AFRICAN DEVELOPMENT BANK GROUP

STUDY ON THE INVESTMENT CLIMATE IN BENIN

PHASE 2

Final Report

WEST AFRICA REGIONAL DEVELOPMENT AND BUSINESS DELIVERY OFFICE
COUNTRY ECONOMICS DEPARTMENT
BENIN COUNTRY OFFICE

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TABLE OF CONTENTS

List of Figures

List of Tables

List of Boxes

Table of Partial Conclusions

LIST OF ABBREVIATIONS

AFD	French Development Agency
AfDB	African Development Bank
ANPME	National Agency for Small- and Medium-Size Enterprises
APBEF	Professional Association of Banks and Financial Institutions
BCEAO	Central Bank of West African States
BOAD	West African Development Bank
BRMN	Restructuring and Upgrading Office
BTC	Belgian Technical Cooperation
CCIB	Benin Chamber of Commerce and Industry
CS	Construction sector
CSSFD	Decentralized Financial Entities Supervision Unit
DFS	Decentralized Financial System
DGCE	General Directorate of External Trade
DPPME	Directorate of the Promotion of Small- and Medium-size Enterprises
EBID	ECOWAS Bank for Investment and Development
ECOWAS	Economic Community of West African States
GDP	Gross domestic product
GIZ	Gesellschaft für Internationale Zusammenarbeit/German Agency for International Cooperation
IFC	International Finance Corporation
INSAE	National Institute of Statistics and Economic Analysis
MEF	Ministry of Economy and Finance
MIC	Ministry of Industry and Trade
MPMEPE	Ministry of Small- and Medium-size Enterprises and Employment Promotion
PSDPME	Small- and Medium-Size Enterprise Strategic Development Plan
QSTM	Quality, Standardization, Testing and Metrology
RGE	General Survey of Enterprises
SME	Small- and medium-sized enterprise
SSA	Sub-Saharan Africa
WB	World Bank

NOWLEDGEMENTS

This study on the "Investment Climate in Benin" is the second phase of a more comprehensive "Study on Structuring the Private Sector for Development in Benin" provided for in the Bank's Country Strategy Paper 2017-2021 for Benin.

The first phase of the study carried out in 2019 undertook a situational analysis of the business environment and reforms, in particular the entrepreneurship promotion policy, public-private sector dialogue, the trade dispute settlement mechanism, the investment promotion mechanism, the private entrepreneurship incentive and promotion policy, training and capacity building, the setting up of business development services, access to markets, and the development of financial intermediation. The second phase, which is the subject of this report, broadens the scope of analysis of the previous study to cover all factors affecting the investment climate, particularly: political stability; macroeconomic stability; the availability, cost and accessibility of production factors (energy, transport, communication and information technology); the tax system; and the quality of financial and banking services.

This study on the Investment Climate in Benin was carried out by Mr Hamaciré Dicko, Senior Country Economist in the Benin Country Office, under the guidance of Mr Emmanuel Pinto Moreira, Director of the Country Economics Department (ECCE) and the supervision of Mr Guy Blaise Nkamleu, Chief Specialist, ECCE, and Dr. John Andrianarisata, Country Manager in the Benin Country Office.

The study terms of reference were prepared with contributions from Mr James TABI, consultant at the Non-sovereign Operations and Private Sector Support Department (PINS). The study report was validated during the Benin country team meeting held on 28 August 2020. All the comments and observations made by the country team have been reflected in the final version of the document. Contributions and comments were also received from staff in various Bank sector departments, namely Mr Guy Blaise Nkamleu, Chief Specialist (ECCE), Mr Jean Marie Vianney Dabiré, Chief Country Economist (ECCE), Mr Issiaka Coulibaly, Macroeconomist (ECCE), Mr Mohamadou Hayatou, Chief Private Sector Strategy Officer (PINS), Ms Jocelyne Anne-Muriel Ade-Legre, Principal Investment Climate Regulation Officer (PITD2), Ms Ma Soukha Ba, Senior Private Sector Development Officer (PITD1), Ms Aïcha Nono, Investment Officer (PICU4), Mr Thierno Mountaga Diarra, Principal IT Solutions Specialist (PITD3), and Mr Tidiani Ouedraogo, Gender Consultant (AHGC).

Mr Dieudonné Dahoun, Consulting Private Sector Specialist, and Mr Alain Babatoundé, Consulting Macroeconomist, recruited by the Benin Country Office, also contributed to the drafting of the report.

The report was the subject of a national consultation held from 5 to 24 November 2020 involving all stakeholders (public administration, private sector, civil society and technical and financial partners). The contributions and comments made by various national stakeholders have been reflected in the final version of the report. A national validation workshop could not be held due to the health situation caused by the COVID-19 pandemic.

EXECUTIVE SUMMARY

This study on the investment climate in Benin is a continuation of the one on the business environment carried out in 2019 by the African Development Bank.

That 2019 study adopted the conventional private sector development reform typology, mainly focusing on analysing the prevailing situation and reforms at the meso-economic level, particularly the entrepreneurship promotion policy, public-private sector dialogue, the trade dispute settlement mechanism, and the investment promotion mechanism. At the micro-economic level, it explored the private entrepreneurship incentive and promotion policy, training and capacity-building, the setting up of business development services (BDS), the development of financial intermediation, and access to markets.

The study carried out this year broadens the scope of analysis of the previous study to cover all factors affecting the investment climate, particularly: political stability; macroeconomic stability; the availability, cost and accessibility of production factors (energy - transport - communication and information technology, etc.); the tax system; and the quality of financial and banking services.

The analytical framework adopted for the study is based on the approach developed by Hausman, Rodrik and Velasco (HRV)[1], which helps to identify the main constraints on private sector investment in a given country. HRV therefore classify measures that can improve the investment climate and foster the expansion of private investment into two categories, namely: those that can increase the return on investment by remedying government shortcomings (human resources, infrastructure, sector policies for improving supply and demand, governance, macro-economic framework, legal and regulatory framework, etc.); and those that aim to reduce investment cost.

Economic activity in a country like Benin is generally determined by one of the following two factors: (i) high cost of investment; or (ii) low return on investment. Regarding returns, the problem stems from low economic (social) returns or a wide gap between social and private returns (i.e., low capacity of private ownership).[2] HRV's approach is based on the idea "that an investor will invest in a country only if he finds profitable investment opportunities and can borrow the needed resources at reasonable interest relative to the rate of return on investment".[3]

The study was carried out within an economic context marked by the closure of the country's border with Nigeria on 20 August 2019[4] and the outbreak of the coronavirus pandemic in March 2020. The border closure led to a slight dip in economic growth in 2019, with a real GDP growth rate of 6.9%. The imposition of COVID-19 restrictions on economic activity led to a reduction in external demand and the disruption of global trade and supply chains, thus slowing down growth in 2020. According to forecasts by the AfDB Statistics Department, growth is expected to stand at 2.3% in 2020. The growth rate in 2020 is lower than the estimated 5.7% average for the 2016-2019 period. Forecasts by the AfDB Statistics Department and the Government of Benin indicate that economic recovery driven by all sectors of the economy will pick up in 2021 with a growth rate of 4.8% to 6%.

1 Hausmann, R., Rodrik, D. & Velasco, A., 2005. Growth Diagnostics. Copy at http://www.tinyurl.com/y3y5zksu.
2 https://www.imf.org/external/pubs/ft/fandd/fre/2006/03/pdf/hausmann.pdf.
3 https://europa.eu/capacity4dev/file/76823/download?token=F6teQ-ML.
4 This measure did not only concern Benin, but also Niger, Chad and Cameroon.

Against this economic backdrop, the investment climate in Benin has improved significantly over the last two years, owing to the various reforms initiated since 2016 by the Government under the Government Action Programme (PAG 2016-2021). These reforms have improved Benin's competitiveness and attractiveness. The country is performing better than the average of sub-Saharan African countries in most international rankings. In the World Bank Doing Business Report 2020, Benin is ranked 149th (a score of 52.4 points) as against 155th (a score of 48.52 points) in 2017 out of 190 countries. The implementation of reforms in the domains of governance, the fight against corruption, public finance management and the development of utilities (electricity, telecommunications and ICT) have helped to reduce factor costs. Efforts should now focus on intensifying support to diversify production and strengthen linkages between the agricultural diversification policy and the trade facilitation policy.

The improvement of the investment climate depends on many factors which have been examined in detail in this study. These include human capital, public and private sector governance, fiscal and sector policies, infrastructure, and the legal and institutional framework. Improvement of the investment climate will help to strengthen the two main levers of private investment, namely: (i) improvement of goods supply and demand; and (ii) improvement of infrastructure.

The two pillars of the AfDB's strategy in Benin (i.e., development of agricultural and agro-industrial value chains; and strengthening of competitiveness and regional integration support infrastructure) are perfectly aligned with the levers of private investment. The first pillar of the Bank's strategy - "Development of agricultural and agro-industrial value chains" - supports the improvement of the goods supply and demand which is the first lever of private investment. The second lever, pertaining to infrastructure improvement, is supported by the second pillar of the Bank's strategy, namely "Strengthening competitiveness and regional integration support infrastructure". The AfDB also supports the reforms initiated to improve the business environment, the regulatory and institutional framework for the promotion of private investment, energy sector governance and energy inclusion through budget support operations.

The other technical and financial partners (TFPs) are supporting the Government in its efforts to introduce investment climate reforms in the macroeconomic framework, agriculture, energy and water, and human capital. However, TFPs have not yet begun to pay special attention to digital infrastructure, trade facilitation and access to financial services.

Given the scope of the reforms to be carried out and potential reciprocal adverse effects if the scope of activities is not well defined, it is advisable to adopt a sequential approach which prioritizes reforms that alleviate the most binding constraints and, hence, have the greatest impact. In this regard, a cross-cutting export support policy should underpin the investment attraction policy. This policy necessitates: (i) the strengthening of the competitiveness of three or four flagship agricultural export products (cotton, cashew nut, pineapple and soybean); (ii) development of the value chain of each of these products; and (iii) the improvement of access to markets by extending the road network, developing trade platforms and improving the performance of the Cotonou seaport, etc.

Thus, the proposed actions focus on trade facilitation, considering that appropriate actions would be implemented upstream to increase production and broaden the range of export products. These actions should essentially: (i) support the customs administration in the implementation of sector reforms; (ii) support efforts to enhance the competitiveness of Cotonou port; (iii) support actions to enhance the competitiveness of the South-North and East-West road corridors; (iv) support the development of a trade platform within the Glo-Djigbé Airport and the nearby Special

Economic Zone; (v) promote exports; (vi) support public-private sector dialogue; and (vii) lobby for compliance with sub-regional agreements on the free movement of goods and people. The recommended actions supplement those implemented upstream at the sector level to increase and diversify the product portfolio. They also complement the actions proposed under Phase 1 of the study.

This study, like the 2019 study, is being carried out within the framework of the implementation of the Bank's Country Strategy Paper (CSP) 2017-2021 for Benin. It is fully consistent with the Beninese Government's intention to ensure private sector participation in the financing of the Government Action Programme (PAG 2016-2021). This study will serve as a strategic tool for the AfDB and TFPs to foster dialogue with the Government and identify priority focus areas to help improve the investment climate in Benin.

1. INTRODUCTION

The Study on the Investment Climate in Benin is a continuation of the one carried out in 2019 by the African Development Bank which focused on the business environment. The business environment refers to all factors that have a direct effect on businesses, from their creation to their expansion and collapse. These include the conditions for starting a business, access to financing, financial intermediation, procedures for obtaining business information, tax facilities, access to markets, etc.

This study which focuses on the investment climate broadens the scope of analysis of the previous study to cover all political, legal, economic, social and cultural factors that influence an investor's decision to invest or not invest in a given country. These factors are numerous and include: political stability; public and private sector governance; macroeconomic stability; human capital; the availability, cost and accessibility of production factors (energy, transport, communication, information technology, etc.); the regulatory, legal and institutional framework; the tax system; financial services; etc.

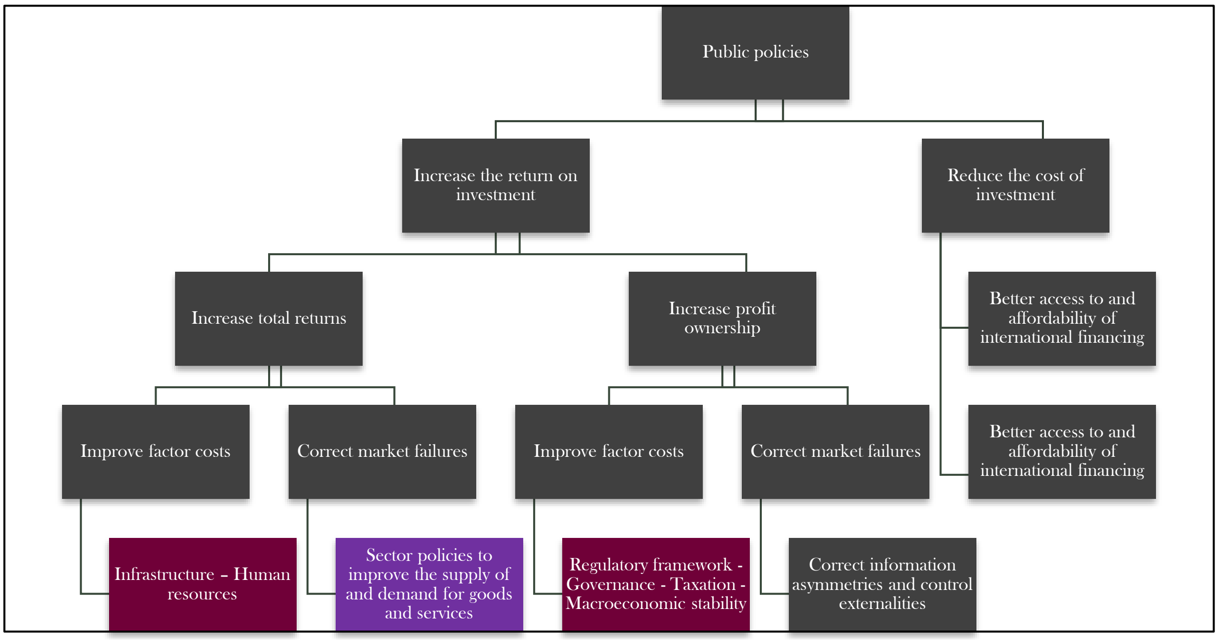
The analytical framework adopted for the study is the approach developed by Hausman, Rodrik and Velasco (HRV)[5] which helps to identify the main constraints to private sector investment in a given country. HRV therefore classify measures that can improve the investment climate and foster the expansion of private investment into two categories, namely: those that can increase return on investments by remedying government shortcomings (human resources, infrastructure, sector policies for improving supply and demand, governance, macro-economic framework, legal and regulatory framework, etc.); and those that seek to reduce investment cost.

The proposed methodology entails: (i) exploring each node of the decision tree in accordance with the HRV approach (2005); (ii) describing the reforms initiated since 2016 within each node of the decision tree; (iii) using a comparator to indicate whether the reforms initiated have helped to improve the efficacy of factors and have favourably impacted the investment climate.

The decision tree below illustrates the HRV approach.

[5] Hausmann, R., Rodrik, D. & Velasco, A., 2005. Growth Diagnostics. Copy at http://www.tinyurl.com/y3y5zksu.

Figure 1: Types of Private Investment Support Measures



Source: IMF Country Report No. 19/204 Benin: Selected Issues.

Besides the introduction and conclusion, the report comprises the following parts:

1. **Country Economic Context**, which presents the country's recent economic developments and outlook of the country;

2. **Investment Climate**, which analyzes public and private investment volume trends and assesses the investment climate through various indicators and various stakeholders;

3. **Factors Affecting the Investment Climate,** which focuses on: human capital; the status of public and private sector governance; public policies; infrastructure; the legal, regulatory and institutional framework; and TFP support to improvement of the investment climate; and

4. **Strategic Analysis of the Diagnosis**, which focuses on strategic analysis and the actions proposed to improve the investment climate.

2. COUNTRY ECONOMIC CONTEXT

2.1. Recent Developments

In 2019, Benin's economy was affected by closure of the country's border with Nigeria on 20 August 2019,[6] which led to a slight slowdown in economic activity despite a growth rate of 6.9% in 2019, compared with 6.7% in 2018. On the whole, it should be noted that over the last three years, growth has remained steady at an average rate of 6.4% during the 2017-2019 period, after decelerating by 1.8% in 2015 and 3.3% in 2016 due to low rainfall, disruptions in the distribution of electricity and a decline in economic activity in Nigeria.

Regarding supply, the tertiary sector (especially port activities) and the primary sector (especially agriculture) are the main drivers of growth, although the primary sector growth rate suffered a slight decline in 2019 (5.2% in 2019 as against 7.3% in 2018) that was largely offset by rapid growth in the secondary sector (13.6% in 2019 as against 4.8% in 2018). The rebound in secondary sector growth is attributable to the expansion of extractive activities (from 10.4% in 2018 to 13.2% in 2019) driven by the construction sector (which rose from 7% in 2018 to 19.1% in 2019) and excellent electricity, gas and water output, which grew from 3.2% in 2018 to 10.3% in 2019.

On the demand side, final consumption remains dominant at 78.8% of GDP in 2019, down by about 2% relative to 2018, due to the contraction of household consumption (3.4% in 2019 relative to 4.2% in 2018) and public consumption (5.7% in 2019 relative to 6.7% in 2018). Gross fixed capital formation (GFCF) decelerated in 2019 (10.2%) after peaking at 25.5% in 2017 and 16.3% in 2019, reflecting a decline in major PAG investments. The investment rate averaged 25.3% over the 2016-2019 period.

Inflation remains low and was estimated at -0.9% in 2019 relative to 0.9% in 2018, which is below the WAEMU convergence criterion of 3%.

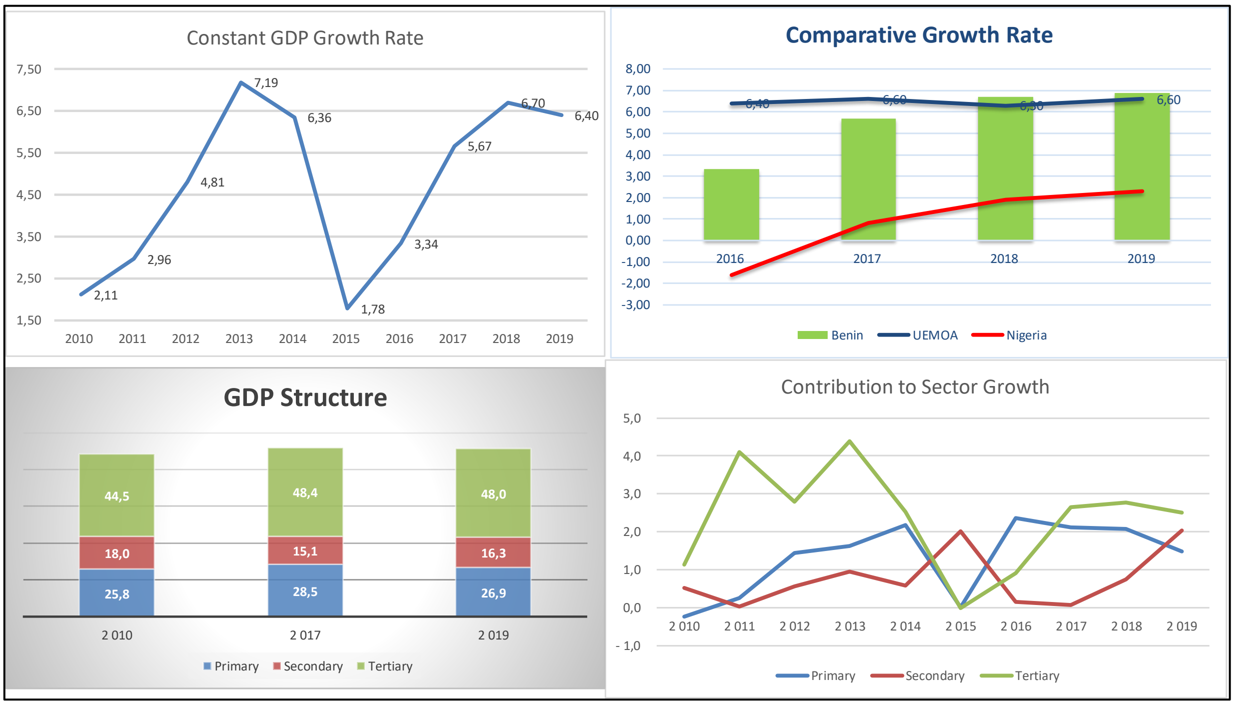
Concerning public finance, fiscal consolidation was continued in 2019, despite the slowdown in re-export activities due to the closure of the Nigerian border. Customs revenue rose by 7.9% between 2018 and 2019 to CFAF 358 billion, while domestic revenue increased by 11.7% to CFAF 535 billion. However, the tax burden remained low at 10.6% of GDP in 2019, well below the WAEMU community standard of 20% of GDP. The budget deficit (including grants) contracted sharply by more than two percentage points to 0.5% of GDP in 2019 compared with 3% of GDP in 2018, thanks to cuts in spending (14.6% of GDP in 2019, compared with 16.5% of GDP in 2018). The reduction in budget deficit in 2019 mainly stems from underperformance in public investments (CFAF 326.3 billion in 2019 relative to CFAF 443.3 billion in 2018, representing a 26.4% drop). The budget deficit was, for the first time, mainly financed by a Eurobond issued in March 2019 for EUR 500 million (equivalent to 3.9% of GDP) with a 6-year weighted maturity, a 6% interest rate and a three-year redemption plan covering the 2024-2026 period.

The current account deficit (including grants) increased in 2019 to about 4.7% of GDP, compared with 4.6% in 2018. Exports of goods and services declined by about 3% of GDP between 2018 and 2019 to stand at 21.9% of GDP due to the decline in trade with Nigeria. Goods imports also dropped in the same proportion to stand at 27.5% of GDP.

[6] This measure did not only concern Benin, but also Niger, Chad and Cameroon.

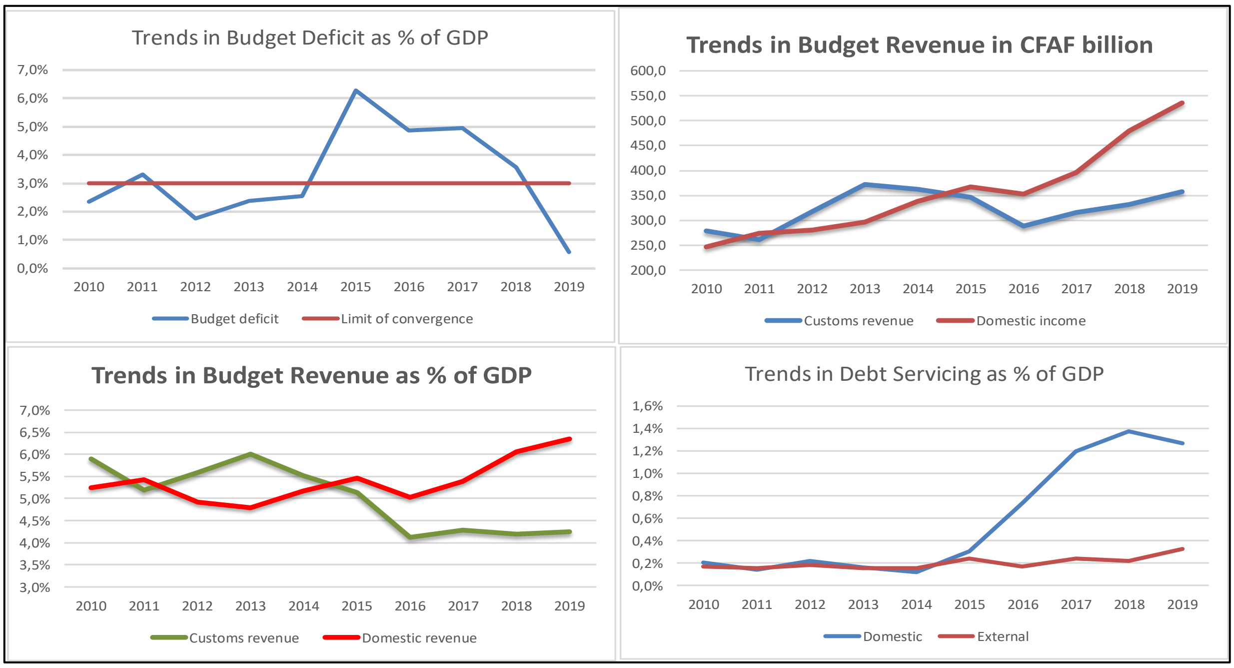
At end-December 2019, the outstanding public debt represented 41.4% of GDP, compared with 47.6% in 2016, due mainly to a GDP rebasing effect. The share of domestic debt dropped from 54.7% in 2016 to 41.7% in 2019 owing to the reprofiling of debt with resources from the Eurobond issue. The Eurobond issue helped to reduce the share of the portfolio exposed to foreign exchange risk. Thus, the proportion of loans exposed to the risk of exchange rate fluctuations stood at 27.8% in December 2019 compared to 66.2% at end-2016.

Figure 2: Trends in GDP and Its Components



Source: INSAE data (2020).

Figure 3: Public Finance Data Trends



Source: DGAE – Benin's Ministry of Economy and Finance.

2.2. Outlook

The impact of COVID-19 lockdown measures on economic activity, resulting in a drop in external demand and disruptions in global trade and supply chains will contribute to the slowdown of growth in 2020 and 2021. According to forecasts by the AfDB Statistics Department, the impact of COVID-19 is expected to limit growth at 2.3% in 2020. A recovery is expected in 2021 with a growth rate of about 6.5%, driven by all sectors of the economy.

Inflation is expected to increase slightly from -0.9 in 2019 to 2% in 2020, driven by rising food prices, particularly for rice (19%), cassava flour (24.2%) and palm oil (83.8%), owing to the COVID-19 pandemic. In 2021, the inflation rate is projected at 1.8% within a non-inflationary context, which is below the WAEMU convergence criterion of 3%.

The slowdown in economic activity in 2020 is expected to lead to a 6.5% drop in revenue and a 14.3% increase in spending, particularly on health care and economic stimulus measures. The country has adopted a COVID-19 pandemic preparedness and response plan for an amount of CFAF 389.6 billion[7] (representing 4.2% of GDP) in order to strengthen its capacity to curb the spread of the pandemic. In addition, on 10 June 2020, the Government gave its approval for the implementation of a programme worth CFAF 74.12 billion to support formal sector enterprises, artisans, informal sector petty trades, and vulnerable people (people living in poverty and extreme poverty). The budget deficit is expected to widen in 2020. Under the Amending Finance Law which is justified by the measures taken to control the pandemic and its impacts, the overall budget deficit is estimated at 5.1% of GDP. The budget balance is expected to improve in 2021 in view of the anticipated economic recovery to 4.5% of GDP under the 2021 Finance Law.

The outstanding public debt, initially estimated at 40% of GDP in 2020, has risen to 46.07% of GDP. Due to the impacts of the pandemic, the additional financing requirement is estimated at

[7] Benin COVID-19 Emergency Preparedness and Response Plan (April 2020).

3% of GDP. This gap is expected to be filled by raising resources from technical and financial partners, including the AfDB, through the Multi-Country COVID-19 Response Support Programme (PARCOVID-19) under the COVID-19 Rapid Response Facility, totalling USD 6.98 million. The latest IMF-World Bank debt sustainability analysis carried out in May 2020 shows that Benin has a moderate debt distress risk. Its level of indebtedness remains below the WAEMU convergence criterion (70% of GDP). Standard & Poor's has affirmed the country's rating at B+ with a stable outlook, confirming the robustness of its economic fundamentals.

Exports are expected to increase slightly by 4.8% in 2020, compared with 8.6% in 2019. The current account balance will improve slightly to -4% of GDP in 2020, compared with -4.7% in 2019 owing to a 4.6% drop in imports of goods and services (26.4% of GDP compared to 27.5% of GDP in 2019). In 2021, the current account balance is expected to deteriorate slightly to 4.4% due to a projected increase of 6.9% in imports.

3. INVESTMENT CLIMATE

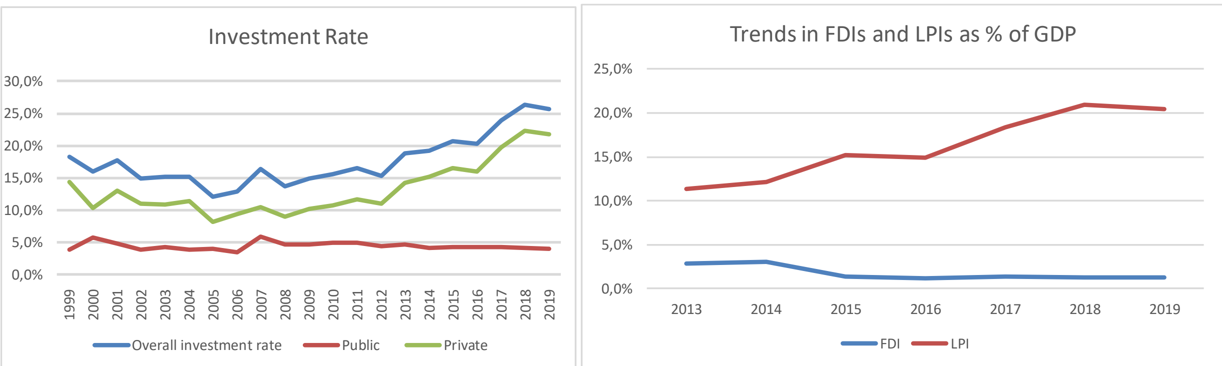
3.1. Public and Private Investment Trends

The average investment rate was 18% of GDP (with a 4.4% public investment rate) during the 1999-2019 period. The public investment rate remained constant over the same period, while the private investment rate rose from a low of 9.7% of GDP during the 2004-2008 period to a peak of 19.9% of GDP during the 2016-2019 period.

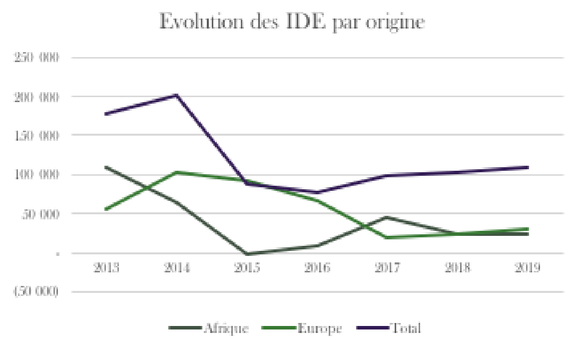
The rise in the private investment rate over the last four years stems from the options outlined in the PAG to base investment and growth on the vitality of the private sector. The improvement of the institutional framework for investment has contributed significantly to this trend. The local private investment (LPI) rate increased significantly from 12.1% in 2014 to 20.4% in 2019, down by one percentage point compared with 2018, falling short of the targets set out in the PAG.

Foreign direct investment (FDI) contracted by about 61% between 2014 and 2016, from CFAF 200.33 billion to CFAF 78 billion. Thanks to the opportunities created by the PAG, it rebounded once more to CFAF 98.12 billion in 2017 and CFAF 109 billion in 2019, representing an increase of about 39%, which is still far below the level attained in 2014. FDI represented only 1.3% of GDP in 2019, compared with 3.1% in 2014.

Figure 4: Comparative FDI and LPI Trends



Flux d'IDE en millions FCfa	2010	2018
G. Commerce de gros et de détail	11 033,4	73 815,3
H. Transports, entreposage	24 431,2	76 487,7
Total net	87 567,0	102 370,5
Source BCEAO		



Source: Calculation by D. Dahoun 2020 based on BCEAO 2020 and INSAE 2020 data.

The fact is that the contribution of the financial sector to private investment remains limited. The banking sector does not contribute significantly to the financing of private investment for the following four reasons: (i) commercial banks prefer to participate in sovereign lending operations within WAEMU because they are very profitable (6% to 7%); (ii) commercial banks face difficulties in financing some economic activities because of limited possibility of guaranteeing loans to small and medium-sized enterprises; (iii) the small size of the formal sector of the economy and the manufacturing sector; and (iv) the high cost of opening bank branches in rural areas. The microfinance sector lacks the capacity to finance private investment due to the absence of long-term resources.[8]

Despite the buoyancy of private sector investments, the enhancement of public investment effectiveness remains at the very core of growth and investment issues. Generally, investment decision-making by the private sector is based on the rationality of its economic options and its assessment of business climate stability. The good quality of public spending and effectiveness of public investment help to inform private sector options. In this respect, an IMF technical assistance mission fielded in February 2019 noted that progress has been achieved in public investment budget allocation and execution as well as public investment planning. However, there are still lingering weaknesses, notably the absence of a very good information system and better optimization of the public investment budget management framework.

3.2. Assessment of the Investment Climate Based on Various Indicators

Benin is ranked 149th (a score of 52.4 points) in the World Bank Doing Business Report 2020[9] as against 155th position (a score of 48.52 points) in 2017 out of 190 countries. The DB report indicates a steady improvement in the business climate since 2014. Between 2007 and 2014, the country's Ease of Doing Business Index (EDBI)[10] deteriorated steadily (137th out of 175 countries in 2007 and 175th out of 185 countries in 2013) before rallying back from 2014. In 2015, Benin already featured among the top 10 reformers and improved its ranking in subsequent years thanks to reforms. Its performance is the result of improvement in the reliability and transparency of land administration and the speedy processing of property transfer deeds. The setting of deadlines for processing property transfer deeds, the digitization of land registration procedures as well as the putting in place of a dispute management process have also contributed

[8] IMF, June 2019: IMF Country Report No. 19/204 Benin: Selected Issuess.
[9] http://francais.doingbusiness.org/fr/data/exploreeconomies.
[10] Ease of Doing Business Index (EDBI).

to improving the country's performance. However, more efforts need to be made with regard to getting credit, getting electricity and paying taxes.

The other indicator used to assess the investment climate is the World Economic Forum's Global Competitiveness Index. This indicator combines several investment climate criteria, particularly the macroeconomic environment, the quality of public institutions and the level of innovation and technology. According to the Global Competitiveness Report 2017, Benin's economy remains uncompetitive with an overall competitiveness index score[11] of 3.47 on a scale of 1 to 7. In 2020, the assessment yielded a score of 4.58, reflecting a significant improvement in the quality of many factors used to determine this indicator, namely electricity supply, quality of infrastructure and the macro-economic framework.

According to the World Bank's Country Policy and Institutional Assessment (CPIA),[12] Benin's score increased from 3.5 in 2019 to 3.6 in 2020; that is, the very first increase of this score during the 2010-2020 decade. This outcome reflects the significant progress made in four specific areas, namely: (i) economic management which has been improved through the regular publication of comprehensive statistics on debt management and sustained progress in fiscal consolidation; (ii) the financial sector which has remained resilient by pursuing reforms to comply with the international standard requirements of the Basel II and Basel III agreements; (iii) better health sector planning which has helped to raise the human capital score; (iv) progress regarding ownership rights with greater transparency in the land management system, the online publication of the land register and, above all, the issuing of a decree facilitating the conversion of occupancy permits into land titles recognized as guarantees by the banking system. This last measure has made it possible to formalize about 600 guarantees corresponding to CFAF 72 billion.

Regarding the AfDB's CPIA, the latest available figures for 2018 show that Benin has an average score of 3.9, which is higher than the West African average of 3.6. The best scores were obtained in economic management, fiscal, monetary and debt policies (above 4.5) and governance (4.0). The regulation of the business environment obtained a score of 3.7. Financial sector development and infrastructure development recorded the lowest scores of 3.3 and 3.2 respectively.

Furthermore, governance indicators, particularly the Transparency International's Corruption Perceptions Index, have improved. According to this index, Benin progressed from the 110th position in 2010 to the 95th position in 2016. Since 2016, the score and rank (I;R) have been improving: (39/100; 85/180) in 2017 to (40/100; 85/180) in 2018 and (41/100; 80/180) in 2019.

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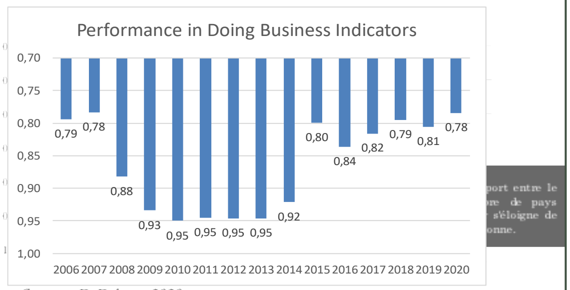
11 World Economic Forum Index (1-7). See the global rankings for that indicator or use the country comparator to compare trends over time.

12 The Country Policy and Institutional Assessment (CPIA) consists in assessing the progress made by countries in enhancing the quality of their policies and institutions in order to promote sustainable growth and reduce poverty.

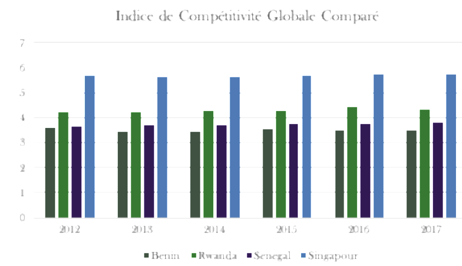
Figure 5: Competitiveness and Attractiveness Indicator Trends

	Classement						Nbr de rangs gagnés	
	2011	2015	2016	2017	2018	2019	2011-2015	2011-2019
Classement Global	**173**	**151**	**158**	**155**	**151**	**153**	**22**	**20**
Création d'Entreprise	154	117	115	57	56	61	37	93
Octroi de permis de construire	117	64	82	74	46	51	53	66
Accès à l'électricité	140	173	179	174	174	176	-33	-36
Transfert de propriété	130	165	172	172	127	130	-35	0
Obtention des prêts	126	116	133	139	142	144	10	-18
Protection des Investisseurs	155	135	150	145	146	149	20	6
Paiement des impôts et taxes	170	178	179	173	174	176	-8	-6
Commerce Transfrontalier	129	121	168	133	136	107	8	22
Exécution des Contrats	176	167	116	169	170	171	9	5
Règlement de l'insolvabilité	127	115	112	115	105	110	12	17

Source : site doing business World Bank 2020



Source : D. Dahoun 2020



Source : D. Dahoun sur base de données World Economic Forum

Box 1: Attracting Investments

All countries make the attraction of foreign companies a priority of their industrial policy. While territories need multinational companies, companies also need territories (Hatem, 2004). Multinational groups seek to leverage the vast array of advantages offered by the different regions of the world by optimizing the spatial structure of their activities and setting up their businesses where they hope to obtain the best resources and benefits. Meanwhile, local governments try to rely on multinational companies through their investments and related technology transfers to achieve their growth or employment objectives. In this regard, governments have, for several years now, embarked on policies to promote their territories, thereby strengthening factors of attractiveness to better meet the new requirements and expectations of multinational companies.

Companies choose their location based on the extent to which their objectives square with the attractiveness factors offered by the host country. Basically, they seek two major objectives (Chen and Ku, 2000; Markusen and Markus, 1999; Michalet, 1999; Yang, 1999). The first is the desire to make a horizontal investment – i.e., searching for new markets to sell their products by setting up in countries with growing domestic demand. Horizontal investments are intended, among other things, to serve the local market of the host country. The second objective is to make a vertical investment through a better rationalization of expenditure by setting up in territories with low production costs. This makes it possible to re-export the final product to the country of origin. With respect to this particular objective, the attractiveness factors sought by investors opting for a vertical strategy are generally provided by developing countries. Recent works underscore a new form of foreign direct investment. This is the "oblique model" whereby a multinational company invests in a host country considered as a "production platform" in order to export to a group of neighbouring countries (Eckholm, Forsild and Markusen, 2003).

Source: Summary of an article published in l'Actualité économique, volume 85, number 3, June 2009, pages 131 - 259.

3.3. Assessment of the Investment Climate by Stakeholders

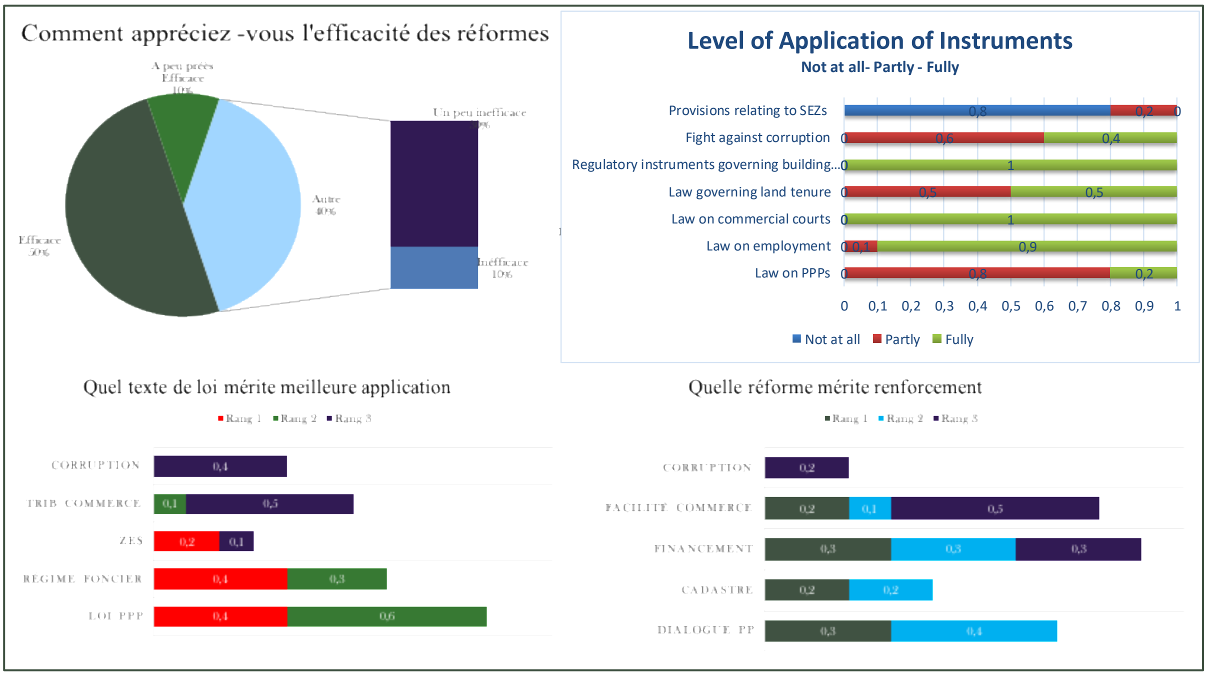
In a context where the Government of Benin has launched a number of initiatives to improve the investment climate, a questionnaire (see Annex) was designed to collect the opinions of stakeholders on the impact of the reforms implemented and to assess constraints on doing business in Benin. Due to COVID-19, the questionnaire was administered mainly by telephone from April to July 2020.

In total, 80 questionnaires, 60 of them for formal sector enterprises and producer platforms, 7 for technical and financial partners and 13 for government services, were administered. The average response rate was 70% for the formal sector, 100% for government services and 57% for technical and financial partners. The interviews revealed that stakeholders appreciate the efforts made to support the improvement of the investment climate, particularly concerning electricity supply, red tape, land management, and combatting corruption. However, the cost of electricity and access to credit are the main issues of concern. Banks are ill-equipped to assess risks faced by the production sector. It is necessary to build their capacity in assessing risks and to set up guarantee mechanisms to protect banks.

Fifty percent of stakeholders think the reforms undertaken by the Government are effective. However, some respondents expressed the feeling that the reforms are mainly focused on “Doing Business indicators”, with no consideration for their consistency with the needs of local actors, hence the need to strengthen public-private dialogue in order to reach a consensus on the reforms. It is necessary to intensify reforms in the domains of public-private sector dialogue, financing, cadastral survey and trade facilitation. According to respondents, these are issues of major concern. Thirty out of 100 respondents consider public-private sector dialogue as a major concern; 30 out of 100 respondents select financing; 20 out of 100 respondents indicate cadastral survey and the same proportion chose trade facilitation.

Stakeholders also mentioned the inadequate application of many legal instruments adopted (particularly the Law governing public-private partnership, the land tenure system, and the Special Economic Zone) as one of the factors affecting the investment climate. If this situation is not addressed, it could impede private sector investment.

Figure 6: Summary of Stakeholders' Views



4. FACTORS AFFECTING THE INVESTMENT CLIMATE

As stated in the introduction, the methodological approach adopted will consist in examining all decision tree factors suggested by HRV (2005), particularly those related to return on investments (human capital, governance, sector policies, infrastructure) and determining whether the reforms introduced since 2016 have helped to improve their efficacy and, therefore, the investment climate.

4.1. Human Capital

4.1.1. Background

Benin's population increased from about 878,000 in 1910 to 10,008,749 in 2013, representing a growth rate of nearly 100% in 100 years. According to the latest population census, 51.17% of Beninese are women and 55.43% live in rural areas. In 2015, life expectancy at birth was 59 years. The average population density in Benin is 87 inhabitants/km^2 and varies between 33 inhabitants/km^2 and 8,595 inhabitants/km^2. These demographic trends are creating a shortage of arable land and exerting anthropogenic pressure on forest resources. Benin has a very youthful population, with 46.7% aged 15 years in 2015.

Benin's 2018 Human Development Index (HDI) of 0.520[13] ranked the country in the "low human development" category, placing it at the 163rd position out of 189 countries. The HDI rose from 0.348 to 0.520, representing an increase of 49.5% from 1990 to 2018. Over the same period, life expectancy at birth went up by 7.7 years, the average number of years of education increased by 2.2 years, while the expected years of schooling rose by 7.3 years. The gross national income (GNI) per capita increased by about 49.1% between 1990 and 2018. Benin's

[13] http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/fr/BEN.pdf.

2018 HDI of 0.520 is above the average of 0.507 for countries in the low human development group and below the average of 0.541 for sub-Saharan African (SSA) countries. The SSA countries which are close to Benin in the 2018 HDI rankings and in population size are Guinea-Bissau and Rwanda, which have HDIs ranked 178th and 157th respectively.

In the education sector, the primary education GER[14] improved significantly from 97% in 2011 to 108.32% in 2019 after peaking at 124.8% in 2015. Greater attention is being paid to technical education, with the proportion of students in technical and vocational training (as a ratio of the total number of students in secondary (1st and 2nd cycle) education) rising from 2.69% in 2015 to 3.57% in 2018. Private sector development is dependent on the availability of technical skills, hence the need to prioritize vocational and technical training.

Regarding health, geographic access to health care and services, defined as the percentage of the population living within 5 kilometres of a health centre, is 66%. The health centre attendance rate was 51% in 2018. The percentage of births attended by skilled health and paramedics decreased to 74% in 2018 (Demographic and Health Survey (EDS-V)) as against 91.9% in 2017 (SSA) and 80.5% in 2016 due to the shortage of nurses and midwives. Immunization coverage (pentavalent 3 for children aged 0-11 months) has improved, with a rate of 109.3% in 2018 compared with 106% in 2017. In spite of the reforms introduced in recent years, health sector performance remains weak.

The labour force in Benin is mostly young, with 60% of workers aged between 15 and 34 years, predominantly rural (62% of workers living in rural areas) and poorly educated (about 70% of workers in Benin have a primary or lower level of education). More than half of the labour force is engaged in agriculture (52.6%). Trade is the second biggest sector with 21.4% of the work force, while services and manufacturing account only for 12.9% of total jobs. Self-employment is predominant, covering about 70% of the labour force. Unpaid family workers and apprentices account for more than 20% of the workers. The wage sector is small in size and represents only 16.4% of the labour force. Only about 30% of wage workers are in the formal sector (or about 5% of total jobs), while the remaining wage earners are employed in the informal economy.

4.1.2. Human Capital and Investment Climate

The impact of human capital on the investment climate will be assessed through changes in the Human Capital Index (HCI) launched for the first time in 2018 by the World Bank.[15] This index measures the amount of human capital that a child born today can expect to acquire by age 18. It reflects the productivity of the next generation of workers relative to a benchmark of complete education and full health.

Throughout the world, a child born in 2020 can, on average, expect to be 56% as productive as he could be growing up. This rate is 40% in Benin,[16] implying that a child born in Benin today can, on average, expect to be 40% as productive as he could be growing up, if he/she enjoyed complete education and full health. This figure is lower for Togo (43%) and higher for Côte d'Ivoire (38%). Between 2010 and 2020, Benin's human capital index rose from 37% to 40%.

Changes in the HCI depend on many factors stemming from the policies implemented in the education and health sectors. The basic factors are five-year survival probability, expected years

[14] The gross enrolment ratio (GER) for primary education is the total enrolment in primary schools, regardless of age, expressed as a percentage of the eligible official school-age population within the same level of education in a given school year.

[15] https://www.banquemondiale.org/fr/publication/human-capital.

[16] https://www.banquemondiale.org/fr/publication/human-capital#Data.

of schooling and adult survival rate. Thus, the five-year survival probability in Benin is 91%, which means that 91 out of every 100 children born in Benin survive to the age of 5; a child who begins school at the age of 4 can expect to complete 9.2 years of schooling by the age of 18; and the number of years actually spent in school is 5.7 years. Furthermore, the adult survival rate is 77%, which means that 77% of 15-year-olds will survive up to the age of 60.

Partial Conclusion 1: Human Capital and Investment Climate

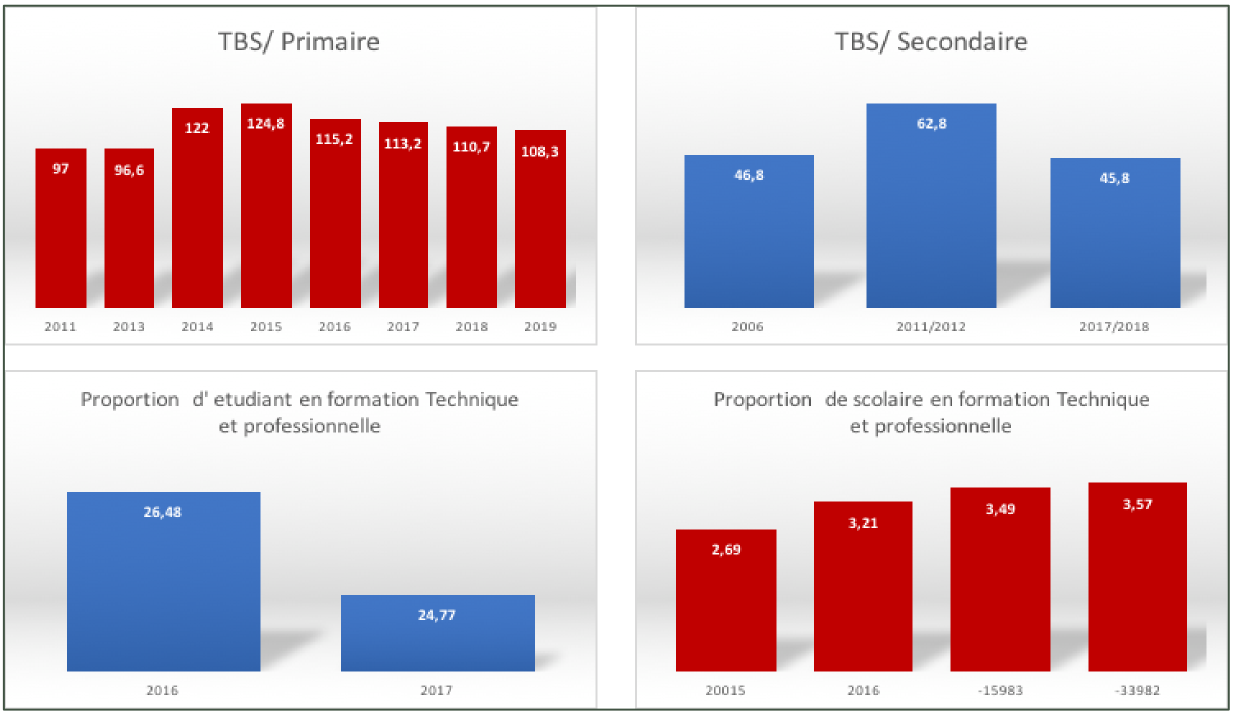
Benin's human capital index (HCI) follows a trajectory which indicates that the country's human capital development is gathering momentum year-on-year. This improvement in the human capital index partly explains the positive performance of Benin's CPIA assessment. Consequently, the conclusion by Karim Barhoum & al (2016) that human capital does not explain the low rate of return on economic activities and is therefore not an obstacle to increased private investment is not backed by evidence. The shortage of skilled labour in Benin is a challenge that can be addressed from a sub-regional and skill transfer perspective.

Table 1: Human Capital Index (HCI) Trends Between 2010 and 2018

	HCI			Main HCI Components in 2020			
Country	2010	2018	2020	Survival probability	Expected years of completion of schooling before the age of 18	Number of years of schooling	Adult survival
Benin	0.37	0.40	0.40	0.91	9.2	5.7	0.77
Togo	0.37	0.42	0.433	0.93	9.7	7.1	0.76
Côte d'Ivoire	0.30	0.37	0.38	0.92	8.1	4.8	0.78

Source: Authors, based on World Bank data (2020).

Figure 7: Key Training Data



Source: Based on the revised data of indicators of priority SDG targets, 2020.

4.2. State of Public Governance

Public investment is an important lever for private investment in countries with good public governance (compliance with the rules governing the separation of powers by ensuring transparency in public finance management and award of public contracts) because it provides efficient and cost-effective basic services (energy networks, roads, logistics, means of communication) needed by the private sector to invest. Where strong legal institutions and an appropriate property rights protection mechanism exist, public action serves as a genuine driver of private investment. Good quality public governance is therefore a stimulus for private investment.

The aspects of public governance considered here include political governance, justice, the procurement system and anti-competitive practices, transparency and the fight against corruption and money laundering, access to land, and public corporate governance.

4.2.1. Political Governance

Political governance in Benin has undergone major changes over the last two years with a major overhaul of the Constitution[17] on 1 November 2019. In addition, the reform of the party system compelled many political parties and movements to merge. The country now has about ten political parties recognized by the State as against more than 200 parties prior to the reform. The Electoral Code and the Charter of Political Parties were also amended in 2019. There is freedom of association reflected in the existence of hundreds of trade unions and a dozen trade union federations and confederations. However, the fragmentary nature of the trade union landscape is an impediment to social dialogue. The media landscape is highly diversified and evolves within

[17] Law No. 2019-40 amending Law No. 90-32 of 11 December 1990 on the Constitution of Benin.

an organizational framework under the supervision of the High Audiovisual and Communication Authority (HAAC).

4.2.2. Judicial System

Benin's judicial system comprises 80 local courts of conciliation (conciliation courts), 14 courts of first instance (CFI), three fully functional courts of appeal, the Supreme Court and the newly-created Court of Auditors. Two commercial courts and a Special Court for the Prosecution of Economic Crimes and Terrorism (CRIET) were created in 2018.

Access to justice is still a major concern due particularly to the inadequate coverage of the national territory by courts and tribunals. Preserving the independence of the judiciary is a permanent challenge to which all sector players are committed. The constitutional amendment of 1 November 2019 led to the modification of the functioning of the Supreme Council of the Magistracy which is no longer chaired by the President of the Republic. The aim is to limit political interference which could undermine the independence of the judiciary in the appointment and posting of judges. The setting up of commercial courts and the on-going efforts to operationalize the Arbitration, Mediation and Conciliation Centre contribute to securing private investments. The average time taken by the Commercial Court to hear disputes has been reduced from more than 300 days to 57 days in two years.

4.2.3. Procurement System and Anti-competitive Practices

To enhance public procurement efficacy and efficiency, the Government has provided for three key areas of public procurement reform in its 2016-2021 Action Programme, namely: revision of the Public Procurement Code, modernization of public procurement procedures and professionalization of field actors. Thus, the legal framework governing public procurement was renewed through the promulgation, on 13 June 2018, of Law No. 2017-04 of 19 October 2017 instituting the Public Procurement Code in the Republic of Benin. The implementing decrees of the Public Procurement Code were issued to enable the full implementation of the innovations contained in the law.

However, after about three years of implementation, the Government has just tabled before Parliament (1 July 2020) a bill to amend Law No. 2017-04 of 19 October 2017 instituting the Public Procurement Code in the Republic of Benin. This bill seeks to amend the provisions of the law in force which does not contribute to improving the competitiveness of bidding processes, but makes them more complex or extends procurement deadlines. The main amendments contained in the bill concern, among other things, alignment with international standards, particularly the best practices recommended by the West African Economic and Monetary Union (WAEMU) guidelines.

The country has also put in place a legal framework governing competition which is based on the relevant WAEMU legislation and recognizes the domains that fall within the exclusive remit of the WAEMU Commission.

4.2.4. Transparency and the Combat Against Corruption and Money Laundering

Regarding corruption control, the Government, through the National Anti-Corruption Authority (ANLC) and the National Financial Information Processing Unit (CENTIF), has made significant efforts to prevent and combat corruption. In February 2019, Parliament passed the Law on Strengthening Public Governance. This law allows the State to prosecute any official who misleads the government through acts and actions that have a negative impact on public finance. Furthermore, in June 2018, Parliament passed a law on combating money laundering and terrorist financing which enables Benin to harmonize and strengthen its national regulations in conformity with the new measures in force in the West African Economic and Monetary Union (WAEMU), in order to combat financial crimes.

With regard to the observance of international governance standards, Benin ratified the United Nations Convention against Corruption in 2005, followed by the African Union Convention against Corruption and the Economic Community of West African States (ECOWAS) Anti-corruption Protocol.

These reforms have contributed to improving Benin's corruption perceptions indices. According to Transparency International's Corruption Perceptions Index, the country moved from the 77th position in 2000 to the 88th in 2005, 110th in 2010 and 95th in 2016. Since 2016, the score and rank (I; R) of this index have improved steadily from (39/100; 85/180) in 2017 to (40/100; 85/180) in 2018 and (41/100; 80/180) in 2019. Similarly, between 2015 and 2018, the "Transparency, Accountability and Corruption in the Public Sector" index, a component of the CPIA (AfDB), was more or less stable with a score of 4.0. The improvements in these indicators are a result of the reforms implemented to enhance transparency in public finance management, procurement and accountability. Furthermore, the setting up of a Special Court for the Prosecution of Economic Crimes and Terrorism (CRIET) has helped to combat impunity and financial crime.

4.2.5. Access to Land

Most of the land tenure reforms implemented in the Republic of Benin are enshrined in Law No. 2013-01 of 14 August 2013, as amended and supplemented by Law No. 2017-15 of 10 August 2017. To implement the law, some fifteen decrees have been issued to take into account the various reform aspects. The legal arsenal has been developed to place land at the forefront of investment. Most of the options provided for in the Land Code help to promote and secure local and foreign investments. These include:

(i) Private ownership instead of the state ownership system: Under the state ownership system, individuals enjoy only temporary tenure, or any other right, except ownership, since all land belongs to the State. Meanwhile, private ownership allows individuals to hold a title deed in their own name, enabling them to obtain credit from financial and banking institutions. Access to land is guaranteed for citizens and foreigners alike.

(ii) Land protection method: Gaining access to land without an effective mechanism to secure it can jeopardize investments. To protect investments made based on land guarantees, the Republic of Benin has opted for an original land securement system, namely the confirmation of land ownership rights culminating in the issuance of a final and unassailable land title. This system, unlike that of registration, is advantageous in that it effectively reinforces ownership rights.

(iii) Absolute inalienability of land titles: According to the standards defined by the Organization for the Harmonization of Business Law in Africa (OHADA), the land title is the main deed that can be used to guarantee a mortgage. Prior to the reform, the land title could, despite its permanent and unassailable nature, be challenged before the administrative judge who could annul it. This situation creates a climate of insecurity for financial institutions which could lose their guarantee through the cancellation of the land title. Under such conditions, the chances of recovering a debt could be permanently compromised. The land legislation in force protects the land title, once it is drawn up, against any situation that could annul it. This is an important security guarantee for investors when mobilizing capital. Moreover, the current format of the land title issued in Benin is very secure and infalsifiable.

In addition, on the strength of reforms, the Beninese lawmaker has instituted and elevated the Customary Certificate of Right of Occupancy (ADC) to the status of a title deed that can be used as a guarantee for land loans. It is a presumptive deed of ownership issued on land not yet covered, in principle, by another presumptive deed of ownership.

Concerning the acquisition of real property in urban or peri-urban areas, the principle enshrined in Benin's land tenure legislation is access to land for all, regardless of social class, gender, race or other factors. However, Section 14 of Law No. 2013-01 of 14 August 2013 instituting the Land Code in the Republic of Benin, as amended and supplemented by Law No. 2017-15 of 10 August 2017, lays down a reciprocity requirement for non-nationals. However, this condition in no way hinders a non-Beninese citizen from obtaining land, since in reality, it is very easy to provide evidence that in almost all countries around the world, particularly out of Africa, Beninese have access to land and settle down with no difficulties.

Moreover, the reciprocity requirement generally has no effect on foreign capital investment projects. Investors generally operate through legal persons such as commercial companies and economic interest groups incorporated in Benin and, therefore, governed by Beninese law, which does not require any evidence of reciprocity.

In rural areas, Law No. 2013-01 of 14 August 2013 instituting the Land Code in the Republic of Benin, as amended and supplemented by Law No. 2017-15 of 10 August 2017 and Decree No. 2015-029 of 29 January 2015 laying down the terms and conditions for the acquisition of rural land in the Republic of Benin do not provide for any reciprocity requirement.

In concrete terms, the initiative taken in 2016 to abolish registration fees so as to strengthen land reform has led to an increase in the number of land title registrations. The National Land and State Property Agency (ANDF) is working to advance the electronic recording of land titles – which has already been completed for the city of Cotonou – by extending the process to the entire country. In 2019, a decree was issued to facilitate the conversion of occupancy permits into land titles – which are recognized as collateral by the banking regulator. This should result in a decrease in banks' provisioning and an improvement in their financial position. The Government also established a Trade and Personal Property Credit Register (RCCM) and is planning to provide electronic access to the register. Lastly, Benin is gradually putting in place a national land register which is a key instrument for securing its heritage. So far, the land register of three major municipal councils in the country has already been digitalized and can be consulted online. It provides the basic useful information on how to verify the existence of a plot of land that one intends to buy.

The full implementation of these measures will enable banks to reduce the level of provisions and ultimately increase their capacity to lend to the private sector. CPIA 2020 (World Bank) underscores this aspect when it states that progress on property rights, including greater transparency in the land management system, online publication of the land register and facilitation of the conversion of occupancy permits into land titles, enhance the credibility and effectiveness of the land tenure system in Benin.

4.2.6. Corporate Governance and Public Audit

At present, the public portfolio consists of 180 public administrative establishments (PAEs) and 24 public industrial and commercial establishments (PICEs). On the whole, the turnover of PAEs over the 2016-2019 period was on the upward trend. It was expected to rise from CFAF 54.7 billion in 2016 to CFAF 68.2 billion in 2019, representing an increase of 24.7%. The turnover of PICEs also increased over the same period, from CFAF 194.8 billion in 2016 to CFAF 276.6 billion in 2019, up by 42.0%.

Public enterprises continue to be a burden on the government budget in one form or another owing to their poor economic and financial performance and failure to pay shareholder dividends to the government. The Government has therefore tabled a bill before Parliament to improve the legal framework for the setting up, organization and functioning of public enterprises and also initiated major governance reforms for some of them.

Two PICEs, namely the Benin Electricity Corporation (SBEE) and the Contonou Port Authority (PAC) are operating under a management contract. The objective of the government, the shareholder, is to ensure the optimal delivery of a high quality public service through efficient management of the public utility tool. Eight PICEs have also concluded performance contracts with the government, while the National Petroleum Products Marketing Corporation (SONACOP) has been placed under provisional administration in order to resolve the serious difficulties related to its operations and financial losses.

The government is planning to generalize the conclusion of performance contracts to all the enterprises in its portfolio, in accordance with the provisions of Law No. 2020-20 of 20 July 2020 on the creation, organization and functioning of public enterprises in the Republic of Benin. This law provides for the drafting of a consolidated report on the economic and financial situation of public enterprises to be appended to the finance laws.

Regarding government audit, major steps were taken to reform administrative control bodies. The objective of this reform is to facilitate the introduction of a performance culture in the government and step up the fight against impunity by reorganizing the control bodies and implementing measures aimed at their professionalization. This will be achieved by: (i) transforming the Inspectorate General of Finance (IGF) into the central body responsible for operational coordination of the activities of the Government's internal audit units and for monitoring the actions taken by the various ministries in response to the main audit recommendations; (ii) putting the sectoral ministries back at the centre of the ministries' internal control system; (iii) finding a long-term solution to the shortage of quality human resources within the Government's internal audit bodies; (iv) reducing the vulnerability of audit institutions and increasing their contribution to the effectiveness of services; and (v) providing auditors with sufficient resources to perform their assignments.

To that end, the Government overhauled the regulatory framework. The new instruments formalize a paradigm shift and provide for transitioning from the "inspection-verification" approach to the "internal audit" concept in all its forms. The aim of the new "internal audit" approach is to bring value added to managers, particularly through advisory assistance, with a view to attaining the strategic, operational, and regulatory objectives. The proposed instruments will therefore enable Benin to adopt international standards and overcome the institutional and regulatory obstacles hindering the effectiveness of its internal control and audit activities within the public administration of Benin. The strengthening of internal control and proper management of government resources is a guarantee for the development of private investment.

4.2.7. Public-Private Sector Dialogue

The implementing instruments of the law instituting the investment code provide for a framework for public-private sector dialogue considered ineffective at the moment by private sector actors. As indicated above, these actors feel that the reforms are designed and implemented using a "top down" approach without determining whether they address the needs of local stakeholders in Benin. It is necessary to qualify this view of private sector actors by mentioning that frameworks for consultation and dialogue have been established at sector level on issues related to the organization of key agricultural production sub-sectors.

In addition, the private sector as well as representatives of civil society organizations and trade unions participate in discussions on the Government's budgetary options within the framework of the Economic and Social Council of which they are members. The Ministry in charge of finance also holds periodic consultations with private sector actors on tax issues. Similarly, the Chamber of Commerce and Industry (CCI) of Benin hosts the platform for public-private sector dialogue on quality which is a framework for consultation and interactive exchanges between public and private sector actors on quality and policy guidance on quality in Benin. Improvement of the investment climate partly depends on the strengthening of public-private sector dialogue.

Partial Conclusion 2: Public Governance and Investment Climate

Fragmentation of the political space which spawned a multiplicity of political parties with no strategic vision was hitherto considered as an impediment to growth. The political reforms introduced in recent years have promoted the establishment of an environment where policymakers will be increasingly encouraged to initiate investment climate-friendly reforms. Moreover, now more than in the past, citizens have greater access to information on the performance of public authorities and are pressing for greater accountability.

On the whole, public governance is improving remarkably in areas such as politics, procurement, dispute settlement, land tenure security and the fight against corruption and financial crime. The good performance of Benin's Doing Business indicators is due largely to the good results obtained in the area of governance. In addition, reforms in public portfolio management offer positive prospects for national and foreign investors should the government withdraw from some sectors. They also have an impact on the cost of factors of production over which the government has a monopoly (water, electricity, telecommunications).

All in all, the smooth functioning of institutions, compliance with best practices in budget transparency, procurement, competition, etc. can enable the government to effectively and efficiently carry out the basic public investments needed to attract private investment.

Therefore, despite the temporary dysfunctional political reforms, public and private sector governance is not to blame for the low rate of return on economic activities and ought not to be a major impediment to the expansion of private investment.

4.3. Public Policies

4.3.1. Fiscal Policy

The fiscal policy reforms carried out in recent years are reflected in the good performance of key public finance indicators as presented in the paragraph on public finance. The fiscal transition, a tariff revenue and domestic taxation inversion, is being implemented. The scissors effect of this inversion was felt in 2015. However, to sustain the trend, it will be necessary to support recovery of the main domestic revenue components, particularly value added tax (VAT), whose performance has improved in recent years with the generalization of the use of electronic billing machines.

Changes in tax expenditure could also impact such inversion. Reforms should be introduced in the investment incentive system which is a major component of tax expenditure, in order to align it with international best practices. Specifically, concerning VAT exemptions, customs duties and corporate income tax granted on a project-by-project basis (agreements or investment code), it is necessary to examine the option of refocusing the entire investment incentive system on an investment tax credit mechanism which offers an attractive investment climate while facilitating the control of tax expenditure.[18] The outcomes mentioned above which are the result of many reform actions have contributed to improving the investment climate. These actions include:

(i) Modernization of payment procedures and methods at the General Directorate of Taxation (DGI) and generalization of electronic filing and telepayment in taxation centres: This reform enables medium-size enterprises to file tax returns and pay taxes online, thus making tax procedures more flexible. It also enables the DGI to create a database on taxpayers' returns and to limit contact between taxpayers and taxation officers, thus helping to facilitate business.

(ii) Launching of the "e-Reporting" platform for the online submission of corporate financial statements: This reform is aimed at: (i) collecting and securing financial statements; (ii) setting up a reliable database; (iii) facilitating the processing of financial statements; (iv) reducing the cost of tax collection; and (v) improving customer service and correcting inequalities in the treatment of users. The reform also has many advantages for (i) taxpayers (reduces the last-minute deadline-related stress to the maximum, speeds up tax return procedures and also reduces the cost of producing financial statements and obtaining the electronic filing certificate online) and (ii) other DGI partners, namely the Central Bank of West African States (BCEAO), the National Institute of Statistics and Economic Analysis (INSAE), and the Trade Court (collecting financial statements electronically and using the data contained therein with ease).

(iii) Effective operationalization of the Single Window for Foreign Trade (GUCE) at the Customs Service to dematerialize customs clearance operations: Thus, (i) the GUCE portal is available; (ii) the interface between the GUCE and the goods tracking system established to ensure better monitoring of cargo is operational; and (iii) import declarations are henceforth centralized at the GUCE which, among other things, helps to improve customs revenue forecasts, and to facilitate transactions for importers.

Table 2: Key Tax Provisions in Force

DIRECT TAXES	INDIRECT TAXES
• Corporate income tax (PLC and LLC): 25%/30% • Minimum Flat-rate Tax: 0.75% (or CFAF 200/month) • Employer Pay Contribution (EPC): 8% • Business Licence: (fixed or pro-rata duty on rental value) x % (17% in Cotonou) • Property Tax (TFU): companies collect it on their leased buildings or 5%/6% built/vacant lot	• 18% VAT (single rate) • Single Special Tax on Petroleum Products (SSTPP) • Financial Activity Tax (FAT): 10% • Registration, transfer and stamp duty

[18] World Bank 2018: Bénin Analyse de la mobilisation des recettes fiscales http://documents1.worldbank.org/curated/en/826861569525907196/pdf/Republique-du-Benin-Analyse-de-la-Mobilisation-des-Recettes-Fiscales.pdf.

• Stockholders' Tax (IRVM): 10% where dividends are shared • Graduated Income Tax (IPTS): progressive scale of 5 instalments from 0% to 50%	

The reference framework for all these fiscal reforms is the West African Economic and Monetary Union (WAEMU) Directive No. 06/2009/CM/UEMOA which was transposed into national law by Law No. 2013-14 of 27 September 2013 on the Organic Law relating to Finance Laws (LOLF). The legal and regulatory instruments governing public finance are supplemented by a series of decrees issued in 2014 and 2015 to define the standards for public finance accounting and statistics. The new reference framework for public finance management introduces a medium-term fiscal policy, thus enhancing the effectiveness, efficiency, transparency and legibility of public spending, particularly by transitioning from resource-based budgeting to programme-based budgeting guided by public policies.

Partial Conclusion 3: Fiscal Policy and Investment Climate

The implementation of fiscal reforms is a permanent process whose pace and relevance can impact the investment climate. The reforms being implemented, which range from fiscal transparency to the institution of tax incentives, would boost private investment.

However, besides the performance of financial services, there is a need to further ease, clarify and simplify relations between the private sector and the administration, since they constitute the main concerns of private sector actors who are the beneficiaries of the reforms. The size of the informal economy is sufficient evidence that, in spite of on-going reforms, tax rates and procedures continue to create distortions to incentives for investment in the formal economy.

The various reforms to dematerialize procedures and clarify tax laws, which have contributed to improving the investment climate, should be pursued in order to consolidate the achievements made.

4.3.2. Agricultural Policy

The agricultural sector is at the heart of Benin's national development strategies. Agricultural represented about 20% of the national GDP over the 2011-2019 period, exceeding trade (13% of GDP on average over the same period) and the agro-food industry (about 6%). This is a strong trend that should be maintained at least in the medium term considering that the sector is prioritized in the National Development Plan (PND 2018-2025). It employs about 70% of the workforce, generates 75% of export earnings and 15% of public revenue. The sector has considerable potential and offers real opportunities for private investors.

Table 3: Agricultural GDP Growth Trends

Indicators	2011	2012	2013	2014	2015	2016	2017	2018	2019
Agricultural GDP growth rate (in %)	0.2	6.1	7.2	10.5	-1.0	11.0	8.7	8.7	4.9
Share of agricultural GDP in national GDP (%)	20.2	20.3	20.2	20.1	20.0	21.2	22.4	22.0	20.9
Economic growth rate (%)	3.0	4.8	7.2	6.4	1.8	3.3	5.7	6.7	6.9

Sources: D. Dahoun, INSAE database, 2020.

However, production is still dominated by family farms and remains highly vulnerable to the vagaries of climate. Incomes and productivity are low and manpower is only partially valued, making agricultural products very uncompetitive. The financing requirements for medium- and long-term agricultural investments, which could constitute a niche of opportunity for investors, remain unmet. The increase in agricultural production is driven by the expansion of cropland rather than an increase in yields which remain low. Table 4 below presents yields per crop.

Table 4: Crop Yields by Agricultural Sub-sector

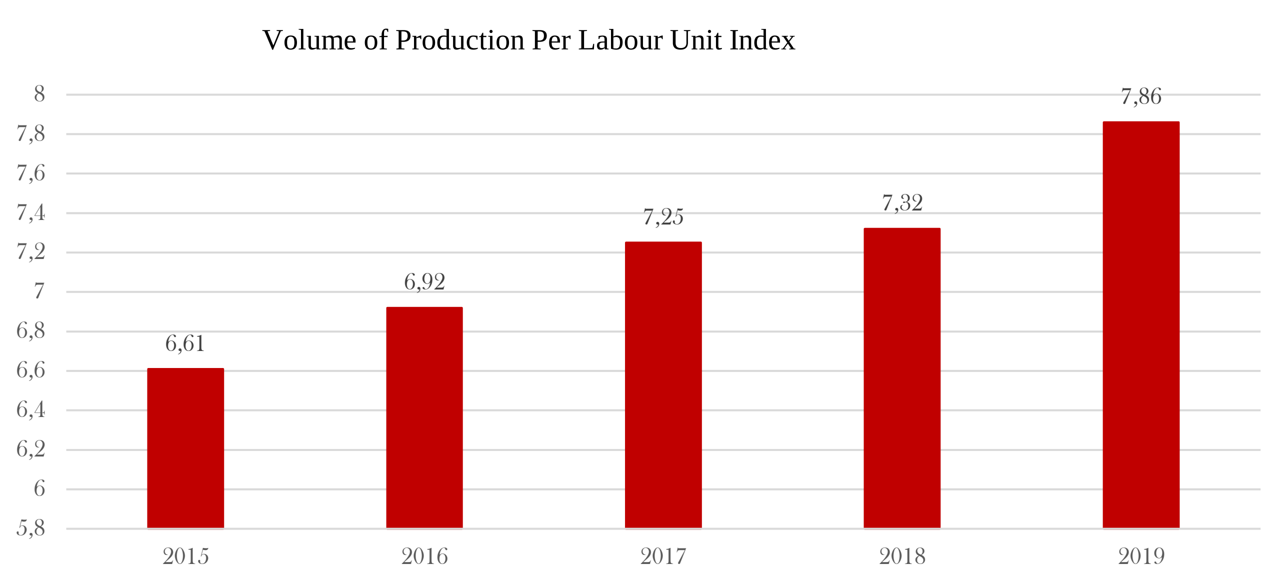
	Surface Area (ha)				Yield (kg/ha)			
Crops	**2016**	**2017**	**2018**	**2019**	**2016**	**2017**	**2018**	**2019**
Maize	1 000 361	1 166 766	1 161 765	1 470 250	1 376	1 298	1 329	1 075
Rice	82 351	99 831	111 376	102 418	3 417	3 619	3 364	3 965
Sorghum	131 906	168 232	153 058	151 065	983	919	1 043	1 059
Yam	205 658	235 325	252 096	235 331	14 788	13 311	13 301	14 301
Cassava	297 978	338 032	321 885	319 299	13 062	12 707	13 435	14 173
Tomato	40 177	41 339	47 588	39 833	8 348	8 220	7 569	9 044
Pepper	27 729	27 923	30 324	27 981	3 183	3 296	3 368	3 103

Source: DSA/MAEP database, 2020.

Conversely, the "Volume of Production per Labour Unit" Index has increased significantly since 2015,[19] rising from 6.61 in 2015 to 7.86 in 2019, largely due to the performance of the cereal and cotton sub-sectors during that period. The increase in the Volume of Production per Labour Unit Index should help to attract private investors to the agricultural sector.

19 The volume of production per labour unit is the total quantity produced per labour (employed, permanent or seasonal and self-employed) unit.

Figure 8: Volume of Production per Labour Unit



Source: Review of indicators of priority SDG targets, DPP/MAEP, DGCS-ODD, 2020

Similarly, agricultural production increased over the 2016-2020 period, particularly cotton, pineapple, cashew, yam, rice and maize production. The agricultural sector therefore offers considerable potential for private investors. Table 5 presents agricultural production trends.

Table 5: Agricultural Production Trends

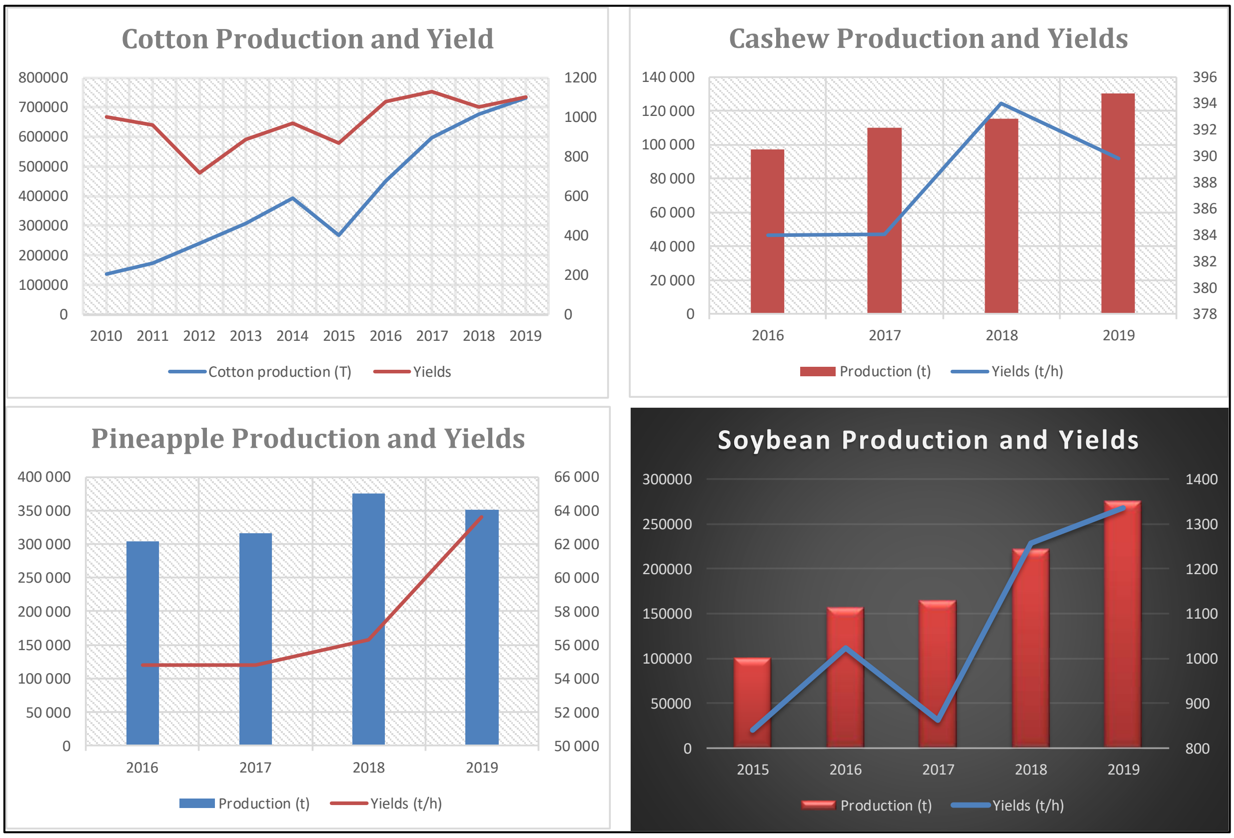
In Tonnes	2016/2017	2017/2018	2018/2019	2019/2020
Food crops				
Cereals	1 814 289	2 061 189	2 109 384	2 177 787
Roots and tubers	6 994 622	7 488 885	7 742 026	7 955 450
Dried vegetables	420 148	464 573	502 564	583 668
Leaf vegetables	108 814	120 441	92 592	90 910
Fruit vegetables	62 401	50 997	33 828	46 047
Market gardening	730 728	733 895	716 917	706 346
Cash crops				
Cotton	451 210	596 000	678 000	732 273
Pineapples	303 887	316 276	374 601	350 345
Cashew	97 518	110 117	115 590	130 276

Source: DSA/MAEP database, 2020.

Benin's main exports are agricultural products, particularly cotton (about 66% of total exports) and cashew nuts (11%). It also exports pineapples and soybean, though their values are still low. Cotton product sales on the international market fetched USD 456.51 million in 2019, while cashew nuts earned USD 69.74 million, [20] meaning that opportunities do exist for the development of export sub-sectors by private investors. However, to attract investors, the Government should pursue efforts to intensify research and innovation, increase productivity and yields, promote processing, ensure compliance with norms and quality standards, and better organize marketing and sub-sector actors. The main agricultural exports and their values are shown in Figures 9 and 10.

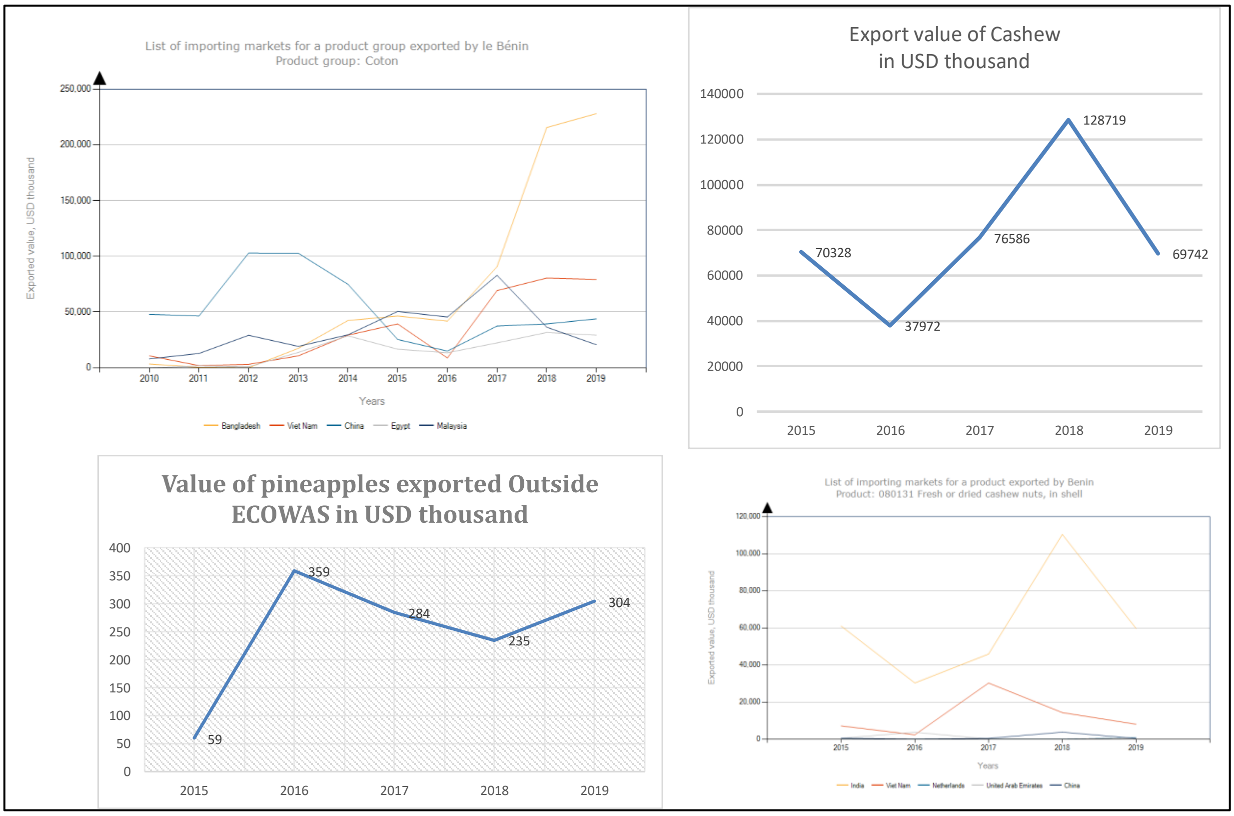
[20] D. Dahoun 2020, based on Trade Map data; https://www.trademap.org/.

Figure 9: Main Agricultural Exports



Source: D. Dahoun 2020, based on MAEP & Trade Map data; https://www.trademap.org/.

Figure 10: Agricultural Products and Access to International Markets



Source: MAEP & Trade Map data; https://www.trademap.org/.

To facilitate private investments in the agricultural sector and make it attractive, the Government intends to play a catalytic role by implementing the Agricultural Sector Development Strategic Plan (PSDSA 2017-2025). In this connection, it has adopted measures to improve the investment climate, notably access to land, facilitation of agricultural financing (guarantees and interest rate subsidies), and access to quality inputs (seeds, fertilisers and pesticides).

Partial Conclusion 4: Agricultural Policy and Investment Climate

Agriculture is a vibrant sector with great potential for the private sector. The development of this potential is mainly contingent on the resolution of organizational issues and the creation of new market opportunities. All agricultural products, with the exception of cotton, cashew nut, pineapple and soybean, lack access to international markets. Moreover, they are sold on the international market in their unprocessed state, thus creating huge losses in agro-industrial value chains. Vertically, the products that access the international market are unprocessed, but offer opportunities for their processing into intermediate and more sophisticated products. Meanwhile, opportunities also exist for the processing and marketing of food products which, though intended to promote food security, could attract private investors for regional and international trade.

FDI statistics indicate that the agricultural sector has not attracted much private investments over the last ten years. Although access to land is not a constraint, as indicated above, and the sector is vibrant and holds considerable potential, there are still issues regarding the availability of the infrastructure needed to improve yields. These include farm-to-market roads, irrigation schemes and market inaccessibility caused by non-tariff measures. These issues may impact private sector participation and impede investment. The Government should pursue its efforts to improve access to land and facilitate financing and access to inputs in order to attract private investment to the agricultural sector.

4.3.3. Industrial and Small- and Medium-size Enterprise Promotion Policy

The low economic development in Benin partly stems from difficulties in building a competitive industrial sector that is adapted to primary sector specificities and that can protect the country from external shocks linked to changing cotton prices and the economic situation in Nigeria.

The industrial sector (extractive industry, agro-industry and others) represented about 10% of GDP during the 2016-2019 period. Industrial production is dominated by the food industry, textiles, cement, construction and energy sectors which constitute an indispensable foundation for industrial development. However, these sectors contribute very little to GDP formation, whereas the country has a huge potential for establishing an integrated industry, as reflected in its diverse agricultural sector output and numerous mining resources such as limestone, marble, clay, kaolin, silica sand, ornamental stones, gypsum, gold, phosphate, rutile, ilmenite, iron, oil and gas.

Table 6: Share of Secondary Sector in GDP

	2011	2012	2013	2014	2015	2016	2017	2018	2019
Secondary sector	18.1	17.0	17.2	16.4	16.4	15.7	15.1	14.6	16.3
Extractive activities	0.3	0.3	0.2	0.4	0.4	0.4	0.4	0.4	0.4
Agri-food industries	7.7	7.4	7.5	7.1	6.5	6.3	6.3	5.9	6.3
Other manufacturing industries	4.0	3.3	3.4	3.3	3.6	3.6	3.3	3.2	3.6
Electricity, gas and water	**0.9**	**1.3**	**1.2**	**1.2**	**1.3**	**0.8**	**0.8**	**0.7**	**0.7**
Construction sector	5.3	4.7	5.0	4.4	4.6	4.6	4.4	4.4	5.3
Source: INSAE 2020									

An assessment of the implementation of industrialization policies contained in various development plans from 1960 to date has revealed many shortcomings, especially: failure to adapt industrial programmes to the small size of the Beninese market, mismatch between the structure of existing financing and the volume of investments, low level of technical training, absence of synergy between industrialists and research and training institutions, inadequate physical and service infrastructure, etc.

The industrial units that have been able to develop downstream of agricultural production (textile and palm oil industries) are gradually falling into obsolescence, which does not guarantee their profitability or competitiveness. Nearly 60% of the industrial fabric consists of units in the cotton value chain, comprising: 18 ginning plants, 3 seed-crushing plants and an absorbent cotton manufacturing plant. Since these plants have limited capacity, more than 95% of the cotton lint produced in Benin is exported to the international market.

Many factors hamper the development of industrial units including: (i) high production costs due to low productivity and high factor costs (particularly electricity); (ii) low productivity due to the obsolescence of equipment, resulting in high maintenance and spare parts costs; (iii) an ageing workforce; (iv) lack of equipment-replacement investment; (v) a highly unfavourable market environment mainly due to widespread fraud, flooding of the market with second-hand clothes and the development of unfair competition (imitation of the popular motifs of locally-produced fabrics and sale of “bottom-of-the-line” prints at knock-out prices).

However, over the last three years, 36 industrial sector companies have been approved in accordance with the Investment Code. For example, Blue Skies Ltd which is specialized in the export of tropical fruits recently invested in ten hectares of land in the southern part of Benin to produce freshly-cut ready-to-eat fruits such as pineapple, banana, mango, papaya solo, passion fruit, coconut and fruit salad for export, especially to the European market where the fruits will be delivered within 24 hours.

To promote the setting-up of industrial units, the Government adopted a new law instituting the investment code and another establishing the Special Economic Zones regime, which led to the setting up of the Glo-Djigbé Special Economic Zone covering 10,000 hectares of land, of which

1,640 hectares are ready to accommodate enterprises that have already begun to invest in the municipality of Abomey-Calavi. From the date they launch their activities, the enterprises approved under the Special Economic Zone regime are granted tax incentives in a bid to boost industrial production.

Similarly, the new Investment Code seeks to raise industrial production and provides for three basic preferential regimes and two special regimes, namely: (i) the special sector incentives regime aimed at encouraging investments in activities or economic sectors deemed to be strategic; and (ii) the special specific investments regime aimed at facilitating the implementation of tourist, cultural, sports, health, educational infrastructure and equipment projects or the construction of storage facilities for products such as gas, hydrocarbons and chemicals. The new code provides for the opening of approval regimes for investments in trade and industrial support infrastructure and, in general, for all sectors of activity considered by the Government as priority. It also provides for almost total exemption from customs duties during the investment phase for all enterprises operating under the preferential regimes, professionalization of the processing of approval files and a reduction of the technical decision timeframe to 20 working days after submission of documents to the National Investment and Export Promotion Agency (APIEX).

Concerning small and medium-sized enterprises (SMEs), the Government adopted Law No. 2020-003 on the promotion and development of micro, small and medium-sized enterprises (MSMEs) in January 2020 to replace the SME Charter in force since April 2005. The main objective of this law is to establish a legal, institutional and financial framework conducive to the development of entrepreneurship. It also enables the establishment of a special regime of public support to MSMEs in order to take into account their specificity and vulnerability to regional and international competition. This law provides for, among other things: (i) the setting-up of a mechanism for recognizing and granting the status of MSME to applicant enterprises; (ii) co-contracting incentives; (iii) tax benefits and incentives; (iv) market access facilities, etc. Similarly, the Government has facilitated the connection of SMEs to the electricity and water supply networks; it is now done free of charge within three days compared to a period of two to three months previously.

The Government should carry on with the reforms by adopting incentive measures and simplifying access to public procurement for SMEs. It should also encourage the development of structures that support SMEs upstream to meet eligibility conditions for financing, and downstream to ensure the judicious use of bank loans, the proper implementation of business plans and compliance with deadlines, thus reducing the risk of payment defaults.[21] For their part, credit institutions should increase financing granted to SMEs either directly or through their support and supervisory entities.

Partial Conclusion 5: Industrial Policy and Investment Climate

The secondary sector is undergoing changes in order to offer better industrial prospects and opportunities to private investors especially in the agro-industry and processing segments.

The new Investment Code and the Law establishing the Special Economic Zones regime have contributed to improving the investment climate. The facilities provided for by these two laws are expected to contribute to an increase in private investments.

The measures adopted to support SMEs/SMIs have helped to improve the investment climate in this segment and confirm the country's commitment to the development and promotion of small and medium-sized industrial units. The aim is to deepen such reforms in support of SMEs by providing them with incentives, facilitating their access

[21] These issues were examined in the AfDB Study on the Business Environment carried out in 2019 and the ensuing action plan.

to public procurement, relaxing the conditions of eligibility for financing, and setting up SME advisory support entities.

4.3.4. Tourism and Handicrafts Policy

Benin has a diverse tourism potential that comprises socio-cultural (history, culture, folklore, languages, religions, traditions, handicrafts, museums, monuments and tourist and archaeological sites) and natural (climate, relief, sea and beaches, wildlife, vegetation, flora, water bodies, waterfalls and cascades, etc.) resources. In 2019, the country received more than 215,000 international visitors,[22] mainly from Nigeria (12.2%), France (7.5%) and Togo (6.2%). Most of the visits were business and duty travel. Revenue from business tourism, estimated at CFAF 70 billion in 2010, rose to CFAF 118 billion in 2019, while revenue from pleasure tourism practically doubled from CFAF 66.04 billion to CFAF 124 billion over the same period.

Benin has a huge tourism potential with substantial knock-on effects to create inclusive employment opportunities in other sectors of the economy. Tourism activity horizontally includes other sectors of the national economy since 71% of the local intermediate tourism consumption is local [Alafia, Benin 2025] and stems from sectors such as agriculture, trade, transport, culture, handicrafts, banking, insurance, etc.

This notwithstanding, the national tourism sector continues to operate below its full potential, ranking Benin 123rd out of 139 countries in 2019 according to the Travel and Tourism Competitiveness Index published yearly by the World Economic Forum. The sector particularly suffers from limited visibility and a poor image in outbound tourism markets; insufficient means to promote the country as a tourist destination in mature and highly competitive outbound tourism markets; and the high cost of the destination relative to its competitors (Ghana) due to limited accessibility, high air fares and the pegging of the CFA franc to a strong currency (the euro). These exogenous factors are compounded by the degradation of touristic sites; the inadequate quality of tourism services, infrastructure and facilities; a poor road infrastructure which limits access to touristic sites; weak structuring of the tourism market; the limited professionalism of tourism sector personnel, etc. Given its importance, the Government plans to increase the share of the tourism sector to 10% of GDP, compared to 6% at present.

[22] World Travel and Tourism Council [WTTC].

Figure 11: Trends in Tourism Receipts

Source: World Bank database.

The handicraft sector also holds enormous economic, cultural and environmental potential. It interacts with 8 branches of activity, 40 trades and 311 crafts. It accounts for about 12% of GDP and employs 12.7% of Benin's workforce, ranking third in terms of job creation after agriculture and commerce. It is the leading sector in terms of contribution to the processing of agricultural products (cereals and tubers for the manufacture of flour and fishing and livestock products) and the development of raw materials (sand, bar soil, stones, cotton, etc.).

According to the results of the latest General Census of Enterprises (RGE2) carried out in 2008, the handicraft sector comprises 70,340 enterprises; that is, 51.02% of all enterprises listed. Handicraft enterprises are characterized by rudimentary methods of production and most are single-person units that do not use any paid labour. They are barely formalized, generally have an initial capital of less than CFAF 100,000, and do not keep accounts. Initiatives to formalize handicraft activities help to develop potential and create conditions conducive to improvement of the investment climate in the sector.

Tourism and handicrafts are the sectors hardest hit by COVID-19. To mitigate the socio-economic impact of the pandemic on these sectors, the Government adopted measures worth CFAF 74.12 billion that particularly target: (i) formal sector enterprises (hotel, catering, transport, leisure services and private individuals) for an amount of CFAF 63.38 billion; and (ii) artisans and informal sector service trades (hairdressing, sewing, welding, carpentry, and petty trading for women) for an amount of CFAF 4.98 billion.

Partial Conclusion 6: Tourism – Handicrafts and Investment Climate

The reforms initiated in the tourism and handicraft sectors since 2016 under the Government Action Programme 2016-2021 have helped to restructure the sectors and enhance their potential. The investment climate in these business segments has therefore improved and is expected to boost investments within the post-COVID-19 recovery context.

Given the infrastructure developed by the Government, the tourism sector should attract more foreign direct investment inflows in the years ahead.

Initiatives to formalize handicraft activities should be pursued in order to develop the sector and create conditions conducive to private investment, particularly in the segments requiring more capital (automotive mechanics, metallic joinery, foundry, etc.).

4.3.5. Trade Policy

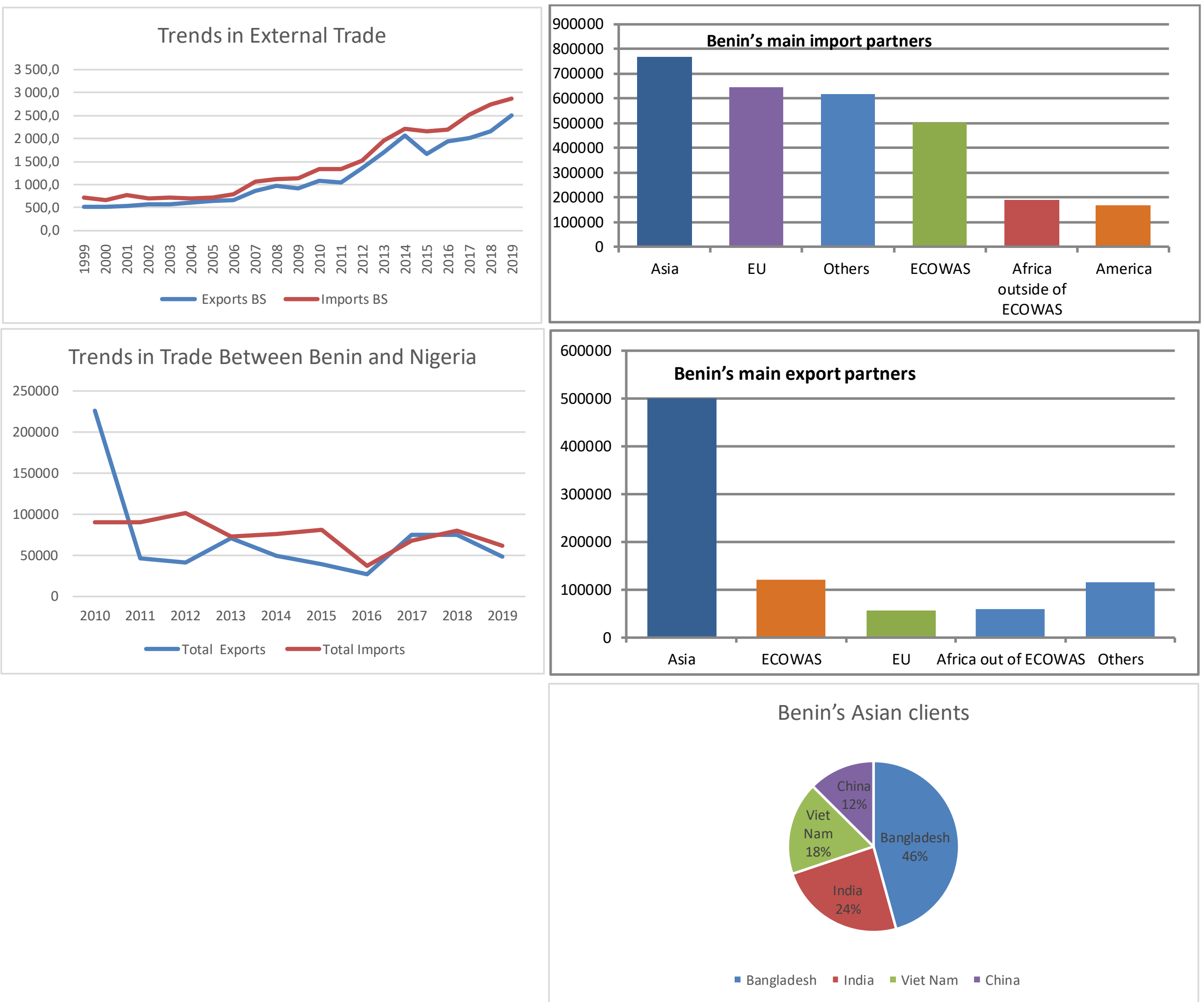
Benin's trade policy is governed by the regional agreements of the Economic Community of West African States (ECOWAS) and the West African Economic and Monetary Union (WAEMU).

The country's trade structure has not changed significantly over the medium term. Benin's main suppliers of goods are based in Asia. In 2019, they accounted for 27% of all imports, most of them from China, Thailand and Malaysia. Intra-ECOWAS trade accounts for 17% of Benin's total imports, buoyed by trade with Togo and Nigeria. The European Union, particularly France and the Netherlands, remains the main source of imports outside ECOWAS (22% of total imports). Benin's leading trading partners are also based in Asia. In 2019, they accounted for 59% of the country's total exports destined mainly for Bangladesh (46%). ECOWAS and the European Union account for 14% and 7% of Benin's total exports respectively.

Regarding trade between Benin and Nigeria in particular, the latter's trade policy is difficult to predict in view of its relations with Benin. Although Nigeria is party to all ECOWAS trade agreements, it often adopts a system of waivers to protect its local production. This protectionist policy encourages the development of informal trade, particularly in agricultural products to meet Nigeria's domestic demand. As a result, there is little visibility on the actual volume of trade between Benin and Nigeria, with informal trade accounting for about 70% of trade flows.

Formal trade between the two countries has been declining since 2010. Accordingly, formal exports from Benin to Nigeria dropped by 66% between 2010 and 2018. Exports contracted by 56% in 2019 alone owing to closure of the border on 20 August 2019. Similarly, Benin's imports from Nigeria decreased by 24% in 2019. Furthermore, Benin's share of Nigeria's imports, which was 0.5% in 2010, was only 0.1% in 2019. The primary explanation for this trend is the non-tariff measures in force along the road corridor and the decision to close the border. Generally, however, the near-recessive situation that Nigeria has faced since 2015 and the sharp depreciation of the Naira have seriously affected the volume of trade between the two countries. Re-exports to the Nigerian market account for nearly half of Benin's exports and 50% of external revenue.

Figure 12: External Trade Indicators



Source: Trade Map database: https://www.trademap.org/.

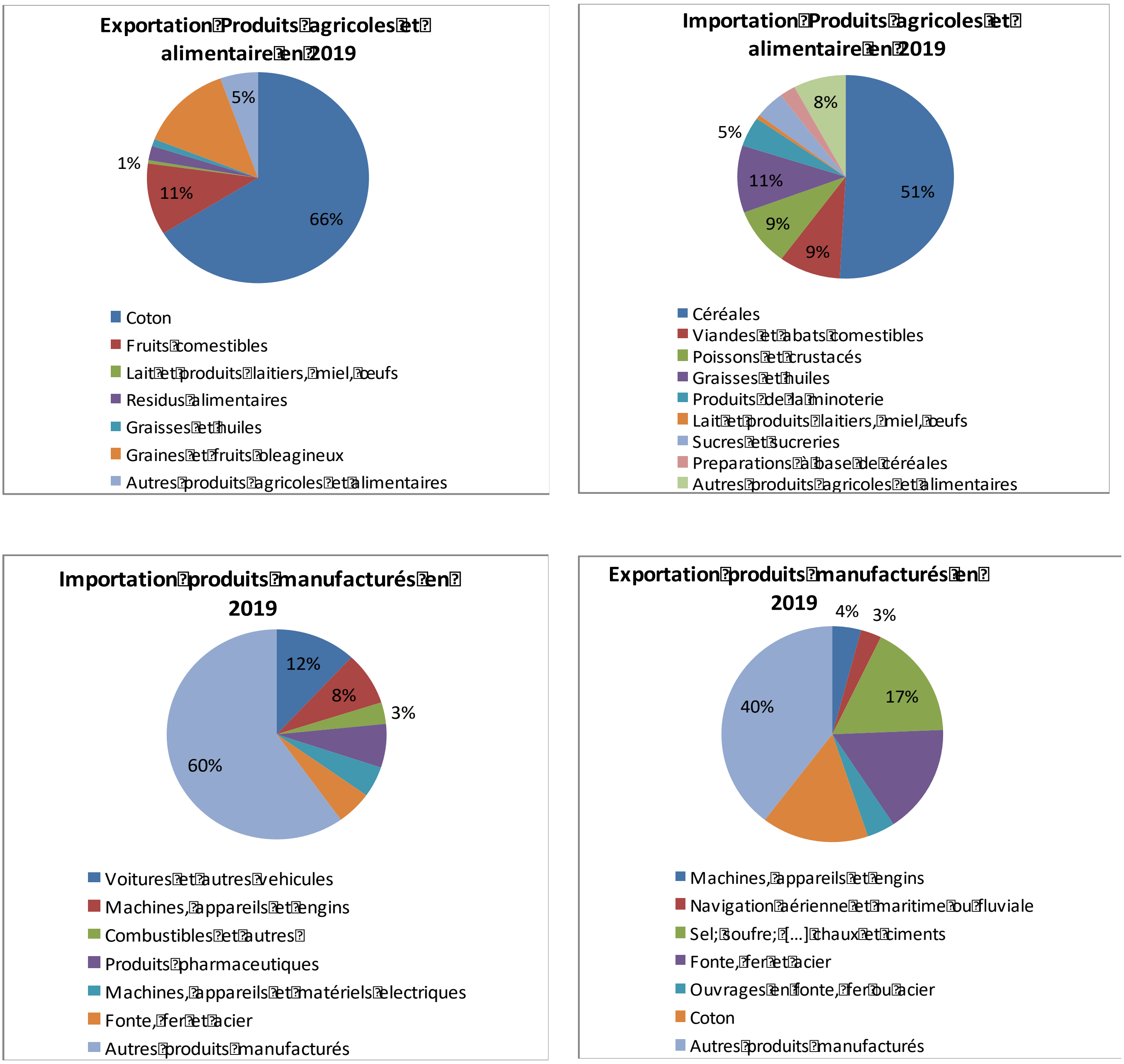
Table 7: Composition of Formal Trade Between Benin and Nigeria

Formal Trade Between Benin and Nigeria (in USD thousand)			
Main Products Exported to Nigeria	**2010**	**2018**	**2019**
Animal and vegetable oil	15 560	36 392	23 082
Meat and edible offal	94 823	30 829	19 703
Cast iron, iron and steel	10 600	118	29
Cereals	91 051	0	0
Main Products Imported from Nigeria			
Fuels and bituminous materials	70 540	11 646	20 643
Cars, tractors, etc.	4 756	5 806	1 344

Source: Trade Map database: https://www.trademap.org/.

Cotton maintained its dominant position in Benin's foreign trade structure with 66% of exports in 2019. Next to cotton, cashew nut exports, which were almost nil 10 years ago, represented 11% of total exports in 2019. Climatic conditions, which largely determine agricultural performance, continue to influence food exports (particularly fruits and oils). Meanwhile, the share of manufactured goods exports remains small while iron and steel exports have increased owing to strong demand on Indian and Chinese markets. Figure 13 below presents the export and import structure.

Figure 13: Export and Import Structure



Source: Trade Map database: https://www.trademap.org/.

Regional economic integration within WAEMU and ECOWAS is at the centre of Benin's trade policy. The main trade policy instruments are the WAEMU and ECOWAS Common External Tariff (CET). Benin is fully applying the ECOWAS CET. The rules of origin of the two regional bodies, which have already been harmonized, are also in force in Benin. The WAEMU customs valuation regime, as well as the reference valuation recourse mechanism have been implemented in the country since 2003.

In principle, regulations within WAEMU and ECOWAS guarantee free movement of products of origin, with total exemption of customs duties and levies. However, as indicated above with respect to Nigeria, Beninese exporters are complaining about various prohibitions that prevent the movement of a wide range of their food products within ECOWAS; a situation that has an adverse affect on the business climate between the two countries.

Difficulties emerged right from the beginning of application of the CET, particularly regarding the implementation of the provisions of the 5th band (a non-existent band in the WAEMU CET established to protect national production sectors from high-import products). [23] The implementation of this band has generated an additional cost by increasing the maximum rate from 20% for the WAEMU CET to 35% for the ECOWAS CET. This situation has encouraged the practice of adjusted prices known as “consensual value” for some staple products which are considered sensitive (poultry, rice, wheat flour, edible oils and fish). States adopt this practice in order to: (i) prevent the reduction of revenue following the application of the CET; and (ii) ensure that economic operators and final consumers are not adversely affected by tariff resetting.

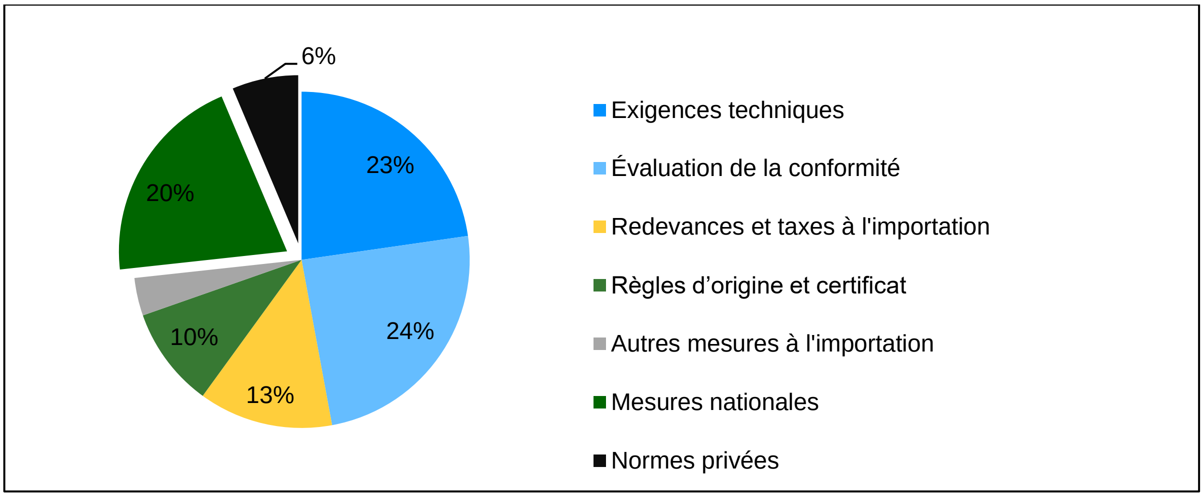
The application of the ECOWAS CET mechanism, which does not foster the improvement of the investment climate, has also raised other issues pertaining to (i) the streamlining of exemptions that are not in keeping with the economic logic of the CET which imposes less taxes on production equipment and inputs than on finished consumer goods; (ii) a strong asymmetry of information about the CET mechanism among stakeholders (private sector - administration); (iii) ambiguities regarding the provisions governing the use of additional protective measures and the reduction of tariffs by destination; and (iv) obstacles to Community rules and infringement of Community provisions. Although it is difficult to establish a rigid causal relationship between CET application and the improvement of the economic and business environment, partial data analysis within the WAEMU Commission suggests a positive trend in key macroeconomic and trade indicators from the second year of CET application.

Concerning multilateral trade agreements, Benin joined the World Trade Organization (WTO) on 22 February 1996. It is considered as a “least developed country (LDC)”. As such, it has, since 2004, benefited from the support of the Integrated Framework for Trade-related Technical Assistance (IF)[24] in the implementation of reforms to improve its legal, judicial and regulatory framework in order to increase private investment and trade. Most of these reforms have been implemented, viz: the establishment of the Investment and Export Promotion Agency (APIEX) and the adoption of various measures to improve the legal, judicial and regulatory framework. At present, trade facilitation is the most important reform that needs to be implemented, particularly aspects related to non-tariff measures (NTMs) which should contribute to improving the investment climate. It is worth noting that the reforms initiated in recent years within the trade chain and process (traceability, standards, export and import tariffs, import and export procedures, etc.) have helped to put trade facilitation fundamentals in place, though the efforts should be pursued. Figures 16 and 17 below present the different types of non-tariff export and import measures adopted.

Figure 14: Types of Non-Tariff Export Measures

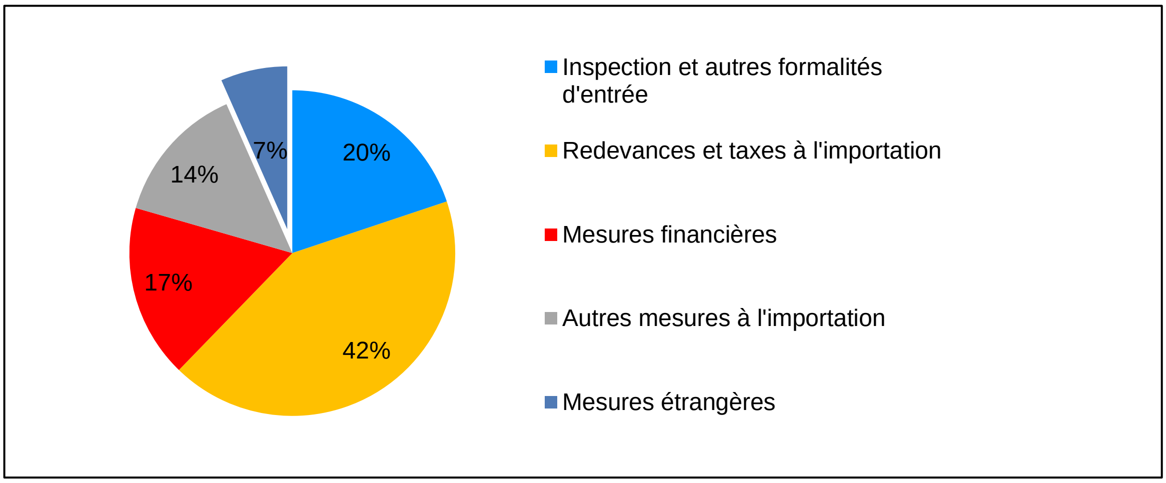
[23] Based on the WAEMU – Benin Country Report on the Assessment of the Impact of Application of the Common External Tariff (CET), August 2019.

[24] This mechanism was set up in 1997 to support Least Developed Countries in building their trade capacity and incorporating their trade priorities into their overall national development strategies. The IF mechanism is implemented in four stages, namely: (i) advocacy; (ii) conduct of a Diagnostic Trade Integration Study (DTIS); (iii) a plan to incorporate the trade strategy into National Development Strategy; and (iv) implementation of the said plan.



Source: ITC (Geneva) data: https://www.intracen.org/publication/MNT-Benin/.

Figure 15: Types of Non-Tariff Import Measures



Source: ITC (Geneva) data: https://www.intracen.org/publication/MNT-Benin/.

Reforms concerning external trade transaction procedures have contributed to improving the investment climate with the dematerialization of all procedures which are now carried out electronically and can be concluded before goods arrive Benin. In addition, a scanning system has been set up to facilitate and fluidify the removal of goods by importers, thus strengthening the competitiveness of the Benin corridor. Furthermore, transit and re-export goods are tracked electronically until their actual exit from the Beninese territory.

In addition, on 1 January 2018, the Government launched the Single Window for External Trade (GUCE) which integrates external trade information into a single transactional portal, enabling economic operators to successfully carry out their trade transactions online. Eventually, all interactions with the government services involved in external trade (licences and certificates issued by the line ministries, customs clearance operations, payment of transaction fees, etc.) will be carried out through the Single Window, thus avoiding multiple filing and the physical movement of operators.

Partial Conclusion 7: Trade Policy and Investment Climate

The legal, judicial and regulatory framework of Benin's trade policy is conducive to the increase of private investment and trade. The investment climate has been positively impacted by the implementation of major reforms to improve trade facilitation, dematerialize external trade procedures, streamline trade and investment support institutions and boost trade between ECOWAS member countries through application of the ECOWAS CET.

However, investment incentives are distorted by the persistence of some non-tariff measures (NTMs), the low competitiveness of the Port of Cotonou, and the instability of the regional integration policy with the closure of land borders by Nigeria, Benin's main economic partner.

Similar distortions in investment incentives may stem from lack of innovation by Beninese firms which, because of the limited size of Benin's domestic market, are obliged to innovate in order to increase the volume of exports, by proposing new and high-quality products integrated into global value chains.

4.4. Infrastructure

4.4.1. Transport Infrastructure

The assessment of public policies in Benin[25] shows that the country's infrastructure is insufficient and inefficient, which contributes to reducing the profitability of trade and investment activities and undermines its prospect of achieving sustained growth. Nevertheless, Benin's position as a corridor for maritime access to hinterland countries and proximity to Nigeria provide excellent conditions for developing a genuine platform for the provision of commercial and logistical services to neighbouring countries. Reforms implemented in the transport sector have helped to create the conditions necessary for the development of a platform for logistical and commercial services.

Investment in the road network in recent years led to the construction of an almost complete asphalted transit road for the two North-South corridors, as well as the Togo-Benin-Nigeria coastal road and the crossroads in the Centre and North linking Togo to Nigeria. However, the national road coverage is inadequate and the road network suffers from inadequate maintenance. In addition, the rural road network is still very insufficient and many areas are isolated in some seasons. The state of the road network limits the competitiveness of investors in Benin. Rail transport is virtually non-existent after the collapse of the Joint Benin-Niger Railway and Transport Organization (OCBN) and several unsuccessful initiatives to revive the rail system.

Regarding maritime transport, Benin has a deep-sea port managed by the Cotonou Port Authority (PAC) with an annual operating capacity of about 2.3 million tonnes. The port handles almost 90% of the country's external trade and regional transit remains its specialized niche. Traffic at the Port of Cotonou stagnated for many years between 1965 and 1990. It increased significantly from 1996 to 2014, reaching its peak in 2014 with 10.3 million tonnes, a level the port is now struggling to reach as the volume of traffic dropped by about 3%, from 10.28 million tonnes in 2018 to 10.09 tonnes in 2019, mainly due to closure of the borders by Nigeria. Import traffic, including transshipment, fell by 5% between 2018 and 2019, from 9.1 million tonnes to 8.7 million tonnes, while export traffic increased by 12%, from 1.17 million tonnes in 2018 to 1.33 million tonnes in 2019, thanks to the good performance of cotton and other agricultural products.

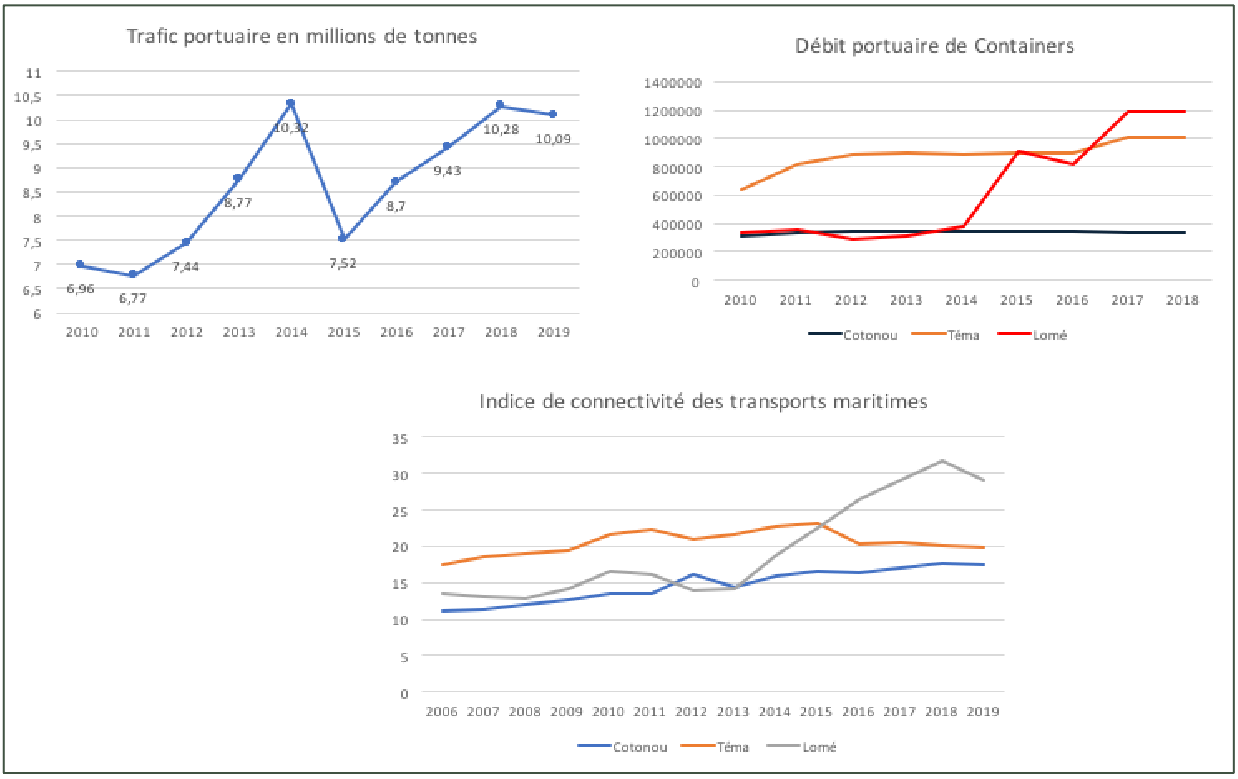
One of the constraints faced by private investors is the non-competitiveness of the Port of Cotonou relative to other ports on the West African coast, particularly Abidjan, Tema, and Lomé. At present, the Port of Cotonou is uncompetitive compared with its neighbours and its vitality stems solely from its geographical position relative to its "captive markets" (Niger and Nigeria).

[25] DGAE/MEF, BiPEN 2015. Infrastructure and Economic Growth in Benin.

This is reflected by the extent to which the closure of Nigeria’s borders impacted the volume of traffic in 2019. In addition, it does not rank among the top 20 African container ports like the Tema and Lomé ports.

Liner Shipping Connectivity Index[26] trends reflect the non-competitiveness of Cotonou port relative to its immediate competitors, particularly Lomé port which has gained a competitive advantage over Cotonou. Between 2014 and 2019, the Liner Shipping Connectivity Index of Lomé port rose by 35.3% compared to only 5% for Cotonou over the same period. At the same time, container traffic in Lomé port increased by 66% compared to 11% for Cotonou. These difficulties are compounded by other challenges related to maritime transport governance, logistical services and maritime safety.

Figure 16: Port Indicator Trends



Source: Data from https://unctadstat.unctad.org.

Inland waterway and lagoon transport is embryonic. It is carried out by the local population on a small-scale, and no programme has been implemented to develop it. However, this transport sub-sector has potential for opening up access to agricultural areas, promoting tourism and developing a public inland waterways and river transport system that can attract private investments. It is therefore necessary to design a programme to develop inland waterways transport so as to promote other sectors such as public transport and tourism.

Benin has a world class airport located in Cotonou. Its 2,400-metre-long landing and take-off runway is not long enough to comfortably accommodate some types of wide-body aircraft. The

[26] The Liner Shipping Connectivity Index is an indicator of a country’s position in global liner shipping networks (assessed by UNCTAD). It is calculated based the deployment data for container vessels around the world (number of vessels, container carrying capacity, number of services and companies, and largest sized vessels). The higher the number of shipping lines serving the ports of a given country and the higher the number of liner services provided, the better is that country’s access to international markets.

possibility of extending it is limited. There are six landing strips and one secondary aerodrome (Parakou). Domestic air transport is underdeveloped, and this constitutes a constraint to mobility for business development at the national level.

4.4.2. Digital and Telecommunications Infrastructure

The telecommunications sector plays an important role in private sector development. The sector has undergone many changes in Benin in recent years. Benin's electronic and digital communications market is run by the following key players:

(i) Benin Telecoms Services responsible for providing fixed-line telecommunications services, including Internet access and fixed-line telephony services;

(ii) Société Béninoise des Infrastructures Numériques (SBIN), a public limited company (SA) with 100% State ownership managed under a public service delegation contract. Its main task is to maintain and deploy telecommunications and digital technology facilities; and

(iii) the duopoly, Spacetel Bénin SA and Etisalat Bénin SA, which share the mobile telephony market.

As of 31 December 2019, a total of 14 actors divided into four main groups of operators were active in the electronic communications market in Benin. Since the Code-division Multiple Access (CDMA) technology frequency bands were allocated to technologically neutral mobile telecommunications network operators in 2017, the fixed-line subscriber base has narrowed from 48,508 in 2018 to 35,917 in 2019. Fixed teledensity decreased from 0.43% in 2018 to 0.29% in 2019. The number of active mobile telephone subscribers rose by 10% year-on-year and was estimated at 10,349,847 as of 31 December 2019, compared with 9,461,872 subscribers in 2018.

The mobile telephony market is dominated by two operators, namely Spacetel Benin and Etisalat Benin, which controlled 66.7% and 33.3% of the market respectively in 2019, representing a 10% increase for Spacetel in a year. The total market value increased from CFAF 230.64 billion in 2018 to CFAF 242.412 billion in 2019, or an increase of 5.1%. The basic tariff plans and the services offered by mobile operators in 2019 complied with the regulatory provisions in force in Benin. Tariff restriction led to a tariff reduction of 7.4% over a three-year period.

Concerning Internet access, the fixed Internet subscriber base was estimated at 25,489 subscribers as of 31 December 2019, compared with 27 112 subscribers in 2018, while the fixed Internet TV density dropped from 0.24% in 2018 to 0.21% in 2019. This market is largely dominated by Benin Telecoms Services with 83.63% of market share due to its basic infrastructure assets.

The mobile Internet market is naturally dominated by Spacetel Benin and Etisalat Benin. These two operators are licensed to operate technologically neutral mobile telecommunications networks. As of 31 December 2019, the mobile Internet subscriber base rose from 5,429,698 in 2018 to 6,499,553, increasing the mobile Internet TV density from 47.8% in 2018 to 52.8% in 2019. Analysis of the 2G, 3G and 4G mobile Internet subscriber base in 2019 showed that it was dominated by the 2G technology (61.1% of subscribers). The 3G and 4G Internet subscribers account for 30% and 8.9% of the total mobile Internet subscriber base respectively.

Mobile operators also offer mobile financial services (MFS). In Benin, like in other developing countries, mobile financial services have grown in recent years and mobile network operators have played a key role in this growth. As of 31 December 2019, the number of active mobile financial service subscribers was estimated at 3,707,281 compared to 2,665,345 active subscribers as of 31 December 2018; that is, a 31.9% increase. The market share of the various operators in this segment is 35.2% for Etisalat Benin SA and 64.8% for MTN Mobile Money Benin SA.

At end-December 2019, mobile telephone financial services recorded an estimated volume of 339.397 million transactions compared with 202.104 million transactions in 2018, representing an increase of 67.5%. The value of transactions was estimated at CFAF 2676.64 billion in 2019 as against CFAF 2081.796 billion in 2018, representing an increase of 28.57%. Analysis of the consumption habits of mobile financial service users in 2019 revealed that the majority of transactions were telephone top-ups through MFS (36.5%), followed by cash withdrawals through MFS (28.8%), cash deposits (23.5%), domestic transfers (10.6%) and international transfers (0.7%).

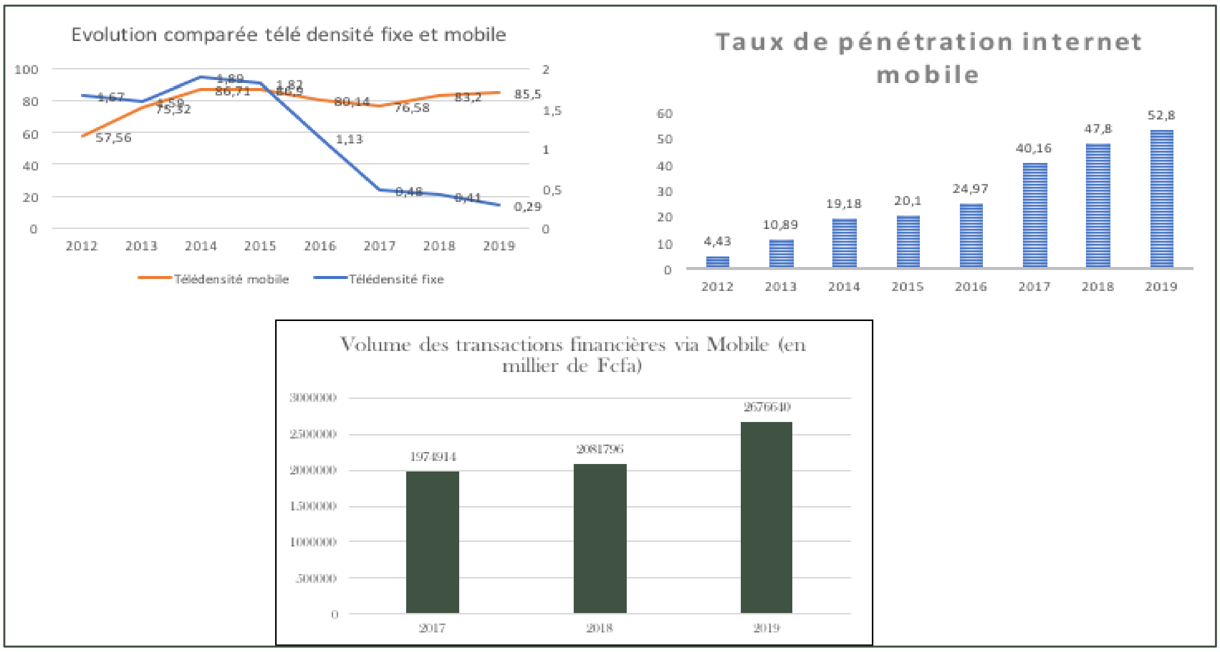
At end-December 2019, the number of cash deposits was estimated at 79.725 million transactions valued at CFAF 1104.31 billion. The number of cash withdrawals was estimated at 97.653 million transactions worth CFAF 1032.071 billion. The share of withdrawals in the amounts deposited was 93.5%. As of 31 December 2019, the mobile financial service distribution network consisted of 13 super brokers or dealers, seven of them for MTN Mobile Money and six for Moov Money. There were 104,433 mobile money distribution dealers; that is, 45,864 dealers for MTN Mobile Money and 58,569 for Etisalat Benin.

Mobile financial services generate income and provide jobs for the population. The mobile money distribution network increased by 60.4% between 2018 and 2019 with 39,354 new mobile money distribution agents in 2019. The market is regulated by the Electronic Communications and Postal Regulatory Authority (ARCEP), an autonomous entity essentially tasked with: (i) supervising the electronic communications market; (ii) promoting and deploying technological innovations; and (iii) ensuring the implementation of legal provisions, etc.

The Government's objective is to support the development of the digital economy by: (i) deploying high-speed (HS) and very high-speed (VHS) Internet throughout the country; (ii) migrating from analogue television broadcasting to digital terrestrial television (DTT) broadcasting; (iii) implementing smart governance; (iv) generalizing e-commerce; (v) generalizing the use of digital technology in education and training; and (vi) promoting and developing digital content.

To this end, many reforms have been implemented, particularly the simplification of the tax system which is important for the investment climate. The institution of a Digital Code in April 2018 is a major breakthrough as it addresses issues of personal data protection and the legal security required for public and private partners, Beninese start-ups and international investors. Within the context of post-COVID economic recovery, the digital economy would be all the more crucial with the deployment of online services for citizens. Accordingly, there is need to accelerate the development of very high speed infrastructure throughout the country.

Figure 17: Ditigal Sector Indicator



Source: Data from 2015-2019 ARCEP reports.

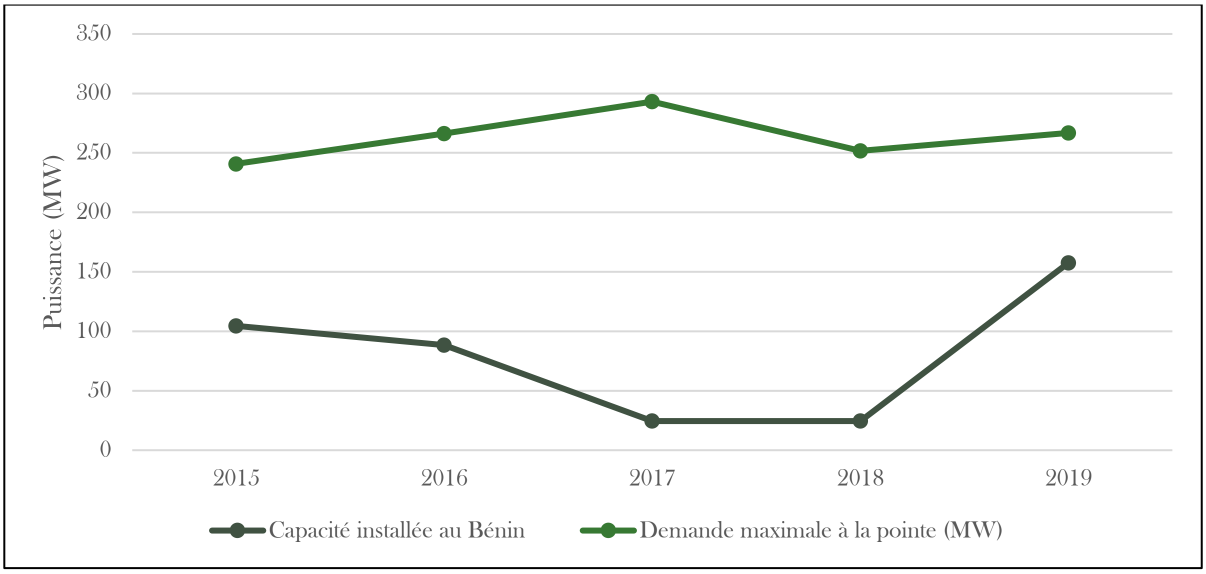
4.4.3. Energy Infrastructure

Energy infrastructure is vital for the development of the production sector and enhancement of corporate competitiveness. The cost and availability of energy is crititical to private investors. Based on this assessment, the Government of Benin has, since 2016, embarked on energy sector reforms to strengthen the electricity generation capacity. The aim is to achieve the main energy sector policy objective of meeting the population's electricity needs in terms of quality, quantity and affordability by increasing the electricity access rate in rural areas from 7% to 50% and in urban areas from 27.6% to 90% during the 2016-2025 period.

The progress made includes expansion of the national generation capacity, extension and safeguard of power transmission and distribution facilities, and the development of rural electrification. To expand the national generation capacity, part of the generation equipment of the Benin Electricity Corporation – SBEE (30 MW) was rehabilitated and a 120 MW Maria Gleta power plant was built. The national power generation capacity was thus increased to 157 MW and industrial sector energy consumption increased from 140.18 GWh in 2012 to 267.76 GWh in 2017, representing an increase of 11.58% on average.

Concerning the development of electrical power transmission and distribution facilities, many electrical grid interconnections have been carried out, thus making the network more reliable, further safeguarding power supply, and significantly improving the performance of the Benin Electricity Corporation (SBEE). Hence, the average duration of power outages decreased from 75 hours/year in 2015 to 15 hours/year in 2018, and the average time taken to respond in the event of power failure dipped from 10 hours in 2015 to 2.1 hours in 2018.

Figure 18: Convergence Between Electricity Supply and Demand



Source: DPP/Ministry of Energy data.

Despite these reforms, Benin's energy sector is marked by: (i) heavy dependence on the traditional use of biomass (firewood and charcoal account for about 46% of the energy balance);[27] (ii) dependence on external sources for part of the country's electrical power supply; (iii) low access to electricity, particularly in rural areas; (iv) total dependence on external sources for the supply of petroleum products; and (v) a considerable untapped renewable energy potential. This is compounded by under-investment in power generation, transmission and distribution facilities and the low capacity of institutional actors. In addition, in spite of the country's enormous potential, renewable energy sources are undertapped. In 2017, renewable energy accounted for only 9.84% of total electricity supply. Solar energy accounted for 0.48% of total electricity supply while hydroelectric power stations produced 9.36.[28] Lastly, according to the Global Energy Architecture Performance Index Report 2017, Benin's Energy Architecture Performance Index is low compared with that of other West African countries – Ghana (64.06%), Senegal (56.50%), Côte d'Ivoire (55.80%) and Nigeria (55.60%).

Partial Conclusion 8: Infrastructure and Investment Climate

The (transport, energy and communication) infrastructure deficit, on the whole, has serious adverse effects on the investment climate, affecting production costs, output, competitiveness, the mobility of factors of production, and trade facilitation.

The above infrastructure diagnosis shows that significant investment efforts are being made to fill the structural gaps in the transport, energy, telecommunication and digital technology sectors. Infrastructure availability indicators have improved significantly over the last four years. The road network has been densified, energy generation capacity has been strengthened and communication facilities have been increased.

However, some aspects that can distort investment decision-making linger on, namely: electricity and communication costs (the availability of factors is not yet matched by an optimum price policy); transport costs; the poor performance of Cotonou port relative to, similar ports in the sub-region (Lomé and Tema); and informal cross-border trade.

27 Energy Information System (EIS) Benin 2017.

28 DGE, EIS Report, 2017.

Infrastructure development efforts made in recent years should be continued in order to improve the rate of return on economic activities and, thus, promote private sector investment incentives.

4.5. Legal, Regulatory and Institutional Framework

4.5.1. Basic Legal and Regulatory Framework

Reform of the legal and regulatory framework is crucial to the improvement of the investment climate. Benin's legal and regulatory framework for investment is based on the 11 December 1990 Constitution, as amended by Law No. 2019-04 of 7 November 2019, as well as a series of laws, regulations and international instruments. Benin's Constitution guarantees foreign operators the same rights and freedoms as Beninese citizens.[29] It also guarantees the principle of non-discrimination and equality of all before the law without distinction based on origin, race, sex, religion, political opinion or social position.[30] The principles of equality[31] and free movement of capital, especially profits and dividends, are also enshrined in the Investment Code.[32] Furthermore, the Constitution[33]guarantees the right to own property, although it is still possible in principle to expropriate property, in accordance with the terms and conditions clearly defined in the Investment Code.[34]

The OHADA Treaty to which Benin is a signatory governs the legal provisions applicable to economic, commercial and company law; securities; collective procedures for the settlement of liabilities; debt recovery; enforcement; and arbitration. Regarding arbitration in particular, Benin adhered to and ratified the various international conventions relating to international investment arbitration. These include the New York Convention on the Recognition and Enforcement of Foreign Arbitral Awards, signed in 1958 under the aegis of the United Nations; the International Convention on the Settlement of Investment Disputes between States and Nationals of Other States (ICSID), signed in Washington on 18 March 1965[35] and the Convention Establishing the Multilateral Investment Guarantee Agency (MIGA), adopted in 1985.[36]

Lastly, Benin has concluded bilateral agreements on investment promotion and protection centred on the commitments undertaken by the host country to guarantee the application of the principles of fair, equitable and non-discriminatory treatment of foreign investments, the benefit of the most-favoured-nation clause and the free transfer of the proceeds of such investments. These agreements provide for recourse to international dispute settlement procedures before the courts of arbitration.

The Government of Benin has also established derogatory regimes and various investment incentives provided for in the Investment Code, the Law establishing the Industrial Free Zone, the Law establishing Special Economic Zones, the Mining Code and the Petroleum Code. The details of these instruments are provided in the Annex. It has also enacted many laws that have contributed to improving the investment climate.

[29] Section 39 of Law No. 2019-04 of 7 November 2019 amending Law No. 90-32 of 11 December 1990 on the Constitution of Benin.
[30] Section 26 (1) of Law No. 2019-04 of 7 November 2019 amending Law No. 90-32 of 11 December 1990 on the Constitution of Benin.
[31] Part 2, Chapter 1 of Law No. 2020 - 02 of 20 March 2020 instituting the Investment Code of the Republic of Benin.
[32] Same as above.
[33] Section 22 of Law No. 2019-04 of 7 November 2019 amending Law No. 90-32 of 11 December 1990 on the Constitution of Benin.
[34] Part 2 Chapter 1 of Law No. 2020 - 02 of 20 March 2020 instituting the Investment Code of the Republic of Benin.
[35] See http://www.unicitral.org/fr-index.htm.
[36] See http://www.miga.org/.
[36] United Nations Conference on Trade and Development 2004: Investment Policy Review of Benin.

Box 2: Key Bilateral Investment Protection Agreements

- ✓ Agreement on Trade, Investment Protection and Technical Cooperation, signed with the Swiss Confederation on 20 April 1966;
- ✓ Agreement on the Encouragement and Mutual Protection of Capital Investments, signed with the Federal Republic of Germany on 29 June 1978;
- ✓ Economic and Technical Cooperation Agreement, signed with Portugal on 26 July 1984;
- ✓ Memorandum of Understanding on the "Entrepreneurship" programme, concluded with Canada on 27 August 1995;
- ✓ Cooperation Agreement on the Reciprocal Promotion and Protection of Investments, signed with the United States of America on 30 November 1998;
- ✓ Agreement on the Reciprocal Promotion and Protection of Investments, signed with Guinea on 18 May 2001;
- ✓ Agreement for the Encouragement and Protection of Investments, signed with Mauritius on 18 May 2001;
- ✓ Agreement on the Reciprocal Promotion and Protection of Investments, signed with Ghana on 18 May 2001;
- ✓ Agreement on the Reciprocal Promotion and Protection of Investments, signed with Chad on 18 May 2001;
- ✓ Agreement on the Reciprocal Promotion and Protection of Investments, signed with Mali on 18 May 2001;
- ✓ Agreement on the Reciprocal Encouragement and Protection of Investments, signed with the Belgian-Luxembourg Economic Union on18 May 2001;
- ✓ Agreement on the Promotion and Reciprocal Protection of Investments, signed with Burkina Faso on 18 May 2001;
- ✓ Agreement on the Encouragement and Mutual Protection of Capital Investments, signed with the Organization of Petroleum Exporting Countries (OPEC) Fund for International Development on 20 June 2001;
- ✓ Agreement on the Promotion and Reciprocal Protection of Investments, signed with The Netherlands on 13 December 2001;
- ✓ Agreement on the Promotion and Reciprocal Protection of Investments, signed with China on 18 February 2004;
- ✓ Tax Convention between France and Benin signed on 27 February 1975.

Box 3: Key Legal Instruments Governing the Investment Climate

- ✓ Law No. 2016-24 of 28 June 2017 establishing the legal and regulatory framework for public-private partnerships (PPPs);
- ✓ Law establishing Special Economic Zones[37];
- ✓ Law on public contracts (2017)
- ✓ Law establishing the information and credit office[38] (2016; as well as the Law on leasing[39] and factoring[40] (2017);
- ✓ Law on Employment[41] (2017);
- ✓ The Land Code, amended and supplemented by Law No. 2017-15 of 10 August 2017. The new law reduces the time for obtaining land titles and, for foreign investors, to remove the constraints on the acquisition of real estate assets;
- ✓ Law No. 2020-02 of 20 March 2020 instituting the Investment Code in the Republic of Benin.
- ✓ Law on the promotion and development of micro, small- and medium-size enterprises in Benin.

4.5.2. Institutional Framework

At the institutional level, an Inter-ministerial Investment Promotion Committee was set up in 2017 to improve public consultation on business climate-related issues and provide coordinated responses to the needs and expectations of investors. This mechanism is backed by the provisions of Sections 7, 8, 9 and 10 of Law No. 2020-02 of 20 March 2020 instituting the Investment Code in the Republic of Benin.[42]

An Investment and Export Promotion Agency (APIEX) was established[43] and serves as the lone gateway for investors and a window for promoting investments and exports in Benin. Another agency that should be mentioned is the National Land and State Property Agency (ANDF).[44]

Lastly, many ministries are involved in the formulation and implementation of reforms to improve the investment climate and the private investment promotion policy. These include the Ministries in charge of planning, finance, SMEs, industry and trade.

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[37] Law No. 2017-07 of 19 June 2017 establishing the Special Economic Zones Regime in the Republic of Benin.

[38] Uniform Law No. 2016-36 of 23 January 2017 regulating Credit Information Offices (BICs).

[39] Law No. 2017-02 relating to leasing in the Republic of Benin.

[40] Law No. 2017-01 relating to factoring in the Republic of Benin.

[41] Law No. 2017-05 on employment and manpower.

[42] Law No. 2020-02 of 20 March 2020 instituting the Investment Code in the Republic of Benin in http://www.droit-afrique.com/uploads/Benin-Code-2020-investissements.pdf.

[43] Decree No. 2016-167 of 25 March 2016 amending Decree No. 2014-547 of 12 September 2014 establishing and laying down the duties, organization and functioning of the Benin Investment and Export Promotion Agency (APIEX).

[44] Provided for by Law No. 2013-01 instituting the Land and State Property Code; the National Land and State Property Agency (ANDF) was organized by Decree No. 2015-010 of 29 January 2015 establishing the ANDF.

Partial Conclusion 9: Legal, Regulatory and Institutional Framework and Investment Climate

The legal, judicial and institutional framework reforms carried out in recent years have helped to improve the investment climate in Benin. The existence of a stable and predictable institutional and legal framework is therefore a key element of an investment-friendly climate. That is why measures aimed at improving this framework (enhancement of transparency, ensuring the consistency of regulations, promoting the efficiency of the administration and putting in place a stable financial sector) should be strengthened.

The reform of Benin's Investment Code should contribute to increasing FDI flows. These reforms range from investor protection to facilitation of investment transactions, including the freedom to have recourse to international justice and arbitration, as well as the reinforcement of the principle of free transfer of funds abroad. Various regimes offering waivers from the ordinary tax law also provide for many private investment incentives.

4.6. Technical and Financial Partners' Support to Improvement of the Investment Climate

4.6.1 Focus Areas

The support provided by technical and financial partners (TFPs) for improvement of the investment climate includes: enhancement of the macroeconomic framework, the development of sector policies and the improvement of governance. The TFP focus areas are: improvement of the macroeconomic framework; infrastructure consolidation in the agricultural, energy and water supply sectors; and human capital (education and health). Meanwhile, special attention has not been paid to areas like digital technology, trade facilitation and access to financial services.

Table 8: TFP Focus Areas

Thrust Areas	AfDB	WB	UNDP	EU	AFD	MCA	NL	Belgium	Germany	CH	USAID
Macroeconomy	X	X	X	X					X		
Agriculture	X	X		X	X		X	X	X	X	X
Tourism and handicrafts		X			X						
Trade facilitation	X							X			
Digital technology and communication		X	X								
Transport	X										
Energy	X		X		X	X	X		X		
Water	X				X	X	X		X		
Governance	X	X	X	X					X		X
Market access					X						
Human capital	X	X	X	X	X					X	X
Public-private sector dialogue		X		X							

Source: Authors, 2020.

As part of efforts to unlock Benin's agricultural potential, the African Development Bank (AfDB), the World Bank (WB), the European Union (EU), and the French Development Agency (AFD) are working to diversify and leverage agricultural production which is necessary for the development of exports. Trade facilitation, which is the second pillar for the expansion of exports, is supported only by the Belgian Development Cooperation through the administration of the Port of Cotonou (training, regulatory framework, 'green port', etc.) and the AfDB through the construction of the joint Hillacondji-Sanvécondji checkpoint on the Benin-Togo border under the Benin/Togo Multinational Transport Project – Phase I. In addition, no TFP other than the AfDB is currently involved in the road infrastructure sector.

In the area of governance, the UNDP provided support for: the establishment and operationalization of the digital building permit application platform, property transfer formalities, the e-notary platform for land transactions, and digitalization of the management of State employees. The support provided for the development of e-governance helped to improve the satisfaction rate of public service users from 38.5% in 2015 to about 68.3% in 2019. The AfDB and WB are active in the governance sector through implementation of programme-based budget support operations.

4.6.2 AfDB Focus Areas

With regard to the AfDB[45] in particular, "the primary objective of the Bank's strategy in Benin over the 2017-2021 period is to support the implementation of PAG, and to facilitate the structural transformation of the country's economy to pave the way for inclusive growth that creates decent jobs while ensuring the transition to a green economy". The decision was made to build the Bank's 2017-2021 strategy on two pillars: (i) development of agricultural and agro-industrial value chains; and (ii) strengthening of competitiveness and regional integration support infrastructure. To produce the desired impact on inclusive and green growth, particular focus has been placed on gender mainstreaming, governance, skills development, adaptation and resilience to climate change.

Under the first pillar of the strategy, the Bank's actions will support the development of agricultural and agribusiness value chains by structuring investments; improving the agricultural sector business environment in order to foster private sector involvement; developing skills and entrepreneurship, in particular for young people and women; ensuring access to financing using such tools as risk-sharing mechanisms; and ensuring the economic development of rural areas through higher incomes and better access to basic social services. This may ultimately help to reduce rural-to-urban migration.

The second pillar, which focuses on transport and energy, complements the first to remove the impediments to the competitiveness of production sectors such as agriculture and access to regional markets. Actions under this pillar will enable the country to take advantage of income-generating opportunities offered by its agricultural potential, access to the ECOWAS market and its position as a corridor serving the sub-region, and also to contribute to the development of trade in West Africa and inclusive growth in Benin.

As shown in Table 9 below, AfDB action pillars are perfectly in line with the two main levers for improving the investment climate and boosting private investment, namely: the "improvement of goods supply and demand" lever and the "infrastructure" lever. The AfDB also supports governance improvement through programme-based budget support operations that sustain reforms to improve the private investment framework and enhance the efficiency of the public investment management framework.

Table 9: Consistency of AfDB Operations with Private Investment Levers

[45] AfDB / CSP 2017 – 2021 for Benin.

Human Resources	Infrastructure	Sector Policy	Governance	Macro-economic Framework	Legal and Regulatory Framework	Investment Cost
Pillar 1: Development of agricultural and agro-industrial value chains						
Pillar 2: Strengthening competitiveness and regional integration support infrastructure						

Source: Authors, 2020.

4.6.3 Potential Areas of Cooperation

By cross-referencing the AfDB's strategy and the thrust areas of other TFPs, possible areas of cooperation between the AfDB and various partners emerge.

For example, partnerships could be established between the UNDP and the AfDB, in line with the UNDP Country Programme Document (CPD) 2019-2023, in two major focus areas, namely: (i) support for improvement of the macroeconomic framework, as well as economic, financial and social statistics; and (ii) improvement of public policies (planning, programming/budgeting, monitoring and evaluation).

The World Bank is implementing activities in the agricultural sector in order to enhance the competitiveness of agro-food value chains, particularly pineapple and cashew, and to develop new exports chains in fresh agricultural product sub-sectors, particularly the construction of a freight terminal for the refrigerated storage of highly perishable products and related marketing facilities near the future airport in Glo-Djigbé. The World Bank and the AfDB could jointly implement activities in the agricultural sector to enhance its impact on Benin's development. Table 10 below presents possible areas for the coordination and harmonization of AfDB and TFP activities.

Table 10: Proposed Areas for Coordination and Harmonization of AfDB and TFP Activities in Benin

AfDB Focus Area	WB	UNDP	EU	AFD	MCA	NL	Belgium	Germany	CH	USAID
Pillar 1: Development of Agricultural and Agro-industrial Value Chains										
Structuring investments										
Skills development and entrepreneurship										
Access to financing										
Pillar 2 : Strengthening of Competitiveness and Regional Integration Support Infrastructure										
Transport infrastructure										
Access to energy										
Facilitation of public-private sector dialogue										

Source: Authors, 2020.

5. STRATEGIC ANALYSIS OF THE DIAGNOSIS

5.1. General Considerations and Strategic Analysis

Over the last four years, Benin has implemented macroeconomic, sector and governance reforms which have had a positive impact on its competitiveness and attractiveness for private investment. It is performing better than the average for sub-Saharan African countries in most international governance rankings.

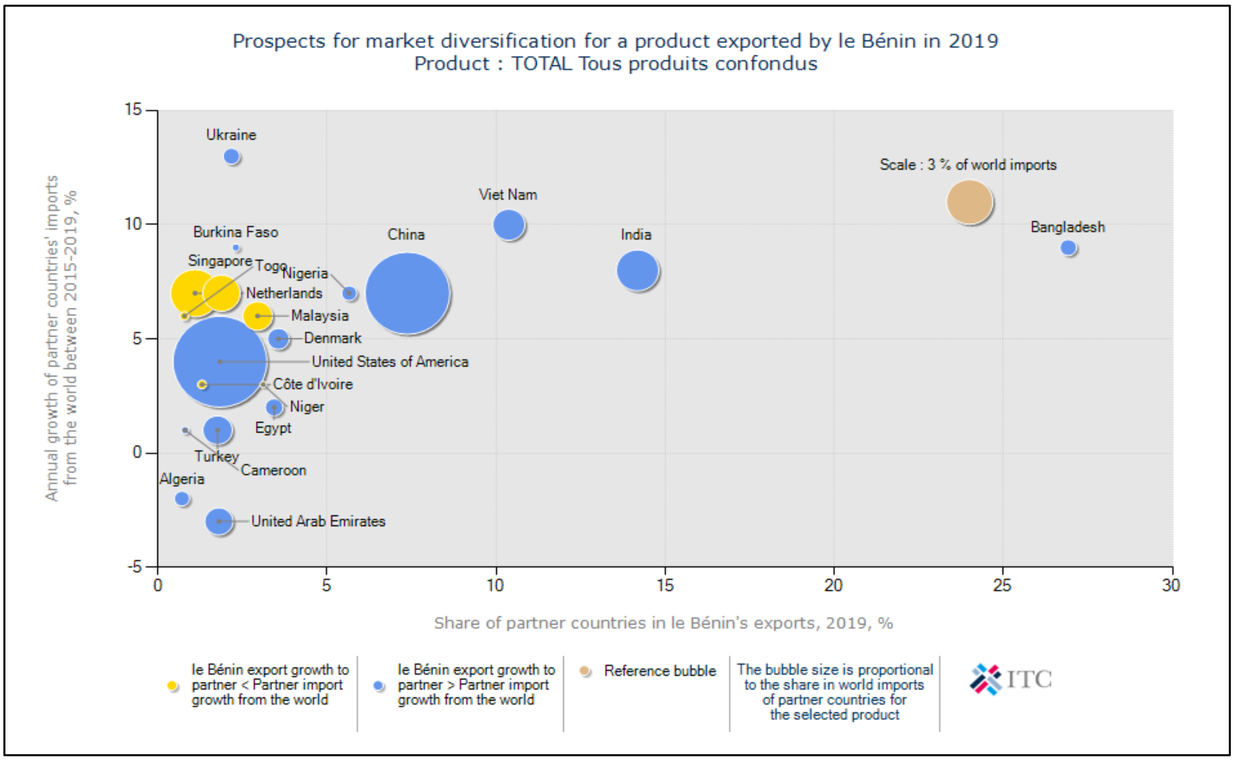
However, FDI flows and local private investments trends are not keeping pace with reforms. This could be due to (i) a fairly long investment decision time; (ii) poor ownership of some reform segments; and (iii) lack of dialogue on the prioritization of reforms. The first two points can be resolved only through public-private sector dialogue. Experience has shown that the involvement of private sector actors in all stages of the design and implementation of the reforms that target them is a success factor.

Reforms are being implemented in the areas of governance, corruption control, public finance management, and the development of utilities (electricity, telecommunications and ICT) to reduce factor costs. It is therefore necessary to intensify support for the diversification of production and to clarify prospects for establishing linkages between agricultural diversification policy and trade facilitation policy.

As explained in the section on trade policy, Benin's main exports are cotton, cashew nut and pineapple. There is sustained demand for these products on the international market, although the COVID-19 pandemic has caused a slight decline in demand for cotton lint. Meanwhile, demand for cashew nut and pineapple on the international market[46] has increased. Figure 21 shows that there are bright prospects for cotton demand from Benin's main export partners. For example, Bangladesh, which imports nearly 30% of Benin's cotton production, may increase its demand for cotton by about 10%.

[46] https://lesenegalquejadore.com/2020/04/30/covid-marche-mondial-noix-cajou/.

Figure 19: Prospects for Diversification of Markets for Benin's Export Products



Source: ITC Trade Map.

In light of the foregoing, an export promotion policy can be based on improving the competitiveness and output of three products (cotton, cashew and pineapple). Consequently, if the export product portfolio is not broadened, the development of value chains specific to each product should be intensified. This can be achieved without major investments in industrial units. Thus, in the cotton value chain, for example, special attention can be paid to the weaving and spinning link by promoting the small-scale or semi-industrial processing of cotton lint and setting up a small-scale weaving platform.

Given that support from various development partners is concentrated in the agricultural sector and on prospects for improving the productivity, production and competitiveness of agricultural products, the actions proposed will focus on conditions for establishing a framework conducive to trade facilitation. However, concerning threats, it is necessary to take into account the medium-term impact of the consequences of the COVID-19 pandemic on consumption habits and, therefore, on the demand for Beninese exports. The toughening of Nigeria's protectionist policy could also pose a threat to Beninese exports.

Table 11: Analysis of Strengths, Weaknesses, Opportunities and Threats

Strengths	• Stable macro-economic framework; • Good rating by risk assessment agencies; • Good prospect of reducing factor costs; • Growing supply of agricultural, fishery, handicraft and tourist products; • Low labour costs and a new law on employment; • Strong local demand for agricultural, fishery and handicraft products that coexists with the Nigerian market; • Opportunities for developing joint production specialization and competitiveness clusters with Nigeria.	Weaknesses	• Financial system's distrust of local investors; • Low financing of private investments by banks; • Low regional economic specialization and regional development; • Low factor productivity; • Persistence of non-tariff measures; • Low competitiveness of the Port of Cotonou; • Low road infrastructure - rural road - irrigation scheme - telecommunications and digital technology capacity; • Weak trade support infrastructure.
Opportuniti s	• Substantial local production potential; • Benin's membership of WAEMU, ECOWAS and WTO; • Considerable opportunities offered by the Nigerian market; • Development of an urban middle class.	Threats	• Low competitiveness of Beninese products compared with major competitors on the ECOWAS market – Ghana, Côte d'Ivoire and Nigeria; • Lack of research and innovation; • Climate change; • Uncertainty concerning the ECO currency.

5.2. Proposed Actions

As stated in the introduction, the study on the investment climate complements the one on the business environment which focused on issues directly related to the immediate corporate environment and proposed actions to be implemented.

In addition, based on the HRV approach used as the analytical framework for this study, it may not be very effective to try to solve all problems at once by embarking on reforms that most often get in each other's way, with reform in one area creating unanticipated distortions in another area (see Box 4).

Thus, given the extent of reforms that are still to be implemented and possible risks of negative reciprocal effects if the scope of action is not well defined, a phased approach should be used because it prioritizes reforms that alleviate the most binding constraints and, hence, produce the greatest effect.

Box 4: Must Everything be Reformed at the Same Time?

"In this article, we propose a new approach to reform – one that is much more contingent on the economic environment. Countries, we argue, need to figure out the one or two most binding constraints on their economies and then focus on lifting those. Presented with a laundry list of needed reforms, policymakers have either tried to fix all of the problems at once or started with reforms that were not crucial to their country's growth potential. And, more often than not, reforms have gotten in each other's way, with reform in one area creating unanticipated distortions in another area. By focusing on the one area that represents the biggest hurdle to growth, countries will be more likely to achieve success from their reform efforts….
We advocate setting reform priorities based on the maganitude of their direct impact. The idea behind this strategy is that, since the full list of requisite reforms is unknowable or impractical, and figuring out the second-best interactions across markets is a nearly impossible task, it is best to focus on the reforms whose direct effects are expected to be significant. The principle to be followed is simple: go for the reforms that alleviate the most binding constraints and, hence, produce the biggest bang for the reform buck. Rather than use a spray-gun approach in the hope that we will somehow hit the target, focus on the bottlenecks directly.
Source: Ricardo Hausmann, Dani Rodrik and Andrés Velasco (HRV) 2006.

The actions proposed therefore focus on trade facilitation given that appropriate actions are implemented upstream in order to increase the export product portfolio. They allow for broadening of the AfDB's scope of activities beyond the two levers supporting private investment and which form part of its thrust areas in the implementation of its 2017-2021 strategy, namely: (i) policies to improve agricultural production; and (ii) infrastructure.

These actions should mainly seek to: (i) support the implementation of reforms in the customs administration; (ii) support the enhancement of the competitiveness of the Port of Cotonou; (iii) support the enhancement of the competitiveness of the South-North and East-West corridors; (iv) support the setting up of a trade platform within the Glo-Djigbé Airport area and the neighbouring Special Economic Zone; (v) strengthen the export product portfolio; (vi) support public-private sector dialogue; and (vii) ensure compliance with sub-regional agreements on the free movement of goods and people. Annex 1 presents details on the Priority Action Plan.

6. CONCLUSION

The proposals made in this study build on the main findings of the Study on the Business Environment in Benin carried out in 2019 by the AfDB. Benin's economic growth prospects are good, despite the COVID-19 crisis, but require sustained improvement in the investment climate. It is, however, necessary to monitor trends in economic activity so as to mitigate possible risks, particularly: (i) difficulties in attracting private investors to take over the huge volume of investments made by the Government in recent years; (ii) the tightening of financial conditions in local and international capital markets owing to the widespread reluctance of investors discouraged by the country's bonded debt; (iii) changes in Nigeria's trade and exchange rate policies which could weaken Benin's exports and budgetary position.

The proposed actions focus particularly on trade facilitation in order to provide external trade opportunities to Beninese businesses. The best prospects for investment are in the agricultural, industrial, agro-industrial, tourism and handicraft sectors. As underscored in the study, the fundamentals are in place to guarantee high returns on investment in these sectors.

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ANNEXES

Annex 1: Action Plan – Indicators and Implementation Costs

Action Plan: Expected Outcomes and Timeline				
No.	**Focus Area**	**Sub-actions**	**Prior Activities**	**Estimated Cost**
1.	Support the implementation of reforms in the customs administration	Remove non-tariff measures (NTMs) imposed on imports and exports Reduce processing timeframes – clarification of procedures	Feasibility studies Environmental impact assessment	**CFAF 150 million**
2.	Support actions to enhance the competitiveness of the Port of Cotonou	Remove non-tariff measures (NTMs) imposed on imports and exports Strengthen maritime safety Improve maritime connectivity	Feasibility studies Environmental impact assessment	**CFAF 250 million**
3.	Support actions to enhance the competitiveness of the South-North and East-West corridors	Remove non-tariff measures (NTMs) imposed on imports and exports Reinforce and develop the road network	Feasibility studies Environmental impact assessment	**CFAF 3 billion**
4.	Support the setting up of a trading platform within the Glo-Djigbé Airport and the neighbouring Special Economic Zone	Conduct feasibility studies Mobilize investors	Feasibility studies Environmental impact assessment	**CFAF 200 million**
5.	Increase agricultural production and promote exports	Organize and build the capacity of producer organizations Build the capacity of intervention of the National Agricultural Development Fund (FNDA) Carry out an in-depth analysis of export markets for key value chains Identify related promising markets while analyzing conditions of access and entry routes Set up a quality, standardization, testing and metrology infrastructure Establish a marketing intelligence platform	Feasibility studies Environmental impact assessment	**CFAF 75 million**
6.	Encourage public-private sector dialogue	Strengthen the Public-Private Sector Dialogue Platform on Quality	Technical and financial support	ME
7.	Lobby for compliance with sub-regional agreements	Raise the awareness of States on the need to comply with sub-regional agreements and of ECOWAS to impose sanctions for non-compliance.	Awareness-raising activities	ME

Annex 2: Persons Interviewed

No.	FULL NAME	ENTITY
1.	ADJOVI Serge	Agence du Numérique du Bénin
2.	FAYIHOUN Mesmin	ANPE
3.	BEHETON Letondji	APIEX
4.	Charles F. COSSY	FEJEC
5.	GBAGUIDI Wilfrid	ASNIB
6.	Narcisse AZA	ASNID
7.	FELIHO ALBIN	CONEB
8.	BERNARD HOUNOUVI	CNPB
9.	SOUTON Armand	Intégration Régionale / MEF
10.	GERARD KPATINDE	DPP / Plan
11.	TIDJANI	DPP/ Finance
12.	CAPO-CHICHI	DPP / Culture
13.	SODOHOUE Nadine	ANPME
14.	DOSSA AGUEMON	DPP/Agriculture
15.	Nicolas, Yenoussi	DG/ Impôt
16.	LAWANI	ANMPE
17.	Elvis DANHOUME	CSPEF
18.	Patrice SEWADE	ONG-SOJAGNON
19.	APLOGAN J. Aubert	FLUDOR BENIN SA
20.	Roland RIBOUX	CIPB
21	COMLAN LAURENT BRICE	STE AZAR JEAN
22.	ATROPKO HERVE	RH CONSULTING
23.	AHOGLE LEONARD	LEDA-CO SARL
24.	MICHAI	GIDS ET FRERES
25.	AGBLONON SHERITA	FRUITIZZ
26.	PRISCILLIA AMOUZOUVI	CITYPOOL SECURITY
27.	ASSOGBA GUEKPON	GENERAL PLUS
28.	ZIME MILENE	CAID-AC
29.	HOUEDJISSIN GLORIA	GLORY COM
30.	CHARLES F. COSSY	ROYAL AZUR
31.	Euloge ATOHOUN	ANPE
32.	Wilfrid GBAGUIDI	ASNIB
33.	SANTOS Elie	DPP Industrie
34.	KOUPKO Mathieu	UNICEF
35.	Serge LOUPEDA	CSPEF/MEF
36.	Gabin SOGBADJI	DPP / MPME

37.	ZIME Herman	DPP Energie
38	AJAVON Yves Cesaire	DSA / Agriculture
39.	Adéchina Colaholé Elie IDOHOU	DGAE
40.	Magloire Augustin Aguessy	DG – ODD / Plan
41.	François-Corneille KEDOWIDE	DG Environnement
42.	Pascal KORA BATA	Ministry of Infrastructure
43.	ALOFA Janvier	United Nations Development Programme (UNDP)
44.	Herman TAKOU	DC/ M Economie et Finances
45.	Cascioli MAURIZIO	French Development Agency (AFD)
46.	David QUENUM	Embassy of the Kingdom of the Netherlands
47.	Melanie SCHELLENS	Belgian Embassy
48.	Claudi FERRER	Delegation of the European Union
49.	Not provided	FENAPAB
50.	Not provided	STE BENINOISE DE SIDERURGIE
51.	Not provided	TAKVA SARL
52.	Not provided	LA MAISON DU PAYSAN
53.	Not provided	STE DE BRIQUE ET CONSTRUCTION
54.	Not provided	ANAIS CONSULTING GROUP SARL
55.	Not provided	MAI FAIRE SARL
56.	Not provided	FADEN SARL
57.	Not provided	GMTB
58.	Not provided	MADOR ET FILS
59.	Not provided	PHARMACIE JONQUET
60.	Not provided	PHARMACIE FEMI
61.	No answer	German Cooperation (GIZ)
62.	No answer	World Bank

Annex 3: Interview Protocols

Interview Administered to TFPs

The personal information provided in this questionnaire will be kept confidential. It will be subject to the rules of statistical confidentiality. The findings will be published anonymously, in accordance with Section 25 of Law No. 99-014 of 12 April 2000 to establish and lay down the organization and functioning of the National Statistics Council of the Republic of Benin.

A. Location and Identification of Key Actor		
A0	Name of TFP entity	
A2	Respondent/interviewee	**Full name:** **Tel.:** **Assessment of interview:** **Signature, if possible:**

1. **Please describe the activities you are implementing to support the Government of Benin in improving the investment climate.**

2. **Please indicate possible areas of cooperation between your institution and the AfDB to improve the investment climate in Benin.**

3. **The Government has embarked on reforms in the areas listed below. Based on your assessment of the implementation of these reforms, are these areas still obstacles to investment?** ***For each item answer Yes or No.***

		Was an obstacle	Is no longer an obstacle	Progress to be made
1.	Telecommunications			
2.	Access to electricity			
3.	Access to land			
4.	Fiscal policy			
5.	Labour legislation			
6.	Ease of starting a business			
7.	Development of common business services			
8.	Market access			
9.	Settlement of commercial disputes			
10.	Access to financial services (*e.g. interest rates and premiums*)			
11.	Access to financial services (*alternative financing*)			
12.	Access to financial services (e.g. *guarantees and conditions*)			
13.	Employee job training and qualification			
14.	Corruption			
15.	Problems faced by the informal sector			
16.	Public-private sector dialogue			
17.	Female entrepreneurship			

18.	Facilitation of regional trade and regional integration			

4. Which of these areas should be prioritized in order to deepen reforms?

5. In light of the reforms that have been implemented, according to you what are the three main factors still affecting the decision to invest or not to invest now? [Indicate the most important factor by 1, the second by 2, and the third by 3]

	Rank: 1-2-3
(a) Constraints on the financing of investment	
(b) Fiscal policy	
(c) Administrative constraints	
(d) Land tenure system	
(e) Fair settlement in the event of a dispute	
(f) Corruption	
(h) Factor costs	
(i) Changes in the macroeconomic and political environment	
(j) Others: specify	

6. What is your overall assessment of the Government's effectiveness in implementing the latest reforms?

1. Very effective	4. Slightly ineffective
2. Effective	5. Ineffective
3. Fairly effective	6. Very ineffective

7. What is your assessment of the impact of the *COVID-19 emergency situation on the reforms carried out to improve the investment climate?*

8. What do you propose to mitigate the risks associated with the *"COVID-19 emergency situation"*?

9. What can be done to improve the investment climate?

INTERVIEW WITH KEY PRIVATE SECTOR ACTORS

Questionnaire

The personal information provided in this questionnaire will be kept confidential. It will be subject to the rules of statistical confidentiality. The findings will be published anonymously, in accordance with Section 25 of Law No. 99-014 of 12 April 2000 to establish and lay down the organization and functioning of the National Statistics Council of the Republic of Benin.

A. Location and Identification of Key Actor		
A0	Name of entity/actor	
A1	Department	
A2	Town/municipality	
A3	Sub-division	
A4	Others, address (P.O. Box, fixed telephone No., etc.)	
A5	Head of entity/actors	**Full name of HEAD:** **Tel.:**
A6	Respondent/interviewee	**Full name:** **Tel.:** **Assessment of interview:** **Signature, if possible:**

1. The Government has embarked on reforms in the areas listed below. Based on your assessment of the impact of these reforms on your activities, are these areas still obstacles to investment? ***For each item, answer Yes or No.***

		Was an obstacle	Is no longer an obstacle	Progress to be made
1.	Telecommunications			
2.	Access to electricity			
3.	Access to land			
4.	Fiscal policy			
5.	Labour legislation			
6.	Ease of starting a business			
7.	Development of common business services			
8.	Market access			
9.	Settlement of commercial disputes			
10.	Access to financial services (e.g. interest rates and premiums)			

11.	Access to financial services (*alternative financing*)			
12.	Access to financial services (e.g. *guarantees and conditions*)			
13.	Employee job training and qualification			
14.	Corruption			
15.	Problems faced by the informal sector			
16.	Public-private sector dialogue			
17.	Promotion of female entrepreneurship			
18.	Facilitation of external trade			

2. Which of these areas should be prioritized in order to deepen reforms?

3. In light of the reforms that have been implemented, according to you what are the three main factors still affecting the decision to invest or not to invest now? [Indicate the most important factor by 1, the second by 2, and the third by 3]

	Rank: 1-2-3
(a) Constraints on investment financing	
(b) Fiscal policy	
(c) Administrative constraints	
(d) Land tenure system	
(e) Fair settlement in the event of a dispute	
(f) Corruption	
(h) Factor costs	
(i) Changes in the macroeconomic and political environment	
(j) Others: specify	

4. What is your overall assessment of the Government's effectiveness in implementing the latest reforms?

1. Very effective	4. Slightly ineffective
2. Effective	5. Ineffective
3. Fairly effective	6. Very ineffective

5. Which of the laws and regulations (relating to the business environment) in the list actually apply? ***[1 = not at all 2 = partly 3 = fully]***

		Assessment		
1.	Law on PPPs	1	2	3
2.	Law on employment	1	2	3
3.	Law on commercial courts	1	2	3
4.	Law governing land tenure	1	2	3
5.	Regulatory instruments governing building permits	1	2	3
6.	Regulatory instruments relating to the fight against corruption	1	2	3
	Provisions relating to SEZs			

6. Which of these laws and regulations (relating to the business environment) are the three most important that should be more strictly enforced?:

7. Do you agree with the statement "the COVID-19 emergency situation has changed your investment decisions"?

1. Strongly disagree
2. Disagree in most cases
3. Rather disagree

3. Rather agree
4. Agree in most cases
5. Strongly agree

9. What do you propose to mitigate the risks associated with the *"COVID-19 emergency situation"*?

10. "What are the thrust areas for your future investments"? (Yes or no. If yes, state the amount).

"Capacity building"
"Recruitment / Staff training"
"Modernization of production facilities"
"Upgrade/replacement of equipment"
"Computerization"
"Compliance".

Interview in Government Services – Plate Forme and APIEX
Questionnaire

The personal information provided in this questionnaire will be kept confidential. It will be subject to the rules of statistical confidentiality. The findings will be published anonymously, in accordance with Section 25 of Law No. 99-014 of 12 April 2000 to establish and lay down the organization and functioning of the National Statistics Council of the Republic of Benin.

A. Location and Identification of Key Actor		
A0	Name of TFP entity	
A2	Respondent/interviewee	**Full name:** **Tel.:** **Assessment of interview:** **Signature, if possible:**

1. Please assess the status of implementation of the following reforms:

- The establishment of the legal and regulatory framework for public-private partnerships (PPPs) through Law No. 2016-24 of 28 June 2017, as well as the issuing of implementing decrees taking into account the new institutional framework for the promotion of investments in Benin.
- The adoption of the Law on Special Economic Zones in 2017[47];
- The adoption of the Law on credit information bureaux in 2016[48] and the Law on leasing[49] and factoring in 2017[50];
- The adoption of a new law on employment in 2017[51];
- The Law amending the Investment Code. What is the volume of registered investments under this new regime? In which sector?;
- The adoption in 2018 of a bill on the promotion and development of micro, small- and medium-size enterprises in Benin.

2. How are reforms disseminated to actors?

3- What obstacles hinder the implementation of reforms?

Within the Administration?

Within the private sector?

Among TFPs?

Are there any reforms that have not been mentioned? If yes, please indicate them.

[47] Law No. 2017-07 of 19 June 2017 establishing the Special Economic Zones Regime in the Republic of Benin.
[48] Law No. 2016-36 of 23 January 2016 to regulate Credit Information Bureaux (CIB).
[49] Law No. 2017-02 relating to leasing in the Republic of Benin.
[50] Law No. 2017-01 relating to factoring in the Republic of Benin.
[51] Law No. 2017-05 on employment and manpower.

Annex 4: Statistics

A5. Trends in the HDI and its Components

	Life Expectancy at Birth	Expected Years of Schooling	Mean Years of Schooling	Expected GNI per Capita (2011 PPP USD)	HDI Value
1990	53.8	5.3	1.6	1 432	0.348
1995	55.2	5.9	2.1	1 482	0.373
2000	55.4	6.7	2.6	1 659	0.398
2005	57.4	9.1	2.8	1 730	0.440
2010	59.3	11.0	2.8	1 805	0.473
2015	60.6	12.8	3.5	1 971	0.510
2016	60.9	12.6	3.6	2 001	0.512
2017	61.2	12.6	3.6	2 055	0.515
2018	61.5	12.6	3.8	2 135	0.520

Source: http://hdr.undp.org/sites/all/themes/hdr_theme/country-notes/fr/BEN.pdf.

B.5 Energy sector performance at end-December 2018

Performance Indicators	2016	2017	2018
National electricity coverage rate (in %)	48.2	49.1	50
National electrification rate (in %)	29.0	29.7	29.2
Urban electrification rate (in %)	53.9	54.8	53.9
Rural electrification rate (in %)	6.5	6.6	6.5

Source: DGRE, SIE Report 2018.

Annex 5: Report on Consultations with National Stakeholders

1. As part of the validation of the Study on the Investment Climate in Benin, a provisional report on the study was forwarded to all national stakeholders (government, private sector, technical and financial partners, civil society, etc.) for consideration from 5 to 24 November 2020. A national validation workshop was not organized due to the COVID-19 pandemic.

2. The aim of these consultations was to elicit comments and observations from all stakeholders in Benin's economic life and reflect them in the final version of the study.

3. The comments and observations received are summarized as follows:

- The report seems to be comprehensive and takes into account the impact of COVID-19 in some areas.
- The sources of data on the section concerning human capital should be mentioned.
- It should be noted that the UNDP is involved in the clean energy, water and access to financial services sectors within the TFP support / intervention component.
- In the document, it would be proper to mention German Cooperation as a whole rather than GIZ and KFW.
- The macroeconomic, energy, water and governance sectors should be included in TFP operations.
- In Table 14, there is a possibility of harmonizing activities in the areas of transformational investments, access to financing and access to energy with German Cooperation.
- In Section 4.2.7 which focuses on public-private sector dialogue, the following was added: "The Benin Chamber of Commerce and Industry (CCI) hosts the platform for public-private sector dialogue on quality. This is a framework for consultation and interactive exchanges between public and private sector actors on issues of quality and quality policy orientation in Benin".
- In Section 3.3.1, indicate the sources of the tariff and domestic revenue figures.
- In Table 17 - Summary of Proposed Actions, it is necessary to add the sub-action "Strengthening the Platform for Public-Private Sector Dialogue on Quality" to the focus area "Supporting Public-Private Sector Dialogue".
- To ensure that the same definition is used, please explain what you mean by "non-tariff measures".
- It would be pertinent to correlate Benin's competitiveness and attractiveness with the number of enterprises created.
- The severe restriction of the participation of various political parties in the political process does not allow for the creation of strong institutions.

- What accounts for the lack of innovation among Beninese enterprises?
- Port taxes are higher than in similar ports in the sub-region. In addition, it is not possible for ship owners who are not domiciled in Benin to collect the invoiced VAT.
- Additional incentives such as the reduction of the tax rate applied to the dividends distributed to resident companies/partners and the elimination of double taxation could have a positive impact on FDIs.
- It appears that the mitigation measures are not yet effective and that enterprises have not yet fully benefited from them. Are there any statistics on enterprises benefiting from these measures and the amount of these support measures?
- Are there any statistics on the revenue derived from COVID-19 testing for passengers departing from and arriving in Benin?
- All comments and observations made by various national stakeholders have been reflected in the final report. National stakeholders welcomed this inclusive approach initiated by the Bank in order to improve the quality of the report.

Annex 6: Study Terms of Reférence

1. Context and Rationale

Private sector development is critical to ensuring sustainable and inclusive economic growth in Africa. In promoting private sector development, the African Development Bank (AfDB) Group aims to contribute to strong and inclusive economic growth that will lead to economic transformation and sustainable development in Africa. Therefore, the Bank identified private sector development as a core operational priority in its Ten-Year Strategy 2013-2022. This has been reaffirmed in the Bank's High 5s: "Light Up and Power Africa", "Feed Africa", "Integrate Africa", "Industrialize Africa" and "Improve Quality of Life for the People of Africa". The Bank will continue to be an active partner and facilitator for private investment in Africa.

This holistic vision of the AfDB is reflected throughout Benin and is consistent with the orientations of the Beninese Government which considers the private sector as the engine of the country's growth and development. On the strength of this assessment, the Bank intends to support the development of Benin's private sector as part of the implementation of its intervention strategy in Benin during the 2017-2021 period by helping to remove the obstacles and constraints hindering business development, particularly small and medium-sized enterprises (SMEs) that create jobs for young people and women. To this end, the Bank planned to carry out a study on the structuring of the private sector for the development of Benin during the 2017-2021 period. The first part of the study (Study on the Business Environment in Benin) was carried out last year. The second part of the study (Study on the Investment Climate in Benin) is scheduled for 2020.

The study aims to deepen the Bank's knowledge of the private sector in Benin. It will help to identify the main constraints and obstacles to private sector development and propose priority reform actions to improve the business climate in the country. It will serve as a strategic tool for the AfDB in fostering dialogue with the Government of Benin and identifying the AfDB's priority focus areas for supporting private sector development. It will also be an opportunity for coordinating activities implemented together with other technical and financial partners supporting private sector development in Benin. Lastly, the study will serve as a guide for the Bank, the Government, the private sector, and technical and financial partners in assessing business opportunities and preparing private sector investment programmes.

The study terms of reference are divided into five parts, namely: (i) purpose of the study; (ii) expected outcomes of the study; (iii) broad outlines of the study; (iv) proposed methodology; and (v) the indicative study schedule.

2. Purpose of the Study

The main purpose of the study is to make a diagnostic analysis of the investment climate in Benin and define a strategic approach for supporting the development of the country's private sector.

3. Expected Outcomes of the Study

The main expected outcomes of the study are:

(i) the baseline situation of the investment climate in Benin is presented and shared by all stakeholders involved in the country's economic life, particularly the Government, the private sector, civil society, the financial sector, and technical and financial partners;

(ii) a priority action plan for implementing reforms to improve the investment climate in Benin in the medium and long term is prepared;

4. Structure of the Study

Besides the introduction, the document will comprise the following chapters:

4.1 Country Context

Chapter One should provide general information about Benin, focusing on the political context, the economic situation, the main growth drivers, public finance trends, external trade and the monetary situation. Emphasis should be laid on private sector development indicators, especially issues related to the public and private investment rate, tax incentives, domestic debt, foreign direct investment flows, credits to the economy, etc. The analysis will also focus on the social situation, notably access to basic social services, demography, gender and inequalities.

4.2 Assessment of the Investment Climate

Chapter Two will analyze the progress made in improving the investment climate, as well as the constraints and difficulties faced by the private sector in Benin. This chapter should describe and analyze the main elements of the policies and programmes implemented by the Government to improve the investment climate in Benin. It will review the measures implemented to support the private sector as part of reforms to improve the investment climate contained in the 2016-2021 PAG and the constraints and difficulties faced in improving the investment climate. Specifically, this chapter should be structured as follows:

- ***Physical infrastructure:*** An assessment of physical infrastructure quality and adequacy should be made in this section, focusing on the coverage and impact of transport networks and infrastructure, energy supply, water and sanitation services, and telecommunications systems. The analysis should help to identify regions which have high growth potential, but lack the necessary infrastructure. An overview of social infrastructure such as schools, health facilities, hotels, housing, etc. existing in the country should also be provided. Lastly, the section should also analyse the level of private sector participation in the provision and/or management of infrastructure and public-private partnerships (PPPs) in infrastructure development in Benin.

- ***Governance:*** This section should focus on procurement systems, anti-competitive practices, transparency and accountability, the rule of law, citizen participation, corruption control, money laundering, access to land, gender issues and entrepreneurship, and corporate governance.

- ***Labour market:*** This section should assess the existing human resources that will contribute to private sector development. It should analyze, in particular, the quality of the work force (skills and qualifications), labour costs, labour legislation and the social security system. An overview of education, health and social protection systems will also be presented. These aspects can have a direct impact on investment costs, particularly foreign direct investments (FDIs). The involvement of the private sector in the provision and/or management of social services should also be included in the analysis.

- ***Trade policy and regional integration:*** This section, which is very important considering Benin's position as a trade corridor for the sub-region and the small size of its domestic market, will focus on the impacts of trade policy with the establishment of the WAEMU and ECOWAS Customs Unions and its implementation by Benin, as well as trade policy impacts on private sector development. It will also analyze the compliance of Benin's trade policy with the rules of the World Trade Organization (WTO) and the Economic Partnership Agreement (EPA) concluded with the European Union.

4.3. Priority Reform Areas for the Investment Climate in Benin

Chapter Three will review the strategic options for improving the investment climate and propose priority areas for implementing measures to improve the investment climate in Benin.

Specifically, the chapter should develop the following sections:

- ***AfDB operations and strategies in Benin:*** This section should review the AfDB's strategies and operations aimed at promoting private sector development in Africa in order to draw lessons for the Bank's future operations in Benin's private sector.

- ***Operations of other development partners:*** This section should provide information on the operations of other development partners that support the improvement of the investment climate. Ita should also identify areas of cooperation between the AfDB and other development partners to improve the investment climate in Benin.

- ***Priority reform action plan for improving the investment climate:*** This section should propose priority reforms areas and draw up a medium- and long-term action plan for improving the investment climate in Benin. The priority actions and activities should be identified, the performance indicators and implementation deadlines defined, the costs of priority activities estimated, and the expected outcomes of their implementation assessed.

4.4. Conclusion and Recommendations

This chapter will summarize the main report findings and make recommendations for improving the investment climate and promoting private sector development in Benin. The Consultant will also prepare a summary of the report (not exceeding twenty (20) pages) to be appended to the full report in order to comply with AfDB standards regarding the length of reports.

5. Methodology

The study will be conducted by a Consultant, under the joint supervision of the Benin Country Office (COBJ) and the Country Economics Department (ECCE). The study will be carried out within a period of 60 working days from the date of notification of the contract. The Bank team and the Consultant will jointly implement the following activities for the conduct of the study:

- ***Activity 1 - Literature review and preparation of the work programme:*** During this first phase, the Bank team and the Consultant will review the available literature. The literature review results will enable the Consultant to prepare a concept note presenting the methodology and analytical framework, including an annotated outline. At the end of this first phase, needs in terms of the information to be collected, the interviews to be conducted, and the national and local entities and other stakeholders to be consulted will be determined.

- ***Activity 2 - Consultations with stakeholders:*** The Consultant will hold consultations with all stakeholders (the Government, the private sector, technical and financial partners, private sector management bodies, programme beneficiaries, civil society, youth and women's forums, etc.) to collect the data needed for the study. Interviews will also be held with various stakeholders to elicit information and opinions on the overall situation of the private sector, the investment climate, expectations and focus areas for improvement of the investment climate in Benin. A survey questionnaire will also be administered to all stakeholders, particularly government entities, the private sector, civil society, consumers, etc.

- ***Activity 3 - Drafting and validation of the study report:*** The Consultant will, based on the report drafting plan proposed, prepare and submit a draft general study report to the Bank for internal review and validation. A national study report validation workshop involving all stakeholders will be organized in Cotonou. In keeping with the DAM, the document will be distributed to members of the Boards of Directors of the African Development Bank for information.

5.1 Qualification and Experience of the Consultant

The study shall be carried out by a national consultant with the following skills and qualifications:

- Hold at least a master's degree in economics, finance or an equivalent certificate;

- Have at least 10 years of professional experience in the field of private sector development in Benin or in a related field and have solid references in the conduct of similar studies, preferably in the WAEMU zone and in Africa;

- Have strong analytical and writing skills in French and a good working knowledge of English;

- Have good communication skills and ability to manage meetings and run training workshops and seminars;

- Have a good command of the Bank's standard software (Word, Excel, Access, MS Projects and PowerPoint).

5.2. Deliverables

The deliverables expected from the consultant are:

- a Concept Note presenting the methodology and analytical framework with an annotated plan to be validated by the Bank;
- a draft study report to be reviewed as part of the Bank's internal process;
- the organization of a national workshop on the validation of the study report in Cotonou;
- ten copies, including in electronic format (Word and Power Point) of the final report submitted to the AfDB Country Office in Benin no later than two weeks after validation of the said report by the Bank. The final report shall also include the following annexes: the study terms of reference, the report on the validation workshop, the list of people and entities contacted, and bibliographical references;
- a twenty (20) page summary of the study to be distributed to members of the Bank's Boards of Directors for information.

6. Indicative Timeframe and Schedule

	Phase	Duration
1.	Preparation of the Concept Note	10 days
2.	Validation of the Concept Note by the AfDB	5 days
3.	Consultations with stakeholders	10 days
4.	First draft study report submitted by the Consultant	20 days
5.	Comments of the AfDB on the first draft study report	10 days
6.	Preparation of the restitution workshop by the Consultant	5 days
7.	Second draft study report submitted by the Consultant	10 days
8.	Comments of the AfDB on the second draft study report	10 days
9.	Final study report and summary note (20 pages) submitted by the Consultant	5 days
10.	Distribution to members of the Boards of Directors of the AfDB	14 days