measures to establish interoperability across digital platforms and a national portal for public services were important steps to roll out digital delivery of public services, which can be an important driver of more widespread participation in the digital economy. **Rating:** PA 17: Satisfactory; PA 18: Satisfactory

## Rating

Satisfactory

## 4. Relevance of Results Indicators

### Rationale

The two operations used 11 results indicators (RIs) to measure the achievement of results of the nine pairs of PAs, generally focusing on one key measure relevant to the pair of PAs, though in three cases tracking the result of a specific sub-action. For the second operation, the team modified four of the original indicators to reflect better the realities on the ground (in particular to take into account the economic shocks associated with COVID-19) or better capture the intended result. Some of the indicators were more suitable as longer-term measures of progress toward objectives than of the implementation and effectiveness of specific PAs. The definition, baseline, and availability of data were generally clear and credible (except for SBEE’s operational deficit calculation).

**Table 2: Results indicators by objective and PAs; baseline and target values; status and achievement**

Results indicator (RI)	Associated PAs	RI Relevance	Baseline (2018)	Target (2021)	Actual (2021)	Actual as % of targeted change	RI Achievement rating
<b>Objective 1: Strengthen fiscal and debt management</b>							
RI 1: Domestic tax revenue (CFAF billion)*	PA 1	S	CFAF 482.9	+ 25%	+42%	167%	H





	PA 2		billion		(CFAF 684 billion)		
RI 2: Average lead time (number of days) for processing tax refunds*	PA 4	S	60 days	30 days	15 days	150%	H
RI 3: Share of taxpayers using the electronic system for e- invoicing of VAT and e-payments	PA 3 PA 4	S	0%	45%	68%	151%	H
RI 4: Debt management: Share of non-concessional and commercial loans approved after face-to-face consultations with the NDC [sic]	PA 5	MS	80%	100%	100%	100%	H
RI 5: Number of years for which the SOE debt statistics are published on the CAA website*	PA 6	S	0	4	4	100%	H
<b>Objective 2: Improve the financial sustainability of the energy sector</b>							
RI 6: Percentage of technical and commercial losses of SBEE	PA7 PA 8	MS	24%	20%	23.4%	15%	N
RI 7: Operational deficit of SBEE in percent of Operating Expenses	PA 9 PA 10	MS	- 20%	- 17%	+ 18%	700% of targeted reduction	S
RI 8: Photovoltaic capacity installed*	PA 11 PA 12	MS	0 MW	30 MW	25 MW (2022)	83%	S
<b>Objective 3: Foster the development of the digital economy</b>							
RI 9: Number of digital providers registered by the supervisory body	PA 13 PA 14	S	0	5	0 (2022)	0 %	N
RI 10: Access to broadband internet (percent of the population)	PA 15 PA 16	S	13.8%	20%	38.4%	410%	H
RI 11: Number of online services provided for citizens in the national portal of public services	PA 17 PA 18	MS	0	100	139	139%	H



\*Modified from FMST DPO1.

### **Objective 1: Strengthen Fiscal and Debt Management**

RI 1 (*domestic tax revenue*) directly measured the intended result of the various actions to raise taxes and end exemptions/loopholes and hence progress toward the objective of strengthening fiscal management. PD2 appropriately shifted the indicator from a percentage of GDP (which is susceptible to other factors influencing GDP) to the amount collected (though the outcome could still be affected by variations in other taxes that were not addressed in the PAs). Although the PDs/ICR did not specify the relative shares in total tax revenues of the taxes included in the PAs, and no sub-indicators were included to track performance of the major tax sources,



PD1 (para. 4.15) expected the “combination of measures supported by the proposed series ...to have an important impact on domestic tax revenue”). **Rating:** Satisfactory.

PD2 (para. 4.16) introduced RI 2 (*average lead time [number of days] for processing tax refunds*) as a sub-indicator of progress with respect to the reimbursement of VAT, which had been added to the PAs in DPO2. It related both to the PDO in terms of improved tax administration and to the overarching objective of enhancing private sector-led growth (by improving firms' liquidity). The indicator as defined related only to the *de jure* target for reimbursement, although the ICR (para. 42) reported the actual time taken. **Rating:** Satisfactory.

RI 3 (*share of taxpayers using the electronic system for e-invoicing of VAT and e-payments*) directly measured the actual impact of the measures in PA3 and PA4 on taxpayer utilization of electronic services. This was expected to lower compliance costs to taxpayers (thereby improving compliance and hence revenues), reduce opportunities for fraud, and strengthen audit control (PD1, paras. 4.13-14). Definition, measurement and data were clear and credible. **Rating:** Satisfactory.

RI 4 (*share of non-concessional and commercial loans approved after face-to-face consultations with the NDC*) was intended to track improvement in debt management through increased compliance with the requirement that all loan projects involving external borrowing be evaluated by the National Debt Commission (NDC or CNE) before signature by the Minister of Economy and Finance. “In practice, loan evaluation is not systematic” and only large loans were being referred, resulting in Benin being “poorly rated in the 2016 Debt Management Performance Assessment” (PD1, para. 4.16). RI 4 was intended to track how effectively PA 5 (requiring prior face-to-face evaluation by the NDC) was being implemented. The indicator as stated incorrectly refers to the share of loans approved *after* consultation, rather than the percentage of approved loans that had in fact been evaluated, but the TTL confirmed that the latter was what was intended and actually measured. The definition and measurement were not clear. **Rating:** Moderately Satisfactory.

RI 5 (*number of years for which the SOE debt statistics are published on the CAA website*) was introduced in DPO2 as a direct indicator of PA6 to improve debt transparency by posting current and past SOE debts on the agency website. Besides measuring implementation of PA6, this indicator represented good debt management practices (although the ICR, para. 43, noted “weaknesses related to the absence of monitoring SOEs' non-bank debt”). The definition and measurement were clear and credible. **Rating:** Satisfactory.

## Objective 2: Improve the Financial Sustainability of the Energy Sector

RI 6 (*percentage of technical and commercial losses of SBEE*) directly measured progress toward redressing major identified causes of SBEE's poor financial performance. Rather than tracking whether the specific actions in PA7 and PA8 were implemented, RI 6 appropriately indicated whether these measures were sufficient to produce the intended result of reduced losses, a key component of improving financial sustainability. However, the PD and ICR did not clarify if there is an important distinction between measures to address “technical” losses (“distributional, transmission, and collection rates,” PD1, para. 4.26) and “non-technical” (or “commercial”) losses (“underpricing and bill collection losses,” PD2, para. 4.24), nor did they specify the source of the data. While RI 7 comprises RI 6 along with other determinants of profitability, inclusion of RI 6 was important because it represents critical factors underlying long-term success in making SBEE financially self-sustainable. However, separate indicators for technical and commercial losses would have better clarified relative successes (or failures) and helped motivate appropriate actions. **Rating:** Moderately Satisfactory.



RI 7 (*operational deficit of SBEE in percent of operating expenses*) was an appropriate indicator of progress toward the objective of making SBEE financially sustainable, whether by addressing underlying inefficiencies (PA7 and PA8, as indicated by RI 6), ensuring payment by public sector companies (PA9), subsidizing revenue gaps (PA9), regulating transmission agreements and tariffs (PA 10), or other factors. Because the actual deficit may indeed be affected by other factors, RI 7 serves better as an indicator of the PDO than of the implementation and effectiveness of specific measures in PA9 and PA 10. The ICR (para. 45) indicated that other factors may have undermined the accuracy of the measure in representing the intended results (“the auditors have criticized the data for 2020, including the inclusion of the deferment of some debt not collected in revenue, and highlighted that expenses might have also been underestimated”). **Rating:** Moderately Satisfactory.

RI 8 (*photovoltaic capacity installed*) was an appropriate indicator of the impact of the policy actions on progress toward the objective of making the energy sector more financially sustainable by promoting renewable energy to provide competitive options for a cost-effective energy mix. The indicator focused the supply of solar energy, which was seen as having cost-reducing potential over time and promoting energy security by reducing dependence on imports (PD, para. 4.26). However, given that PA 11 and PA 12 only laid the legal, policy and regulatory groundwork for promoting private investment in renewable energy, this indicator was more appropriate as a long-term results indicator than as a measure of the shorter-term implementation and effectiveness of the specific actions involved. It served to indicate whether the policies supported in these operations (along with other measures and support) are helping to keep Benin on track and will “ultimately...promote rapid off-grid access to electricity by rural households” (PD1, para. 4.28). It was appropriately modified in DPO 2 to track the absolute growth of renewable energy, rather than the relative share, although how the data were to be collected was not specified (PD2, para. 4.36, only states that the Code supported under PA 11 would include the role of “the Electricity Regulatory Authority in the examination process for the issuance of license, concession, and permit related to the generation, transport, distribution and sale of electricity in Benin”). Longer-term indicators would be needed to reveal whether installed capacity was operational and delivering additional energy to users on a sustainable basis. **Rating:** Moderately Satisfactory.

### Objective 3: Foster the Development of the Digital Economy

RI 9 (*number of digital providers registered by the supervisory body*) directly measured the results of PA 13 and PA 14 in providing a regulatory/supervisory framework conducive to the emergence of private trusted digital service providers, representing growth of the supply side needed to achieve the PDO. It was simple and easily measured and monitored. **Rating:** Satisfactory.

RI 10 (*access to broadband internet – percent of the population*) appeared to represent the demand side of progress toward the PDO, though in practice it is more oriented toward supply in that it measures availability rather than actual use. Besides being likely easier to obtain data, it is appropriate as an indicator of implementation of PA 15 and PA 16, which promote development of infrastructure (fiber optic cable) and competition as a basis for expanded usage. The PD did not specify the source of the data, though it presumably would be monitored by the state-owned digital infrastructure company Societe Beninoise d'Infrastructures Numeriques (SBIN), which took over the assets of the former Benin Telecoms Infrastructures. **Rating:** Satisfactory.

RI 11 (*number of online services provided for citizens in the national portal of public services*) indicated the extent of progress toward expanding digitization via platforms for public services as a result of the measures to create a digital security agency (PA 17), adopt a single interoperability framework, and establish a national portal for digital services (PA 18). DPO2 shifted the measure from total digital platforms to focus on the availability of



digital public services. Given the important role of digital public services in driving the digital economy in other countries, this was a suitable measure both of implementation of the PAs, although a complementary of usage would have better measured progress toward achieving the PDO. The availability of data itself depended on successful implementation of PA 18 to establish the national portal for public services and the rules for its management. The only shortcoming was that it only measured the availability of services, not the use.

**Rating:** Moderately Satisfactory.

## Rating

Satisfactory

## 5. Achievement of Objectives (Efficacy)

### OBJECTIVE 1

#### Objective

Strengthen Fiscal and Debt Management

#### Rationale

All five RIs were fully achieved or exceeded (in three cases). Thus, the actions were highly satisfactory in achieving the objective of strengthening fiscal and debt management.

A range of tax policy instruments contributed substantially to a significant increase in domestic tax revenue by 42 percent (RI 1), well beyond the targeted 25 percent increase over a three-year period. These instruments included reinstating fees, eliminating exemptions, raising excise taxes, and modernizing the tax system (including electronic payment, facilitated also under Objective 3), boosted by resumption of cross-border trade with Nigeria (ICR, paras. 28 and 41). The TTLs reported that further reforms of property titling and valuation (supported under the subsequent DPO series) provided an offset to the risk of adverse effects on property transactions from eliminating the exemption by making it easier to comply. Furthermore, the TTLs reported that tax increases have elicited little observable pushback.

The significant reduction in the time taken to process tax refunds (RI 2), from 60 days to 15 (twice as fast as the target of 30 days) represented important success in achieving the objective of streamlining tax administration (ICR, para. 42). The accelerated procedures were within a risk-based framework that aligned Benin with West African Economic and Monetary Union standards (PD2, para. 4.13) and had positive effects



both on the objective of increasing tax collection and on the longer-term goal of facilitating private investment (by improving liquidity of firms).

The exceptional increase in the share of taxpayers using the electronic system (RI 3) – reaching 68 percent from a baseline of zero – represented positive achievement of Objective 3 (developing the digital economy) as well as the primary objective of strengthening fiscal management, in particular by reducing the cost of compliance and facilitating outreach to the broader population (ICR, para. 42; PD2, para. 4.13).

Reaching “100 percent consultation with the National Debt Commission for all government non-concessional and commercial loans and for concessional loans” (ICR, para. 43) represented achievement of the objective of strengthening debt management through prior review and monitoring (RI 4). The TTLs confirmed that the indicator measured the share of all projects approved on the basis of the required consultation.

Achievement of RI 5 by publishing four years of SOE debt statistics supported the objective of strengthening the transparency and monitoring of government and SOE debt. The TTLs reported that the World Bank is monitoring to ensure continued publication in the future. While this established a necessary condition for more effective management of contingent liabilities, the ICR (para. 43) noted “weaknesses related to the absence of monitoring SOEs’ non-bank debt.”

## Rating

Highly Satisfactory

## OBJECTIVE 2

### Objective

Improve the Financial Sustainability of the Energy Sector

### Rationale

One RI target was substantially exceeded and one substantially met (with some delay), while initial progress toward the third was reversed, yielding moderately satisfactory achievement overall.

RI 6 measured the key objective of reducing SBEE’s technical and commercial losses as a critical step toward sustainability. While the various actions to improve performance initially yielded some improvement (from 24 percent losses in 2018 to 21.5 percent in 2019), the losses rose again to 23.4 percent in 2022, representing a negligible net gain (ICR, para. 44). The ICR noted that a review has identified a number of substantial further actions that will be needed to achieve the objective in the medium term.

RI 7 tracked the principal desired result of reducing the operational deficit of SBEE, which was not only achieved but unexpectedly exceeded in that SBEE showed a surplus of 10 and 18 percent over operating expenses in 2020 and 2021, respectively (ICR, para. 45). The extent to which this highly positive result can be sustained, however, must be qualified. A substantial share of the surplus may have been attributable to government subsidies, both to compensate “in 2020 for the suspension of a tariff increase of 5 percent for three months due to the economic downturn” (ICR, para. 44) and to fill “the revenue gap arising from electricity tariffs approved by the regulator and actual tariffs” (PA 9) (data were not provided on the breakdown of revenues). The ICR (para. 45) also noted that “the auditors have criticized the data for 2020,





including the inclusion of the deferment of some debt not collected in revenue, and highlighted that expenses might have also been underestimated.”

Substantial achievement of RI 8 through installation of a 25 MW photovoltaic power plant (albeit in 2022, after some delay) indicates progress toward the objective of improving the financial sustainability of the energy sector by engaging with independent power producers to expand energy production through renewable sources that were needed to diversify the energy mix with potential lower-cost options and reduced dependence on imports. While the ICR (para. 46) noted that “the country still has a lot of room for improvement” in rolling out solar (not to mention other renewables), this result represented a positive step forward, achieved through actions supported by the DPO series.

### **Rating**

Moderately Satisfactory

## **OBJECTIVE 3**

### **Objective**

Foster the Development of the Digital Economy

### **Rationale**

Results substantially surpassed two targets, indicating substantial progress toward development of the digital economy, at least in terms of availability of services. Nevertheless, the actions to facilitate registration of private digital service providers have not yet yielded that result.

Although the supervisory body for registration of digital service providers (under PAs 13 and 14) became operational, no registrations took place; progress toward the RI 9 target was therefore nil. Recruitment of a firm to study investment opportunities in Benin was still pending as of September 2022 (ICR, para. 47).

Nonetheless, actions taken to develop digital infrastructure (fiber optic cable in particular) exceeded expectations in expanding the proportion of the population with access to broadband internet (RI 10) at over four times as fast as targeted, from a baseline of 13.8 percent to 38.4 percent (ICR, para. 47). This represents important progress toward implementation of the policy of universal access to broadband internet, including rural areas and public schools.

Similarly, adoption of a single interoperability framework (PA 18) enabled the government to establish a national e-services portal and expand the number of services even faster than expected (RI 11; ICR, para. 48). The adoption of a national digital security strategy and agency (PA 17) helped to secure and build confidence in this system (PD2, para. 4.41).

### **Rating**

Moderately Satisfactory



## Overall Achievement of Objectives (Efficacy)

### Rationale

Achievement of Objective 1 was Highly Satisfactory, while Objectives 2 and 3 were Moderately Satisfactory due to one Negligible achievement in each case. Overall, 8 out of 11 RIs were met or exceeded, with Negligible progress in just two (and Substantial progress in the other).

## Overall Efficacy Rating

Satisfactory

## 6. Outcome

### Rationale

Both the relevance of prior actions and efficacy are rated as Satisfactory.

### a. Rating

Satisfactory

## 7. Risk to Development Outcome

**Institutional capacity** remains the main challenge to sustaining the improvements in fiscal and debt management. “The institutional capacity risks were only partly mitigated in FMST 1 and may have been weakened by the COVID-19 pandemic during FMST 2” (ICR, para. 57). While some measures have been taken to mitigate “constraints such as low salaries and perverse incentives,” the “ambiguity of the administrative structure in some ministries...complicates the implementation of sectoral reform strategies,” and “the focus on managing the pandemic may have diverted resources and affected the implementation capacity of World Bank-supported programs” (ICR, para. 57), with possible adverse effects on the sustainability of the tax measures.

**Insufficient means and will to address technical and commercial losses of SBEE** pose a substantial risk that the measures undertaken successfully to improve its financial sustainability in the short run may be insufficient to resolve the underlying structural sources of deficits. To the extent that the operating surplus resulted from government subsidies, this may prove fiscally unsustainable, especially if political pressures to restrain tariff increases widen the revenue gap to be covered.



## **8. Assessment of Bank Performance**

### **a. Bank Performance – Design**

#### **Rationale**

The FMST DPO series was based on strong analytical underpinnings and experience from the previous Fiscal Reform and Growth DPFs (ICR, para. 16). The PDs identified major risks, and the operations included relevant implementation and mitigating measures.

#### **Lessons from prior experience**

The DPO series carried forward previous support for the “fiscal and energy sectors as well as the digital economy, [and] was informed by lessons learned from the implementation of the previous operations, the SCD, and the CPF” (ICR, para. 17). The design was based on the finding that “DPFs can be more effective if the series supports a targeted reform agenda with a well-designed objective rather than a broad agenda with multiple objectives” (ICR, para. 17). Hence the series prioritized “prior actions in areas that were supported by World Bank investment projects, technical assistance (TA) operations, and/or donor activities,” which were found likely to have a greater impact.

#### **Results chain**

Although the PDs and ICR provided the rationale for each policy action, the logical chain (“theory of change”) linking actions to results was generally implicit rather than laid out. Some results indicators (domestic tax revenues, SBEE operating deficit and technical/commercial losses) directly measured achievement of the desired objective.

#### **Risk identification and mitigation**

PD 1 (section 6) identified substantial macroeconomic, political, and governance risks, as well as important “capacity constraints and weaknesses in public administration...[including] (i) low salaries and perverse incentives...(ii) the ambiguity of the administrative structure in some ministries...and (iii) potential resistance to politically sensitive reforms, in the electricity sector and taxes” (para. 6.4). Besides focusing “on a limited range of policy areas that have been identified as priorities by the administration,” the DPOs mitigated these risks through stakeholder consultations and by providing technical support (PD1, para. 6.4).

#### **Stakeholder consultation and coordination with Development Partners**

Stakeholder consultations were important to “build consensus and institutional capacity around the supported reforms” (PD1, para. 6.4). In the design phase, “the MEF frequently convened meetings among various ministries involved. Thus, officials had extensive opportunities to present alternatives, identify challenges, and ponder alternative solutions, modifications, or timing changes to the various actions” (PD1, para. 50). “Engagement in Benin with civil society, the private sector, trade, and labor unions, and across various government departments/ministries was well developed” (PD1, para. 4.41). Some of the measures were designed to be “complemented by the International Monetary Fund (tax reform), and the African Development Bank, the European Union, and MCC (energy reform)” (PD1, para. 4.40). The monitoring and evaluation



framework was designed to support “the coordinated action and synergies between stakeholders” (PD1, para. 5.19).

### **Rating**

Satisfactory

## **b. Bank Performance – Implementation**

### **Rationale**

#### **Monitoring**

“The donor community and the government agreed to an annual review process that includes quarterly review meetings, additional meetings on special subjects as needed, a mid-year progress review on the previous year’s aide memoire, individual sector reviews, a joint donor-government review mission,” etc. (PD1, para. 5.19). “The World Bank conducted regular supervision and sustained day-to-day support from the field office. Experts in several areas resided in the field and supported several supervision missions” (ICR, para. 61).

#### **Adaptation**

The implementation team modified a number of triggers and RIs in preparing FMST DPO2, adapting to changing circumstances and refining the indicators. Adjustments “were made to improve the specificity of and strengthen the reform program and increase the likelihood of implementation within the timeframe of the series. These adjustments helped maintain program relevance without sacrificing significant reforms” (ICR, para. 60).

Preparation of a supplement to FMST DPO1 late in 2020 was an effective adaptation to the fiscal implications of the COVID-19 pandemic and associated economic downturn. It “helped to keep the reforms' momentum while helping Benin to mitigate the impact of the COVID-19 crisis in the socio-economic recovery phase” (ICR, para. 68).

### **Rating**

Satisfactory

## **c. Overall Bank Performance**

### **Rationale**

Both design and implementation are rated as Satisfactory.

## **Overall Bank Performance Rating**

Satisfactory



## 9. Other Impacts

### a. Social and Poverty

It is too early for evidence to be available on possible social and poverty impacts. “The actual impact is not yet measurable because the household survey has not been conducted since 2018-19” (ICR, para. 50).

### b. Environmental

Environmental implications were negligible, and it is too early for evidence to be available.

### c. Gender

There were no gender-targeted PAs or RIs, and no expected gender-differentiated implications.

### d. Other

n.a.

## 10. Quality of ICR

### Rationale

The ICR provides a coherent narrative of the operation's context, rationale, design, and results. It reviews the context for the program and the rationale for deepening the reforms initiated in the previous DPF series. It provides adequate data to support the conclusions and interrogates the quality of certain data. The lessons learned are fairly general, though relevant to the experience of the DPO series. In the case of two RIs with negligible progress, some remedies are indicated. The ICR is consistent with guidelines and well written.

### a. Rating

High

## 11. Ratings

Ratings	ICR	IEG	Reason for Disagreement/Comments
Outcome	Satisfactory	Satisfactory	



Bank Performance	Satisfactory	Satisfactory
Relevance of Results Indicators	---	Satisfactory
Quality of ICR	---	High

## 12. Lessons

**Focusing on reforms with strong government commitment and champions raises the likelihood of successful implementation.** “The positive results in mobilizing tax revenue and debt management reflect strong leadership at the Ministry of Economy and Finance” (ICR, para. 66). There was less success in the area of developing the digital economy, which lacked an existing strong agency to drive implementation.

**Adaptation to fiscal shocks helps maintain the pace of sectoral reforms.** The fiscal and economic shocks of the COVID-19 pandemic risked diverting funds as well as attention away from the reform program supported by the FMST DPO series. The World Bank’s quick response in providing supplementary financing to the first DPO alongside the second helped to mitigate this risk and keep the program on track. PAs addressed identified constraints, and RIs measured their implementation and impacts.

## 13. Project Performance Assessment Report (PPAR) Recommended?

No