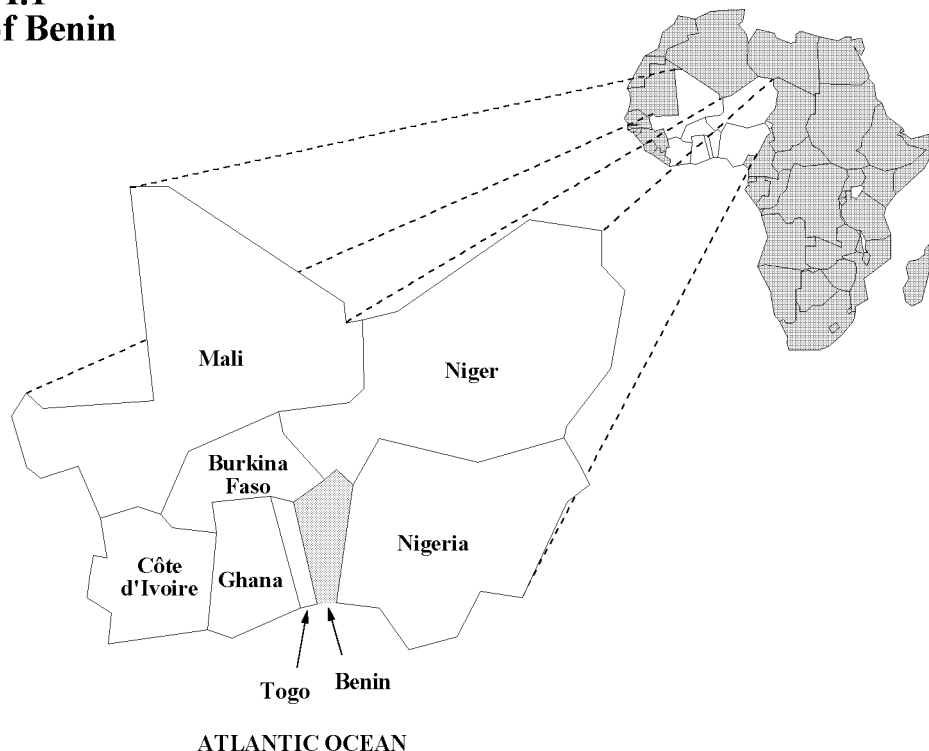


I. THE ECONOMIC ENVIRONMENT

(1) Major features of the economy

1. Benin covers 112,622 km² to the east of Nigeria (Chart I.1), and has around six million inhabitants. The mainstay of the economy is agriculture (cotton, food crops), which provide over one third of the gross domestic product (GDP), three quarters of the jobs and the major part of export earnings. With a per capita income of less than US\$400 in 1996, Benin belongs to the group of least developed countries. The state of health and education are a considerable obstacle to Benin's economic development. There is a high infant mortality rate; average life expectancy at birth is 51 years. Illiteracy affects 74 per cent of women. Education and health are two of the Government's main development priorities, but together they only account for around 3 per cent of GDP (Table I.1).

Chart I.1
Map of Benin



Source: Lotus Freelance.

Table I.1
Basic social data, 1970-1995

Indicators	1970	1990	1995
Population (millions)	2.8	4.7	5.5
- Urban population (percentage)	27	36	37
Rate of population growth (percentage)	2.6	3.2	3.2
Infant mortality rate (per '000 live births)	125	106	89
Life expectancy (men)	43	49	52
Public spending on health (percentage of GDP)	...	3.6	1.7
Public spending on education (percentage of GDP)	3.5	3.0	2.6
Illiteracy (percentage of population):			
- Men	75	68	51
- Women	91	84	74
Human development indicator (HDI ranking/total number of countries)	...	149/160	154/174

... Not available.

Source: World Bank (1994), *World Tables*; United Nations Development Programme, *Human Development Report*, several issues, and information supplied by the Beninese authorities.

2. Trade is the second most important sector of Benin's economy after agriculture and provides over 20 per cent of GDP. It consists largely of transit trade with the land-locked countries to the north (Niger, Burkina Faso), which use the port of Cotonou on the Atlantic Ocean¹; and trade from east to west with Nigeria and Togo. Because of Nigeria's vast size, the length of common border and the amount of trade between the two countries, Benin's economy depends to a greater extent on economic trends in Nigeria than on fluctuations in the global price of cotton.² Other factors have probably had a greater effect on the long-term trend in economic growth, notably investment policy (see below) and State intervention in the production and marketing of agricultural products (Chapter IV(2)).

3. The manufacturing sector mainly produces essential goods (soap, edible oils, beverages, cement), together with textiles and other cotton products. The services sector plays a major part in the economy (45 per cent of GDP), showing the importance of this trade. Although sizeable mining and energy potential has been identified, little of it is exploited.

4. Approximately half of the jobs are in the informal sector (Box I.1), particularly in agriculture and trade, including international trade. This sector's expansion may be due to the inflexibility of

¹Porto Novo is the administrative capital of Benin and Cotonou is its economic centre.

²The fall in Benin's GDP in comparison with that of Nigeria translates into the following figures (adjusted serial correlation):

$$\begin{aligned} \ln(\text{GDP}_{\text{Benin}}) &= 5.0 + 0.22 \ln(\text{GDP}_{\text{Nigeria}}), & R^2 &= 0.88, n = 18 (1979-96) \\ & (16.0) (3.6) & DW &= 1.14 \end{aligned}$$

Where GDP: Gross Domestic Product at 1987 market prices, domestic currency; the addition of a variable reflecting the fluctuations in the global price of cotton did not yield any significant figures.

Source: World Bank (1994); UNCTAD; and WTO Secretariat estimates based on statistics provided by the Beninese authorities.

the planned economic system in effect during the 1970s and 1980s. With the implementation of the budgetary rehabilitation plans at the end of the 1980s, this sector became a safety valve for civil servants who had lost their jobs, but at much lower levels of pay. The common border with Nigeria and the many opportunities for smuggling afforded by the import prohibitions in force in Benin, have also promoted this sector's activities. The Beninese Government recognizes that the informal sector makes an important contribution to national economic development, and adopts a conciliatory attitude towards informal enterprises, which contribute little to the country's tax system.

Box I.1: The informal sector in Benin

The informal sector covers virtually all economic activities from agriculture to services and including trade and construction. It is said by the authorities to account for more than two thirds of the overall value added of wholesale and retail trade (including import-export and transit). Moreover, cooperatives and informal savings and loan associations, such as tontines, finance the economic activities of a large sector of the population whose income level does not allow them access to banking services. One of the major difficulties faced by small-scale businesses is how to obtain financing, banks being traditionally reluctant to grant credit to individuals as there is no recourse if they default on repayment.

According to a study of informal activities in urban areas conducted in 1992 in the 10 major towns of Benin, the urban informal sector's contribution to the gross domestic product (GDP) is around 7.5 per cent. The study also counted a total of 136,448 establishments deemed to be informal in accordance with the following four criteria:

- Not listed in the Register of Commerce;
- not affiliated to the social security scheme;
- does not keep accounts in accordance with legal accounting requirements;
- has no status as a partnership or company.

Application of these criteria yields the following results:

- 98 per cent of establishments are not listed in the Register of Commerce;
- 99.3 per cent are not affiliated to the social security scheme;
- 99.3 per cent do not keep accounts;
- 99.8 per cent do not have the status of partnerships or companies.

According to this study, urban informal jobs in the 10 towns surveyed are estimated at 233,024 and can be broken down as follows: around 16.8 per cent in the production sector, 32.5 per cent in services, 48.8 per cent in trade, and 1.8 per cent in construction. This compares with the 56,000 jobs (1992) in the modern sector (both private and public, including government services). The majority of jobs in the urban informal sector are filled by men (63.4 per cent). On the other hand, the proportion of women is higher in retail trade (73 per cent) and the catering sector (92 per cent).

Small urban producers invest an average of CFAF 173,732 to start up their business. In most cases, the financing required to set up an informal economic entity or to provide additional equipment subsequently is provided by non-modern financial channels such as self-financing (69.7 per cent), tontines (8.5 per cent), family loans (6.9 per cent), bequests or grants (3.4 per cent). Bank loans account for 0.26 per cent and aid programmes for 0.39 per cent.

In terms of economic results, the study showed that the monthly turnover in the sector in 1992 was CFAF 72,000, and value added was 54 per cent. In 1993, small-scale businesses accounted for less than 5 per cent of revenue from the State's direct and indirect taxes.

Source: Government of the Republic of Benin (1992).

(2) Economic developments

(i) Marxist-Leninist period

5. From 1974 to 1989, Benin pursued a Marxist-type centralized economic policy. Government monopolies were established in the financial sector and in industry, including export sectors (palm oil, cotton, oil). Owing to external factors, notably expansion in the petroleum sector in Nigeria and the uranium sector in Niger, together with the consequent high demand for imports, this economic policy was temporarily viable. From the end of the 1970s, however, the Party's authorities realized that it was necessary to take urgent remedial measures to counter the decline in the performance of almost all public enterprises.³

6. In 1982, a slowing down of growth in neighbouring countries, exacerbated by the deterioration in the terms of trade, led to a sudden drop in GDP (Chart I.2). Gross fixed capital formation that year reached 33 per cent of GDP (CFAF 115 billion). Between 1980 and 1985, the constant decline in the performance of state enterprises confirmed that Government investment was not profitable and represented a heavy burden on the economy.⁴ Between 1985 and 1990, economic growth was virtually stagnant, falling by almost 3 per cent in 1987 and 1989. The budget deficit, excluding grants, then amounted to around 11 per cent of GDP and the current account deficit verged on 10 per cent.

7. This downturn in performance by state enterprises gained the financial sector as a result of the internal arrears accumulated by the State and state enterprises and owed to civil servants, suppliers and the Central Bank of West African States (BCEAO), and the external arrears, which amounted to 16 per cent of GDP in 1987. One method often used to disguise the budgetary imbalance was refinancing, with the BCEAO, the three commercial banks and development banks, which had themselves financed the State's activities and state enterprises.⁵ In 1988, the three banks, which made up the whole of the banking system, collapsed and were wound up. Failure to pay civil servants for several months reportedly accelerated the change of economic policy in 1990.

(ii) Stabilization and adjustment

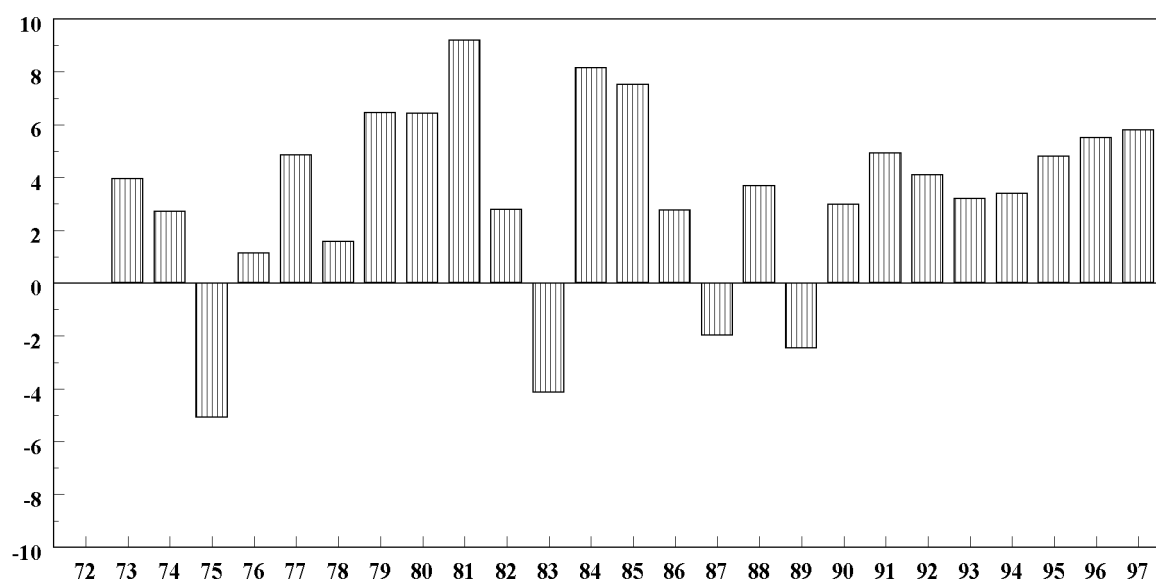
8. Although reforms were implemented from 1986 onwards, including a recruitment freeze, a 10 per cent reduction in wages in the public sector and some privatization, the process accelerated after democracy was installed in February 1990 and political and civil stability returned. A major programme to stabilize public finance was introduced in close collaboration with the International Monetary Fund and the World Bank. Reforms were adopted in order to increase earnings and so reduce the public sector deficit; support measures were taken to facilitate the transfer to the private sector of the employees dismissed from public service and state enterprises. The banking system was restored and several new private banks included.

³Adekounte, F. L. (1996).

⁴Until it was abolished in August 1996, the Fonds national d'investissement was the Government's chosen tool for channelling private investment, financed by mandatory contributions from enterprises established in Benin. This contribution corresponded to 15 per cent of gross profits (even if net profit amounted to a loss). The Fonds then reimbursed in part some private investment costs. The mandatory contributions were suspended in 1991; enterprises that had invested received the repayments claimed. According to the law on the creation of the Fonds, however, the remainder of the contributions less the eligible repayments must be handed back to the enterprises without interest 30 years after the date of the contribution, in other words, from 2005 onwards. The possibility of issuing marketable securities in order to enhance the financial liquidity of the enterprises is under consideration.

⁵Stasavage, D. (1997).

Chart I.2
Gross domestic product of Benin, 1973-1997
 (Percentage of annual growth in real terms)



Source: WTO Secretariat estimates based on statistics supplied by the Beninese Government, the International Monetary Fund, and the World Bank.

9. The macroeconomic rehabilitation between 1990 and 1993 was significant and was contrary to the regional trend prior to the devaluation of January 1994 (see below). The State's budget once again had a positive primary balance and this has been maintained, even though debt payments still result in a budget deficit (Table I.2). Bank deposits in the newly-established banks increased greatly as a result of capital repatriation. The monetary supply increased by almost one third during this period, reflecting the recovery in economic activity, while bank credits to the public sector, which had been a major cause of the collapse of the banking sector, remained stable. The equilibrium of the balance of payments was, however, achieved largely as a result of external grants, which exceeded 10 per cent of GDP on average. Between 1990 and 1995, Benin's gross international reserves, expressed in months of imports of goods, tripled. Alongside the adjustment, there was modest but constant economic growth (Chart I.2).

10. At the same time, the Government also reformed the tax system, introducing, *inter alia*, VAT and a simplified taxation system for small enterprises (Box I.2). In the area of trade reform, import licences and the majority of quantitative import restrictions were abolished. In 1996, the number of products subject to price controls was reduced to less than five. Export taxes and licences for the majority of products were abolished. In addition, the requirements for carrying out commercial activities were simplified (Chapter III).

11. On 12 January 1994, the domestic currency (the CFA franc) was devalued from CFAF 50 to F 1 to its present level of CFAF 100 to F 1 (Annex I.1). The devaluation was the result of the appreciation of the CFA franc in real effective terms in the majority of countries in the franc zone. In Benin, this appreciation reflected to a large extent the important depreciation in the Nigerian naira in real terms (Chart I.3).

Table I.2
Basic Economic Indicators, 1990-1996

	1990	1991	1992	1993	1994	1995 ^a	1996 ^a
Population (millions)	4.7	4.8	5.0	5.2	5.3	5.5	5.7
Nominal GDP (CFAF billion) ^b	502.3	535.7	570.8	601.7	847.7	1,035.8	1,125.5
Nominal GDP (US\$ million) ^b	1,844.7	1,899.0	2,156.4	2,124.6	1,526.8	2,075.5	2,200.0
Nominal GDP per capita (US\$)	392.5	395.6	431.3	408.6	288.1	377.4	386.0
Including: Fixed investment per capita	52	53	57	59	46	63	6.5
GDP at constant prices (percentage change)	3.6	4.7	4.1	3.2	4.3	4.8	5.5
Consumer prices (percentage change) ^c	1.1	2.1	5.9	0.5	38.6	15.1	4.7
Exchange rate (CFAF/US\$)	272.3	282.1	264.7	283.2	555.2	499.2	511.6
Real effective exchange rate (percentage change) ^{c, d}	1.7	-1.4	3.8	-0.2	-35.8	7.5	...
Monetary supply (M2; percentage change)	62.0	31.2	25.6	5.9	41.2	39.0	8.8
Interest rate (bank rate; percentage) ^e	11.0	10.7	12.0	7.5	5.5	6.0	6.0
External debt (percentage of exports in CFAF)	415.6	357.3	395.6	437.8	427.9	724.0	566.0
Gross international reserves (in US\$ million)	77.8	176.2	255.0	286.7	221.0	288.7	332.4
Gross international reserves (in months of imports)	1.9	3.7	4.6	7.9	9.6	7.9	6.8
<u>Use of GDP (percentage of GDP):</u>							
Private consumption	81.3	82.0	83.7	83.3	79.1	78.7	82.2
Government consumption	13.2	12.0	11.9	11.8	10.5	10.0	9.8
Gross capital formation	14.2	14.5	13.9	14.9	14.3	19.0	18.0
Gross domestic savings (excluding government transfers)	8.0	8.8	5.9	7.4	11.2	10.4	19.3
Net exports of goods and non-factor services	-8.7	-8.5	-9.5	-10.0	-4.7	-9.7	-8.3
<u>Public accounts (percentage of GDP):</u>							
Internal revenue	9.9	11.5	12.2	12.9	12.5	14.4	15.2
Including: Import duties	4.1	4.8	4.9	5.4	5.0	5.8	6.3
Public spending	19.9	18.7	20.1	17.6	19.4	21.4	19.2
Balance	-10.0	-7.2	-7.9	-4.7	-6.9	-7.0	-4.6
Primary balance ^f	-1.3	0.5	1.3	2.2	2.1	2.2	3.2
<u>Balance of payments (percentage of GDP)</u>							
Trade balance	-7.3	-7.5	-8.8	-9.3	-4.2	-7.3	-5.6
Current operations balance (excluding government grants)	-6.2	-5.7	-8.0	-7.5	-5.0	-8.6	-7.1

... Not available.

a Estimate.

b At current market prices.

c Average over the period.

d A minus sign indicates depreciation.

e End of period.

f Excluding interest on the debt and investment spending.

Source: Information supplied by the Beninese authorities.

Box I.2: Taxation of enterprises

The Beninese Government has implemented a wide-ranging reform to simplify taxation and make it more effective. Among the changes made was the introduction, in September 1994, of the *taxe professionnelle unique* (TPU) (single trade tax), now the only tax imposed on the turnover of small enterprises in towns where the list of titles is located.

The system currently in force defines enterprises according to their turnover:

Enterprises whose turnover exceeds CFAF 40 million for sale of goods and 10 million for other activities:

- The business tax consists of a fixed fee calculated according to the activity or the turnover and a proportional fee calculated according to the rental value of the business premises; and
- the tax on industrial and commercial profits (BIC), reduced in 1990 from 42 to 38 per cent for legal persons and from 38 to 35 per cent for natural persons.

Enterprises whose turnover is less than CFAF 40 million:

- The TPU is 26 per cent of the value of the business premises and replaces all other taxes, including the BIC, VAT and the business tax, in towns where the list of titles is located.

The simplification of the taxation system and the tax relief are aimed at encouraging investment and the development of new economic activities in the private sector. In addition, a single property tax of 26 per cent has replaced the four property taxes previously imposed (property tax on developed land, property tax on undeveloped land, real estate tax on rent and general tax on property income).

The tax reform programme also provides for the simplification of income tax:

- The number of rates for the graduated tax on wages and salaries is to be reduced to four: 15, 20, 25 and 40 per cent;
- the general income tax reform was under way in July 1997.

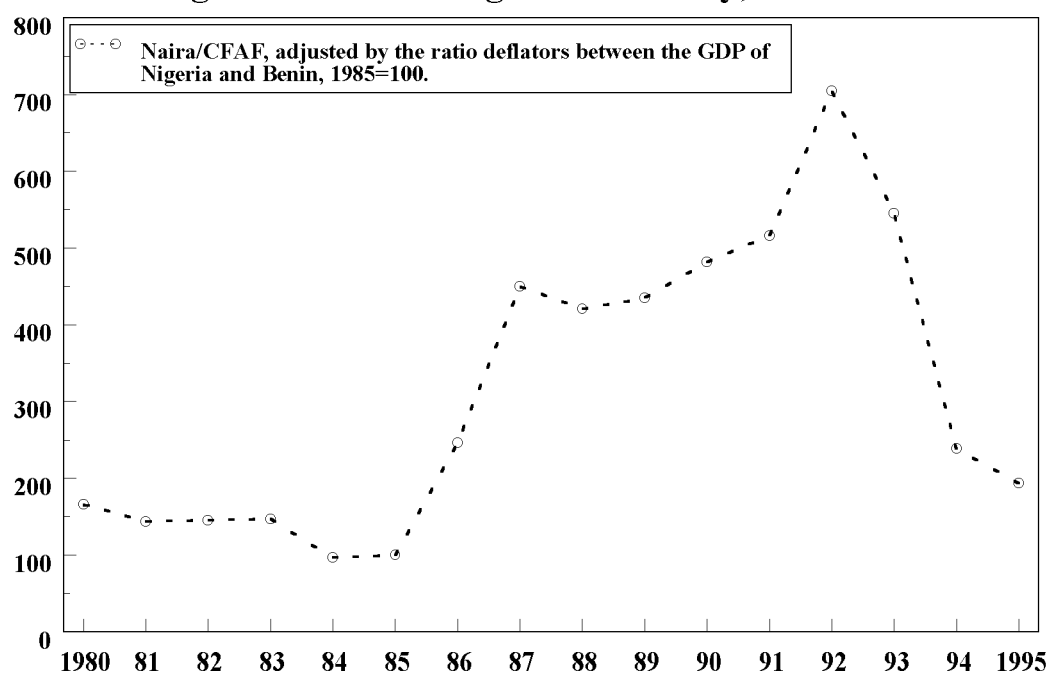
12. The effect of the devaluation on local enterprises varied according to a number of factors. For some enterprises, it was a breath of fresh air because the increased price of imported goods in CFA franc terms allowed them to increase the price of the substitute products on the spot.⁶ But it also increased the cost of imported inputs and the foreign currency debt burden.⁷ Exporting enterprises benefited from price increases in domestic currency.⁸ On the other hand, devaluation was followed

⁶For example, palm oil producers were able to increase the selling price over and above their local production costs such as wages and the purchase of palm kernels from planters. (Société française de conseil en développement (1994)). The examples that follow are also derived from this source.

⁷The Société béninoise d'eau et d'électricité (SBEE), for example, imports most of the electricity supply which it then sells at prices subject to a ceiling set by the State; its debts are in foreign currency. SOBEBRA, which produces beer and aerated drinks, also imports the majority of its inputs and has large foreign currency debts.

⁸For example, exporters of cotton and pineapple, who sell their production at global prices, saw large increases in profits following the change in parity.

Chart I.3
Real exchange rate with the Nigerian currency, 1980-1995



Source: UNCTAD, IMF and the Beninese Government.

by a reduction in overall demand and this had a negative effect on certain enterprises.⁹ In general, an enterprise's profits were greater if its production consisted of tradeables and its inputs of non-tradeables.

13. The revival of private investment is the Government's primary objective. There is currently a modest recovery in investment, which is reported to be 17 per cent of GDP. This growth is, however, mainly due to public investment (Table I.3). Direct foreign investment has not exceeded US\$10 million since 1990. The low level of investment may be attributed to the low standard of education and training, the quality and cost of commercial services (for example, telecommunications, air transport), and the lack of any reliable legal and judicial protection for investors, for example, banks granting loans to enterprises (Chapter II).¹⁰ The lack of dynamism in private investment may also be due to the uncertainty regarding the future commercial and tax situation under the various regional trade agreements, including the WAEMU and ECOWAS. To be profitable, any large-scale investment in an expanded regional market would require the definitive elimination of tariff and non-tariff barriers to regional trade, and this does not currently appear to be happening.

⁹Enterprises that produce cement, textiles and tobacco saw demand for their products fall, which reflected the purchase of less costly products (for example, used clothing) or the decision not to buy certain articles.

¹⁰*Jeune Afrique*, No. 240, 5 May 1997.

Table I.3

Fixed investment and portfolio investment, 1982-1996

	1982	1990	1991	1992	1993	1994	1995	1996 ^a
Fixed investment and portfolio investment (CFAF billion)	115	68	73	76	87	132	173	...
- Government sector	...	37	40	38	41	80	104	...
Reminder: external financing	...	26	27	23	26	50	65	...
- Private sector	...	30	33	38	47	51	69	...
Fixed investment and portfolio investment (percentage of GDP)	28	14	15	14	15	14	17	...
- Government sector	...	8	9	7	7	9	12	...
- Private sector	...	6	6	7	8	5	7	...
Fixed investment and portfolio investment (in US\$ per capita)	95	52	53	57	59	44	63	...

... Not available.

a At current market prices.

Source: Information supplied by the Beninese authorities.

(3) Trade performance

14. It is not easy to analyse the composition of foreign trade because of the existence of the re-export trade, whether or not informal, which represents between one fifth and one quarter of imports and for which few statistics are available. In addition, foreign trade by certain state enterprises (for example, in the petroleum sector (SONACOP), electricity (SBEE) and cotton (SONAPRA)) is excluded from certain foreign trade statistics.

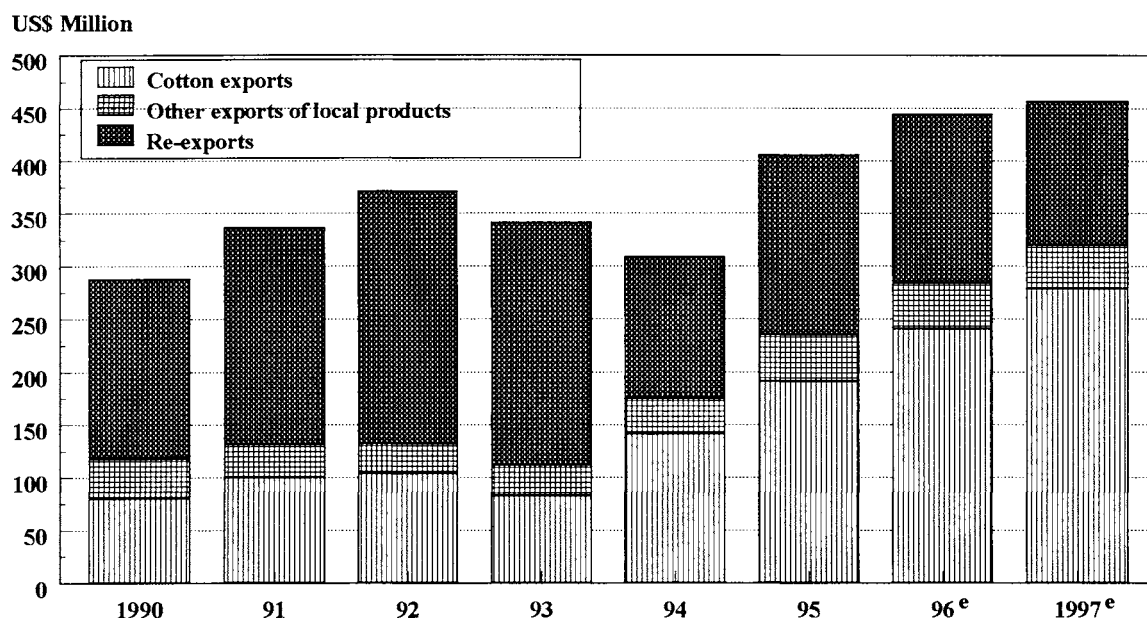
15. Foreign trade consists of exports of local products, the major export being cotton, and the re-export of imported products, showing the pivotal role played by trade in Benin (Chart I.4). This trade reflects Benin's geographical situation, but also its political stability and the relative efficiency of the port of Cotonou and the land transport system in comparison with some neighbouring countries.

16. The export statistics are calculated according to the balance of payments and also include estimates of the large-scale informal trade not recorded by the customs authorities, which can either be of local origin (for example, raw cotton or food products directly exported by farmers); or of foreign origin: in this instance, products are usually first imported into Benin because in neighbouring countries their import is restricted or they are subject to higher customs duties, and are then re-exported informally to these countries. The principal products concerned are rice and flour, cotton fabrics and other textiles, clothing, used tyres and alcoholic beverages for Nigeria. These products are cleared by the customs for domestic consumption and then re-exported by land or river, avoiding customs posts; or are declared to be in transit to another country and then diverted.

17. Total exports (based on the balance of payments) amounted to CFAF 227 billion in 1996, corresponding to over US\$440 million, following exceptional growth since 1994 due to the higher price of cotton and the quantities produced (Chart I.5).¹¹ Total imports (c.i.f.) amounted to CFAF 286 billion, over US\$680 million, in 1996. In constant prices, they fell by 25 per cent following the devaluation, but there was also a substantial recovery in 1995 with the increase in imports of intermediate and capital goods in connection with preparations for the Sixth Summit of French-Speaking Countries in December 1995.

¹¹The following exchange rates have been used in this Chapter: 1992 - CFAF 264.69 per US\$; 1996 - CFAF 511.55 per US\$.

Chart I.4
Exports of Benin, 1990-1997



^e Estimate.

Source: Beninese Government.

(i) Commodity pattern of trade

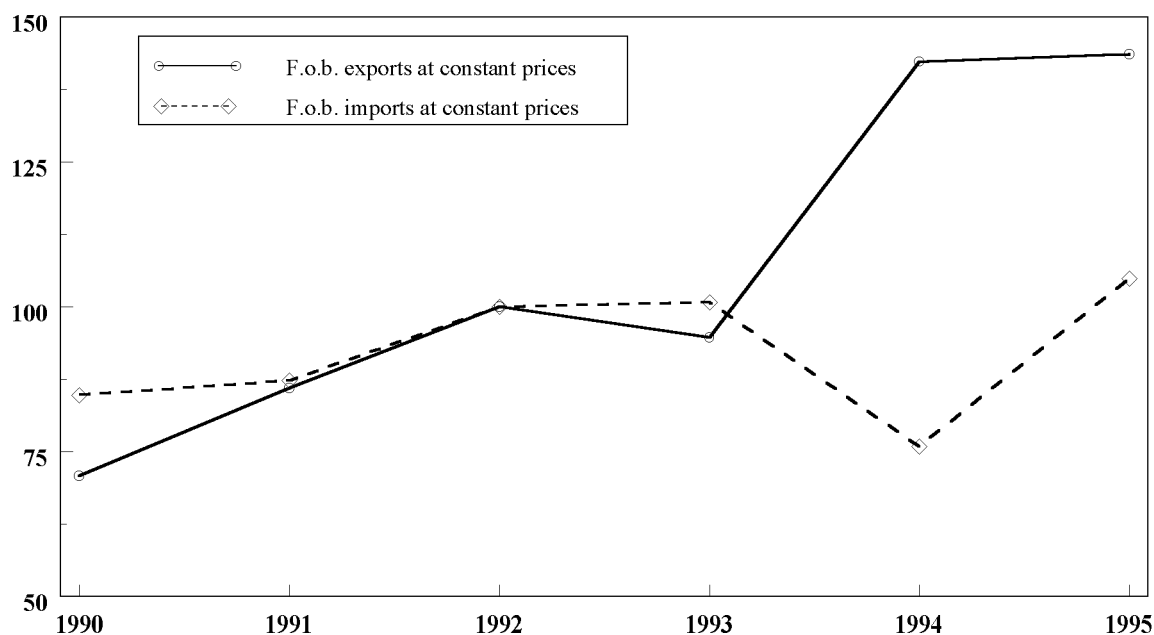
18. Cotton (fibre and seeds) is the main export product and in 1996 yielded earnings estimated to be close to CFAF 120 billion (US\$230 million). In parallel to the performance of cotton, exports of local products more than doubled between 1992 and 1996 (Table I.4). During this period there was also a strong increase in exports of cashew nuts (12,000 tons in 1994-95), tobacco and other agricultural products, although they did not exceed US\$10 million. Petroleum exports fell as a result of the exhaustion of the only operational oil field.

19. According to the data available, shown in Table I.5, the main imports are petroleum products, which account for 12 per cent of total imports.¹² Other imports include rice, other food products and textiles. Some of these are informally re-exported to Nigeria; Nigeria's liberalization of rice imports in 1996 reduced this trade by two thirds (Table I.5).

¹²Informal imports from Nigeria, which reportedly amount to 300,000 litres a day (see Chapter IV), must be added to these figures.

Chart I.5
Foreign trade indicators, 1990-1995

1992=100



Source: Beninese Government.

Table I.4
Exports, 1992 and 1996
 (US\$ million and percentage)

Products	1992		1996	
	US\$ million	Percentage of total	US\$ million	Percentage of total
Total exports (f.o.b.):	371.4	100.0	443.7	100.0
- Exports of local products	132.2	35.6	284.0	64.0
- Re-exports	239.2	64.4	159.7	36.0
Exports of local products				
Ginned cotton	97.5	26.3	230.1	51.9
Cotton seeds	6.4	1.7	10.2	2.3
Petroleum	16.3	4.4	10.2	2.3
Cashew nuts	1.4	0.3	7.5	1.7
Tobacco and cigarettes	0.3	0.1	4.1	0.9
Rice	5.9	1.6	3.1	0.7
Sawn or cut wood	0.3	0.1	1.3	0.3
Fish	0.2	0.1	1.1	0.3
Cement	1.9	0.5	1.1	0.3
Cereal and oilcake	0.2	0.1	0.9	0.2
Banknotes	0.0	0.0	0.6	0.1
Mats and basketwork	0.3	0.1	0.5	0.1
Motor vehicles, tractors and parts thereof	1.6	0.4	0.4	0.1
Timber in the rough	0.0	0.0	0.4	0.1
Iron plates and articles of iron	0.3	0.1	0.3	0.1
Machinery, mechanical appliances and equipment	0.6	0.2	0.3	0.1
Oxygen	0.0	0.0	0.1	0.0
Other cereals, wheat, maize	1.1	0.3	0.0	0.0
Reminder: CFAF/US\$ exchange rate	264.7	n.a.	511.6	n.a.

n.a. Not applicable.

Source: Beninese Government.

Table I.5
Imports by main product groups, 1992 and 1996
(US\$ million and percentage)

HS line	Product group	1992		1996	
		Value (US\$ million)	Percentage of total	Value (US\$ million)	Percentage of total
	Total imports (c.i.f.)	648.6	100	681.8	100
	Total imports (f.o.b.)	560.4	86.4	561.8	82.4
	- Imports for domestic consumption	383.3	59.1	439.3	64.4
	- Imports for re-export	177.1	27.3	122.5	18.0
	Total imports (c.i.f.):				
50-67	Cotton, textiles and clothing	98.7	15.2	83.9	12.3
27	Petroleum products	66.6	10.3	79.8	11.7
28-29,31-32	Chemicals	38.1	5.9	45.1	6.6
10	Cereals	151.6	23.4	42.3	6.2
84	Machinery and mechanical appliances	27.4	4.2	33.6	4.9
74-83	Metal and metal articles	31.0	4.8	33.2	4.9
87	Transport equipment	42.9	6.6	30.3	4.4
85	Electrical equipment	20.5	3.2	23.7	3.5
48-49	Stationery and books	11.8	1.8	17.2	2.5
26	Minerals and mineral products	15.6	2.4	14.6	2.1
30	Pharmaceuticals	8.4	1.3	14.1	2.1
19	Edible preparations	8.3	1.3	11.4	1.7
04	Milk and dairy produce	5.2	0.8	11.4	1.7
17	Sugars and sugar confectionary	11.9	1.8	10.5	1.5
22,24	Beverages and tobacco	19.3	3.0	9.3	1.4
11	Products of the milling industry	16.9	2.6	9.1	1.3
68-70	Ceramic products, glassware and articles of stone	4.3	0.7	6.1	0.9
02	Meat and edible meat offal	11.7	1.8	4.4	0.6
33	Cosmetic preparations	10.3	1.6	3.6	0.5
03	Fish and crustaceans	8.7	1.3	3.4	0.5
	Other (informal imports)	39.5	6.1	194.9	28.6
Reminder: CFAF/US\$ exchange rate		264.7	n.a.	511.6	n.a.

n.a. Not applicable.

Source: Beninese Government.

(ii) Regional pattern of trade

20. Cotton is exported to several countries, but the principal destinations are Brazil, Morocco and Portugal (Table I.6). Cashew nuts are mainly exported to the European Union, the United States and India. Other trade is mainly with neighbouring countries, especially Nigeria and the land-locked countries in the hinterland.

Table I.6

Exports by destination, 1992 and 1996

(US\$ million and percentage)

	1992		1996	
	US\$ million	Percentage of total	US\$ million	Percentage of total
Total exports (f.o.b.)	371.4	100.0	443.7	100.0
European Union:	33.6	9.1	60.5	13.6
Germany (former FRG)	0.4	0.1	2.4	0.5
Belgium	13.0	3.5	2.1	0.5
Spain	2.1	0.6	10.4	2.3
France	1.6	0.4	8.8	2.0
Italy	7.0	1.9	9.6	2.2
Netherlands	1.0	0.3	1.4	0.3
Portugal	5.4	1.5	24.8	5.6
Brazil	3.3	0.9	49.5	10.4
Morocco	11.1	3.0	24.6	5.7
Thailand	3.6	1.0	19.0	4.3
Indonesia	3.3	0.9	13.0	2.9
Taiwan	1.0	0.3	7.0	1.6
India	1.2	0.3	6.3	1.4
Nigeria	5.1	1.4	6.1	1.4
China	0.8	0.2	3.7	0.8
South Africa	1.5	0.4	3.1	0.7
Niger	1.7	0.5	2.5	0.6
Switzerland	0.4	0.1	2.2	0.5
Bangladesh	0.1	0.0	1.2	0.3
Other	52.3	14.1	66.0	14.9
Destination of petroleum products	16.2	4.4	10.2	2.3
Destination of informal trade	237.4	63.9	171.7	38.7
Reminder: CFAF/US\$ exchange rate	264.7	n.a.	511.6	n.a.

n.a. Not applicable.

Source: Beninese Government.

21. The majority of Benin's imports come from the European Union, in particular France, which accounts for more than 18 per cent of imports (Table I.7). The other major trading partners are Thailand (rice), the European Union and China. Statistics on imports from Nigeria do not reflect the major part (informal) of this trade.

Table I.7
Imports by source, 1992 and 1996
(US\$ million and percentage)

	1992		1996	
	Value (US\$ million)	Percentage of total	Value (US\$ million)	Percentage of total
Total imports (c.i.f.)	648.6	100.0	681.8	100.0
European Union:	248.0	38.2	231.1	33.9
Germany (former FRG)	18.9	2.9	19.5	2.9
Belgium	14.0	2.2	9.5	1.4
Denmark	4.9	0.8	9.2	1.4
Spain	8.3	1.3	12.5	1.8
France	134.1	20.7	125.3	18.4
Italy	9.2	1.4	11.2	1.6
Netherlands	42.9	6.6	31.6	4.6
United Kingdom	20.8	3.2	21.4	3.1
Thailand	102.4	15.8	31.7	4.7
China	24.2	3.7	22.0	3.2
Japan	32.0	4.9	20.3	3.0
Côte d'Ivoire	8.9	1.4	17.7	2.6
United States	34.6	5.3	17.3	2.5
Senegal	12.0	1.9	11.3	1.7
India	6.7	1.0	9.5	1.4
Republic of Korea	2.6	0.4	6.9	1.0
Democratic People's Republic of Korea	1.1	0.2	3.6	0.5
Brazil	5.7	0.9	2.0	0.3
Pakistan	25.6	3.9	1.5	0.2
Turkey	1.0	0.2	0.8	0.1
Origin of informal trade	143.5	22.1	305.9	44.9
Reminder: CFAF/US\$ exchange rate	264.7	n.a.	511.6	n.a.

n.a. Not applicable.

Source: Beninese Government.

(iii) Trade in services, net flows of resources and long-term debt

22. In 1996, Benin's external debt was CFAF 709 billion (US\$1.4 billion), corresponding to 63 per cent of GDP. Every year since 1989, Benin has negotiated external debt relief. In November 1996, 67 per cent of its bilateral debt (CFAF 127 billion) with the Paris Club was cancelled. Most of the debt (CFAF 454 billion in 1996) is with multilateral institutions, however, and cannot therefore be rescheduled.

23. Since 1994, the trade balance deficit has oscillated between 4.2 and 7.3 per cent of GDP (Table I.8); the authorities forecast a 6.6 per cent deficit for 1997. There is also a deficit in the services balance, which escalated in 1994 as a result of the increase in interest on the external debt. Since 1995, insurance and freight costs related to the expansion in imports has also helped to accentuate the deficit. Following devaluation, private transfers increased considerably as investment in property in Benin became more attractive to Beninese living abroad. The current account balance nevertheless shows a deficit and most of its financing comes from external budget aid. In 1996, official grants amounted

to almost 5 per cent of GDP. Net flows of resources to Benin are much less, owing to debt servicing payments, which absorb close to one fifth of export earnings for goods and services each year.

Table I.8
Balance-of-payments developments, 1992-1997

	1992	1993	1994	1995	1996	1997 ^a
	(US\$ million)					
Trade balance (f.o.b.-f.o.b.)	-189.3	-198.1	-64.5	-132.9	-124.3	-139.7
Net services	-77.4	-54.7	-47.7	-102.0	-100.1	-88.8
Interest on external debt	-61.6	-39.9	-40.5	-59.9	-51.0	-36.7
Freight and insurance	-72.9	-71.7	53.3	-81.9	-89.3	-90.0
Tourism	23.8	24.7	17.5	21.6	18.6	17.7
Other transport	54.8	49.8	28.8	34.5	37.3	40.7
Other services	-21.5	-17.7	-0.2	-16.2	-15.6	-20.5
Net private transfers without matching contribution	95.2	94.3	57.6	68.1	67.1	65.9
Current balance (excluding grants)	-171.5	-158.6	-47.7	-186.1	-151.1	-115.2
Official grants	132.2	144.4	84.1	100.2	167.3	137.6
Current balance (including grants)	-39.3	-14.1	36.4	-85.9	16.2	22.4
Net capital movements	-36.3	-33.2	-3.2	-25.6	44.8	30.1
Overall balance	-75.6	-47.3	33.1	-111.6	61.0	52.5
	(Percentage of GDP)					
Trade balance/GDP	-8.8	-9.3	-4.2	-7.3	-5.6	-6.5
Current balance (excluding grants)/GDP	-8.0	-7.5	-5.0	-8.6	-7.1	-6.6
Grants/GDP	6.1	6.8	5.5	4.8	7.6	6.0
Reminder: CFAF/US\$ exchange rate	264.7	283.2	555.2	499.2	511.6	572.0

a Forecast.

Source: Beninese Government.

(4) Outlook

24. The Government's targets for the period 1997-1999 are to achieve growth of 6 per cent in real terms and to keep the current account deficit (excluding grants) to 5.5 per cent of GDP in 1999, while at the same time strengthening the social infrastructure. According to the authorities, this would require a growth of almost 10 per cent in the value of exports of local products over the period. The Government is aware that these results depend to a large extent on the satisfactory performance of the cotton sector and a favourable trend in global prices.

Annex I: Exchange regulations¹³

25. Within the franc zone, Benin belongs to the West African Economic and Monetary Union (WAEMU, formally WAMU), whose issuing authority is the Central Bank of West African States (BCEAO).¹⁴ The currency used within the union is the CFA (African Financial Community) franc. Its parity is CFAF 100 per French franc. Both of the two regional central banks have an "operations account" with the French Treasury, into which their disposable foreign currency is paid and which they use to make transfers outside the zone.¹⁵ The special feature of this account is that it may become a debit account without any limits set a priori because of the French Government's undertaking to guarantee the convertibility of CFA francs over and above available foreign assets.¹⁶

26. The exchange rate of the CFA franc and other foreign currencies is fixed on the basis of the corresponding exchange rate for the French franc. The rates include commission of 2.5 per cent levied by banks and post offices on all transfers outside the WAEMU, and this sum is paid to the French Treasury. There is no tax on the selling or buying of foreign currency. Forward exchange operations are subject to authorization by the Ministry of Finance's Directorate of Monetary and Financial Affairs, which is responsible for exchange controls in conjunction with the Directorate of Foreign Trade of the Ministry of Trade, Handicrafts and Tourism.

27. Payments within the franc zone are not subject to exchange controls, with the exception of the following transactions: measures concerning gold and the repatriation of export earnings; and the issuing, advertising and offer of securities and other financial instruments. Payments with Gambia, Ghana, Guinea, Liberia, Mauritania, Nigeria and Sierra Leone are usually made through the West African Clearing House.

(a) Payments related to trade in goods

28. All import transactions must be domiciled with an authorized bank when their value exceeds CFAF 500,000. If documentary credit is opened, the foreign exchange may not be acquired more than eight days before shipment or may only be acquired on the date fixed for payment if the goods have already been imported.

29. Payment for exports to foreign countries, including countries with an operations account, is due within 180 days following the arrival of the goods at their destination. Exports for an amount exceeding CFAF 500,000 must obligatorily be domiciled with an authorized bank. For each export transaction, residents must, within one month following the date on which they become due, collect

¹³Exchange regulations within the franc zone are described in IMF (1996). The following section is to a large extent based on this source. A summary is also given in WTO (1995).

¹⁴In addition to WAEMU member countries, the franc zone includes France and its overseas departments and territories, Monaco, members of the Central African Customs and Economic Union (CACEU - Cameroon, Chad, Congo, Gabon, Equatorial Guinea, and Central African Republic), whose central bank is the Bank of Central African States (BEAC), and Comoros. The members of the WAEMU are Benin, Burkina Faso, Côte d'Ivoire, Guinea-Bissau, Mali, Niger, Senegal and Togo. BCEAO headquarters are in Dakar and there is an agency in each of the other member States.

¹⁵Operations Account Convention, Dakar, 1973. Each central bank also has a French Treasury ordinary current account in places where it has its own establishment; the Operations Account is debited or credited with the amount of the transfers resulting from the levelling down or topping up of this account (Article 3).

¹⁶Collange P. and Plane P. (1994).

the amounts payable to them by foreign countries, including the WAEMU States and countries of the franc zone, for goods exported, and repatriate them to the bank of domiciliation.

(b) Payments for invisible transactions

30. Payments for invisible transactions may be made freely within the franc zone; other payments for invisibles are subject to prior approval by the Minister of Finance¹⁷; in practice, approved banks and post offices are empowered to authorize transfers of up to CFAF 50,000. Settlement of trade-related invisibles is permitted freely if the underlying trade transaction has been approved or does not require authorization. Transfers of profits, dividends and royalties to non-residents are subject to prior approval by the Ministry of Finance.

31. There is a ceiling on the amounts which residents travelling abroad for business or tourism may take outside the franc zone. In August 1993, following a flight of capital, the BCEAO suspended the buying of bank notes circulating outside the franc zone countries with operations accounts; non-residents' accounts can no longer be freely credited by deposits in CFA francs made through foreign correspondents. These accounts can no longer be debited either without prior authorization.

32. Foreigners working in Benin may transfer up to 50 per cent of their wages abroad if they live with their family in Benin and up to 80 per cent if their family lives abroad.

33. Receipts from invisible transactions must be collected and passed on within two months following the date they are due or encashed. Travellers may bring into Benin an unlimited number of banknotes issued by the BCEAO or the Banque de France. Foreign banknotes brought in by residents must be sold to an authorized bank within eight days.

(c) Transfer of capital

34. Capital may be freely transferred within the franc zone. Capital transfers outside the franc zone require the approval of the Minister for Finance. Investment abroad by residents is subject to prior authorization, including investment by branches or subsidiaries abroad of companies established in Benin. Borrowing abroad and the issuance, advertising or sale of foreign securities in Benin are subject to authorization by the Ministry of Finance.

35. Direct foreign investment in Benin is subject to prior declaration to the Ministry of Finance, which may postpone it for up to two months.¹⁸ Prior declaration is also required for the selling of any investment. All payments made from abroad to Benin with a view to direct or any other investment must take place through an authorized agent and must involve either a surrender of foreign exchange on the currency market or the debiting of a foreign account in francs.

¹⁷Benin signed Article VIII (Sections 2, 3 and 4) of the Articles of Agreement of the International Monetary Fund on 1 June 1996.

¹⁸Investment is deemed to be direct if it involves taking over control of the enterprise.