ECONOMIC DEVELOPMENT & INSTITUTIONS

BENIN INSTITUTIONAL DIAGNOSTIC WP18/BID01

CHAPTER 1: A FIRST ASSESSMENT OF INSTITUTIONAL CONSTRAINTS ON THE DEVELOPMENT OF BENIN

Benin Institutional Diagnostic

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November 2018

Oxford Policy Management

ECOLE D'ECONOMIE DE PARIS PARIS SCHOOL OF ECONOMICS

UNIVERSITÉ DE NAMUR

ADE AIDE A LA DECISION ECONOMIQUE

This chapter uses some material contained in a draft presented in a workshop held at Cotonou in August 2017. We would like to thank various participants to the workshop as well as the authors of this draft: Alain Babatoundé, Alexandre Biaou, John Igué, Mathias Hounkpe, Sebastien Sotindjo, Léonard Wantchekon, and Etienne Yehoue. Thanks are also gratefully extended to Alain Babatoundé for his research assistance work. Finally, our gratitude goes to François Bourguignon who made insightful and detailed comments at several stages of the writing of this paper, and to Léonard Wantchekon for specific suggestions on the draft when it was presented in a workshop in Brussels in September 2018.

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1 Mapping Benin: geography, historical legacies, ethnicity and politics

1.1 Geography

Benin, presented on Map 1 below and formerly known as Dahomey (1890-1975), is a West African country located between Togo and Nigeria, with which it shares 600 and 700 km of border respectively. Currently, the country includes 12 administrative departments: Alibori, Atacora, Atlantique, Borgou, Collines, Couffo, Donga, Littoral, Mono, Ouémé, Plateau, and Zou.

In 2016, Benin had a population of 10,822,298, living in an area of 112,760 km². Its gross domestic product was estimated at US$ 8,583 billion. Benin is therefore a relatively small country, certainly compared to its giant neighbour to the east, Nigeria, which is currently Africa's largest economy in terms of GDP (US$ 404,653 billion) and population size (185,989,640). In addition, Benin possesses few natural resources except agricultural land, and its biggest geographic asset is its direct access to the sea.

Map 1: Map of Benin

1.2 Deep historical legacies

Benin, previously known as Dahomey, is an extraordinarily varied mosaic of people and ethnic groups as well as a place with a long legacy of all sorts of political entities, running from old kingdoms or empires (the Yoruba kingdoms –centered on Ife and Oyo–, the Bight of Benin, the Allada kingdom and its successor state, the Dahomey kingdom) to principalities and microstates (possibly born of the breaking up of kingdoms or empires) coexisting with stateless areas dominated by non-hierachized families and clans (particularly among the peoples bordering Benin). Because over the last ten centuries the country has been the locus of numerous waves of migration from neighbouring countries, it displays the characteristic of a multi-national state with strong links to its neighbours and porous and flexible borders considered from the standpoint of human settlement. Relatedly, with its direct access to the sea in its southern part, Benin has long been a nexus of trade networks and routes actively engaged in regional and even external commerce. It is therefore not surprising that, although the kings of Benin seem to have been reluctant to supply either the quantity or the quality of slaves that the Portuguese wanted during the sixteenth century, Benin became an important basis for transatlantic slave trade by the end of the seventeenth century when the demand for slaves intensified under the pressure of growing needs in the Americas (Fage, 2002, pp. 235, 266-7; Iliffe, 2007, pp. 78-80).

The kingdom of Dahomey was thus created in response to the Atlantic trade. It was first an offshoot of Allada, the then chief polity among the Aja-Ewe people together with the Bight of Benin (late fifteenth century). When Allada tried to control the intensive trade in slaves and firearms that began at that time, the Dahomey king conquered it (in 1724) and became the dominant local power, although it remained tributary to Oyo state (in present-day Nigeria). A more efficiently authoritarian state than its predecessors, it was politically stable (until its dismantling by the French colonial power), partly because royal succession was largely determined by primogeniture, because it was closely administered through commoner chiefs and royal courts, and because of its strident militarism and cruel treatment of enemies (Iliffe, 2007, pp. 148-9).

The above account suggests that in addition to the absence of mineral resources, present-day Benin might suffer from two important problems: (i) a lack of cooperation due to strong ethnic fragmentation (along the line proposed by Alesina and La Ferrara, 2005) and (ii) a lack of interpersonal trust due to the traumatic experience of slavery (as argued in Nunn, 2007, 2008). The situation nevertheless appears in a more positive light if two favourable elements of Benin's legacy are emphasized: (iii) a tradition of centralized state organizations with the associated political and administrative skills, and (iv) long periods of active engagement in supra-local trade and commercial entrepreneurship.

It is impossible to determine whether the net outcome of the above forces is positive or negative. In fact, it is not even clear how strong is the effect of each of them on long-term development prospects of the country. We now elaborate upon the reasons behind our agnosticism, and this is done under a number of points corresponding to the above categorization (plus a point concerning the availability of natural resources).

The absence of natural resources, mineral and non-mineral, is not necessarily a disadvantage for economically poor countries where democracy is immature in the sense that institutions are weak and democratic habits not well ingrained. A widespread view argues, on the contrary, that abundant resources are liable to slow down development in these countries owing to a so-called « resource curse »: by creating easily appropriable rents, resources that are highly valuable and physically concentrated tend to establish a narrow link between political power and economic gains, thereby encouraging political leaders to sacrifice the collective good for their own personal interests (see, e.g., Mehlum, Moene, and Torvik, 2006a, 2006b; Robinson, Torvik, and Verdier, 2006).

Turning to (i), two main points must be made. First, if ethnic fragmentation may ignite tensions between different ethnic groups in a competitive environment, it may yield favourable effects when the groups possess complementary skills. Second, even in the presence of competition, the existence of a large number of groups, such as is found in Benin (and Tanzania) is much less damaging than situations of ethnic polarization, such as are found in Rwanda, Burundi, or Kenya (see Esteban and Ray, 1994, 2008; Duclos, Esteban, and Ray, 2004). This matters especially in the sphere of politics where the possibility of different inter-group coalitions and counter-coalitions may give rise to a spirit of cooperation more conducive to development than the « winner-take-all » approach that a polarized society typically fosters.

The idea that slavery has left deep scars in the societies where it prevailed, undermining trust among people, has gained ground following the aforementioned pioneering work of Nunn (see (ii) above). Unfortunately, there is no firm evidence of this long-term impact in the case of Benin, which requires that confounding effects (such as ethnic diversity) are duly controlled for. As a first approximation, we would expect measures of trust to be of lower value for Benin than for African countries that did not suffer from slave trade, at least on a scale corresponding to modern transatlantic commerce. Just to get a rough and preliminary idea, we compare Benin to three African countries which did not experience slave trading: Lesotho, Malawi, and Kenya. Kenya is probably the best comparator because, like Benin, it suffers from strong ethno-regional antagonisms. Using data from the Afrobarometer (2011-2013 Round), we use several subjective indicators of trust and corruption, carefully distinguishing between interpersonal trust (Table 1.1) and trust in institutions (Table 1.2).

Table 1.1: Cross-country comparison of interpersonal trust: 2011- 2013 Round

	Benin	Lesotho	Malawi	Kenya
1. Do you think that most people can be trusted? Proportion of affirmative answers	32%	5%	20%	9%
2. Do you think that one must be very careful when dealing with other people? Proportion of agreeing people	68%	94%	80%	90%
3. Do you think that you should have no or little trust in your neighbours? Proportion of agreeing people	53%	54%	15%	38%
4. Do you think that you should have no or little trust in other people whom you know (other than relatives and neighbours)? Proportion of agreeing people	69%	67%	38%	45%

Source: Afrobarometer, World Value Survey

Table 1.2: Cross-country comparison of trust in institutions: 2011- 2013 Round

	Benin	Lesotho	Malawi	Kenya
1. Do you have no or little trust in local government councils? Proportion of agreeing people*	41% (76%)	40% (53%)	13% (43%)	59% (75%)
2. Do you have no or little trust in members of parliament? Proportion of agreeing people*	48% (74%)	32% (48%)	31% (57%)	47% (78%)
3. Do you have no or little trust in courts of law? Proportion of agreeing people*	39% (45%)	28% (19%)	16% (18%)	36% (28%)
4. Do you have no or little trust in police officers? Proportion of agreeing people*	40% (70%)	39% (65%)	30% (69%)	68% (63%)
5. Do you think that all or most tax officers are involved in corruption? Proportion of agreeing people	54%	19%	27%	40%

* Between brackets are indicated the proportions of people who believe that all or most corresponding officers are corrupt.
Source: Afrobarometer, World Value Survey

What are the messages emerging for these two tables? First, in terms of interpersonal trust, Benin does not fare unambiguously worse than the three other African countries considered. Second, as far as trust in institutions are concerned, Benin appears worst only regarding courts of law (the difference with the second worst-ranked country is only one percentage point regarding members of parliament). Third, Benin fares worst, and neatly so, when asked whether judges or magistrates are corrupt (see figures between brackets in question 3 of Table 1.2), or whether tax officials are corrupt (see question 5). Overall, Benin does not display a bright picture, but the situation is especially worrying with respect to the justice and the tax collection systems.[1] This rather dark picture is confirmed by data from Transparency International's Corruption Perception Index (CPI), which ranks countries according to the degree of perceived corruption in government and politics (corruption is defined as the abuse of public office for personal gain). Out of 176 countries evaluated in 2016, Benin ranked 95th, behind Senegal. Examination of the dynamics in the ranking over the period 2012-2016 points to slow progress: Benin's score was 36 in both years while Senegal moved from 36 to 64. The picture is again confirmed by firm surveys: as many as 84 percent of companies consider corruption to be a major problem, with informal payments seemingly required for day-to-day operations such as requesting a telephone line and obtaining import documents or a trade licence (Benin, 2006; World Bank, 2016; UCF, 2012; Benin, 2016).

Regarding (iii), we would want to weigh the positive effect of a legacy of pre-colonial centralized state organizations against the negative effect of (French) colonization. Under the former, Africans acquired some degree of administrative experience and skills in statehood, and it is a remarkable feat that the kingdom of Benin kept its polity intact until the very end of the nineteenth century. By then, the state formation process was already well advanced in Benin (Fage, 2002, pp. 99, 270). Since the existence of more layers of

[1] We do not show the figures for trust in the President because they vary a lot from round to round. Nor do we show them for trust in the Prime Minister because there is no variance (100% of respondents believe the PM is corrupt).

hierarchy prior to contact with Europeans has been shown to be robustly associated with greater development today (Gennaioli and Rainer, 2007; Michalopoulos and Papaioannou, 2013, 2014), political history seems to favour development in the case of Benin. Under the latter, by contrast, Africans were submitted to a centralized and authoritarian system of government in which they became simple auxiliaries or, in the best cases, executive subordinates of French officers receiving their orders from a well-defined chain of command (pp. 410-2).[2] It is only through *assimilation*, a formal process involving education in French schools, performing military service, formal forswearing of traditional and Muslim law and custom, and a minimum of French civilian employment, that locals could be elevated in the French colonial order. Only a tiny minority proved to be eligible. There is therefore ground to believe that French colonization undermined positive legacies of pre-colonial states in Benin, the kingdom of Dahomey in particular. Note that this hypothesis goes against the idea that, compared to the British rule, the legacy of French colonial rule is a positive asset for long-term development. This is because the French colonial power encouraged state centralization and strong bureaucracies, in addition to using French as a common official language and downplaying ethnic cleavages (Ali et al., 2018).

Factor (iv) is probably the most indisputable long-term legacy that Benin can benefit from today. Since many centuries, indeed, there has been in the country a well-organized trading system easily accessible from the sea, and fruitful trading relationships were established with the interior and with earlier European traders on the coast (Fage, 2002, pp. 106, 270). At times, like under the Benin kingdom (15-16th centuries), the rulers felt so self-confident that they could choose to virtually cut the country off from contacts with Europe: "European trade was something it chose to do without" (p. 236). A major impetus to trade came with successive waves of migrants from Yorubaland (in present-day Nigeria), particularly under the Ife and the Oyo empires during the sixteenth to eighteenth centuries. What bears emphasis is that the Yoruba have developed a remarkably strong sense of identity and cultural specificity, aided in this, somewhat paradoxically, by the fact that they were open to Christian missions, and hence to Western education, as early as the 1840s (p. 99). They became specialized in trade business in the first part of the nineteenth century and quickly understood that an open society which fosters free competition and establishes links with the outside world offers considerable opportunities for men of skill and initiative (p. 346). Moreover, they have always provided an organic link to Nigeria, from which they originated, maintaining special relationships with the states of Kwara, Oyo, Ogun and Lagos. (Other ethnic groups nurture persisting links with Niger, Burkina-Faso and Togo: the Maori with Niger, the Gourmantche of Northern Benin with the eastern part of Burkina Faso, and the Aja with Togo).

To end this overview of the historical legacies of Benin, it is important to notice that a tight interrelationship between slavery, commerce, and strong political organization has always existed in West Africa (and in other parts of the continent), so that it is meaningless to assess the impact of these three factors separately. The logic, which evokes the argument developed by Domar (1970) or Mathur (1991), has been succintly put as follows by J.D. Fage (2002, pp. 268-70). People were scarce relative to land and other natural resources. Confronted with this situation, traditional village societies based on ties of kinship and

[2] This chain of command led down from the Colonial Ministry in Paris, through the Governor-General in Dakar, to the governors of the individual colonies, and their provincial commissioners and *commandants de cercle*, the officers in charge of each district. It is only from district officers that village chiefs in West Africa could derive some authority (Fage, 2002, p. 411).

subsistence agriculture were unable to take advantage of all the opportunities arising from growing external demands for scarce and valuable commodities such as gold, copper, or ivory. There was too few people to act as traders and carriers, as workers in the mines, to provide the political organization and military force required for the safe transportation of goods, and to supply food and other support for those withdrawn from the subsistence sector to engage in these new activities. The solution lay in the creation of kings powerful enough to recruit labour and to extract tribute, and forced recruitment meant that ordinary men and women were converted into slaves, clients or tributaries. In West Africa, some slaves were employed simply as agricultural labourers on the estates of kings and other Big Men. More generally, however, "they were regarded as additions to the social group headed by their master and, although they could never wholly escape the stigma of their slave origin, in course of time they and their descendants –especially if these came by marriage with a free member of the group– became integral part of it, acquiring or inheriting property much like other members. At the lowest levels, then, they became members of the family unit. At the highest levels they could become trusted traders or soldiers or court officials." (pp. 268-9). The latter, rather paradoxical situation occurred when old slaves were considered reliable agents by their masters: their slave origin indeed meant that their authority was solely a reflection of their master's authority, which they could not therefore usurp for themselves.

The main function of slaves thus consisted of relaxing the labour constraint that prevented kinship groups or large families from seizing upon valuable economic opportunities. With the forced mobilization of labour came the growth of political authority, and both processes largely pre-dated the expansion of transatlantic slave trading, which had the effect of intensifying them.[3] If slaves could be exchanged for the desirable goods brought by long-distance travellers and even exported to distant lands in the Americas, the general pattern was different. They were less valued as traded good themselves than as a resource needed to produce goods for export, and to support the economic and political superstructures that trade required to flourish (p. 269).

1.3 Ethnicity

As underlined in the previous subsection, ethnic diversity is a key feature of Benin's socio-historical landscape. Below, we elaborate on this feature by supplying population statistics that allow us to have an idea of the relative importance of the main ethnic groups forming the Beninese society. Afterwards, we examine whether there is a match between these population shares and political representation. We will then be ready to look in more detail into the recent political history of the country.

The Beninese population is made up of nearly a hundred ethnic groups, the majority of which are found in the south and in the Atacora Mountains in the north-western parts of the country. During the 1961 demographic census, 47 ethnic subgroups were identified which were regrouped into twelve broad ethnic-families. But subsequent national censuses (in

[3] It is difficult to give a precise estimate of the number of captives deported to America from the coast of Dahomey during the entire period of the slave trade (1641-1850). Current South Benin had a big share of the 25 percent of the total volume (6,543,700) attributed by Professor Gayibor (1985) to the Ajatado slave trade (an area extending from Kéta to Gbadagry). In any way, that region was one of the most prolific slave producers in Africa.

1979, 1992, 2002 and 2013), although they counted around 56 ethnic subgroups, opted for a re-organization into nine broad families only: the Aja, Fon, Yoruba, Bariba, Dendi, Otamari, Yao, Fulani, and a residual category made of other minority groups. Table 1.3 shows the evolution of population shares of Benin's main ethnic groups between 1992 and 2013. The Fon (and related ethnic groups) clearly form the dominant group, followed by the Aja and the Yoruba, two main migrant groups. In terms of dynamics, we see that the population share of the Fon has slightly decreased over the period considered whereas that of the Fulani has significantly increased. We must nevertheless worry about the reliability of statistical records since the Fulani are nomadic herders and it is quite possible that their movements in and out of the country may be very imperfectly measured, and that measuring problems have been (partly) corrected during the late years.

It is worth noting that among all the ethnic groups, three are widely distributed spatially: the Fon, but also the Yoruba and the Aja, are present in at least nine out of the twelve administrative departments into which the national territory has been divided. This means that major migrant groups are not heavily concentrated in some limited parts of the country. It is noteworthy, still, that in terms of populations numbers the Yoruba are mostly present in the southern part of Benin, that is, close to the coast. This is consistent with their aforementioned specialization in trading. On the other hand, the Otamari, who are agriculturists, are an important group inhabiting the North. The fact that they represent much less than 10 percent of the total population reflects the low population density observed in that part of the country, as compared to the Centre and the South.

Table 1.3: Percentage distribution of the population by ethnic group and growth rates between 2002 and 2013

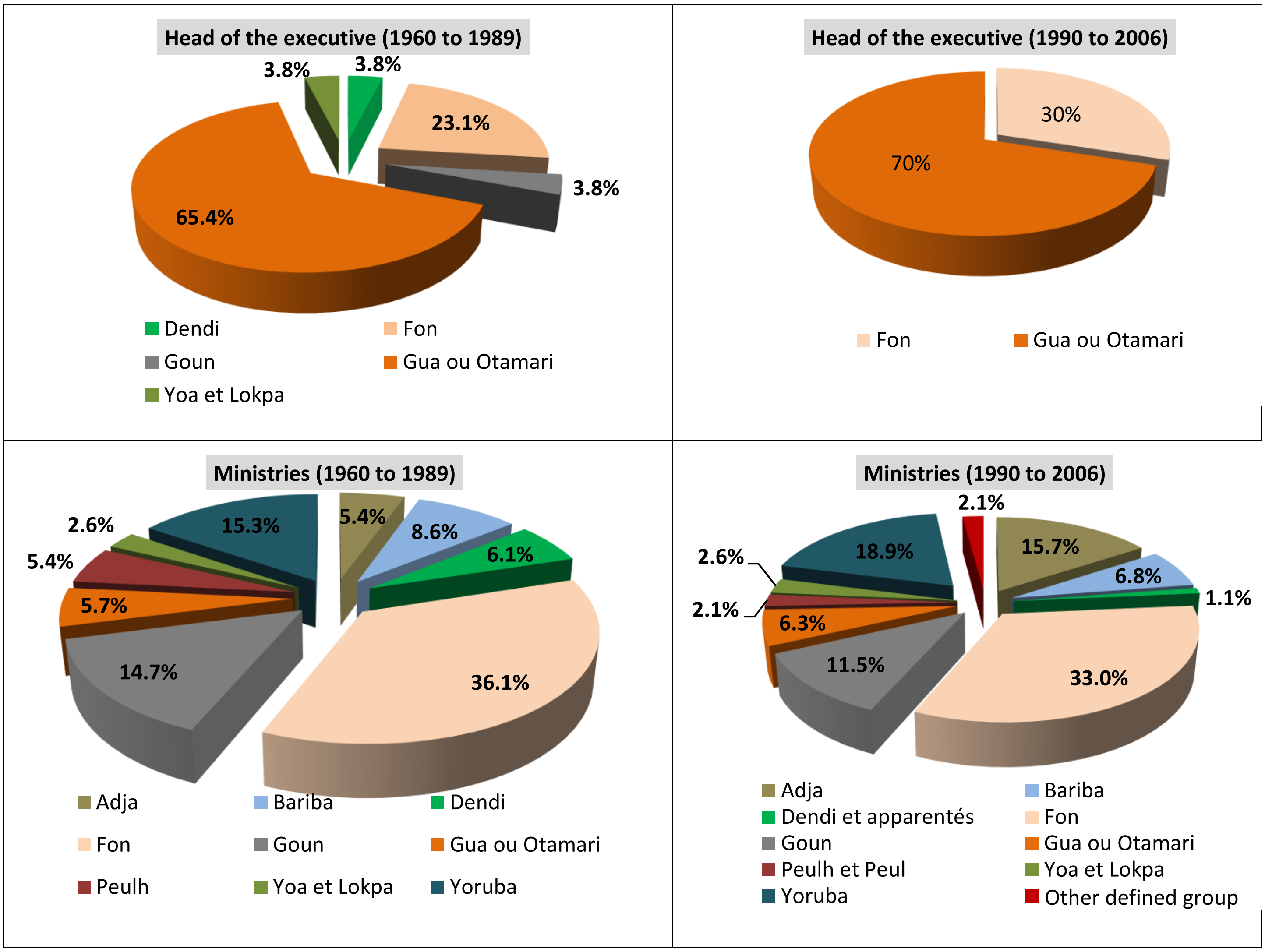
	Relative shares of ethnic groups in the total population (in percentages)			Growth rates of the population of each group (in percentages)
	1992	2002	2013	2002-2013
Benin				
Size	4,873,963	6,769,914	10,008,749	3.52
Ethnic Groups				
Aja and related groups	15.7	15.2	15.1	3.42
Fon and related groups	42.5	39.2	38.4	3.32
Bariba and related groups	8.7	9.2	9.6	3.92
Dendi and related groups	2.8	2.5	2.9	4.91
Yoa and Lokpa and related groups	6.2	7.0	4.3	-0.74
Fulani	3.8	4.0	8.6	10.81
Gua or Otamari and related groups	6.2	6.1	6.1	3.59
Yoruba and related groups	12.2	12.3	12.0	3.33
Other ethnic groups	1.2	1.4	0.9	-0.16
Foreign	0.7	2.1	1.9	2.57
Not Declared	*	1.0	0.2	-10.81
Total	**100**	**100**	**100**	

Source: INSAE, General Population and Housing Census (RGPH).

A few words about religion. Benin is characterized not only by ethnic but also by religious diversity. Catholicism and Islam are the two dominant religions and while Catholicism was the most important religion in the early 1990s, it was overtaken by Islam in 2013, probably as a result of higher fertility rates among Muslim populations. In 2013, about 53 percent of the Beninese population declared their adhesion to one of these two big monotheistic religions. Another interesting dynamic observation is the rapid rise of Evangelical and charismatic churches, mostly from Protestant affiliations, and the displacement of traditional religions (mostly Vodoo) which they are causing. Finally, and not suprisingly, ethnicity and location, on the one hand, and religion, on the other hand, stand correlated. Most strikingly, people living in the North (the Otamari and the Fulani, in particular) tend to be Muslim whereas those living in the South tend to be Christians of the traditional Catholic or the evangelical Protestant type.

We have already mentioned, in general terms, the delicate issue as to how ethnic diversity bears upon cooperation practices among the people of Benin, emphasizing politics in particular. We would therefore like to know how, in the specific case of Benin, politics is affected by ethnic diversity. Figure 1.1 shows how key political functions, head of the executive and ministerial jobs, have been apportioned to different ethnic groups over a 46 years' period subdivided into two subperiods, 1960-1989 and 1990-2006. The overall picture is that of a rather fair representation of the main ethnic groups and the main regions at the highest levels of power. The dominant group, the Fon, is under-represented at the level of the Presidency but is well represented at the level of ministerial jobs. The Otamari, a group which is comparatively small nationwide but important in the North, has a disproportionate share of the allocations of the highest executive position. Finally, the Aja and the Yoruba, the two groups which are numerically dominant behind the Fon, are well representated among government members.

Figure 1.1: Political representation of main ethnic groups



Sources: Constructed from data presented in Tossou (2010). An update of the data is underway to cover the governements from 2006 onwards.

The question now is whether this situation reflects a political arrangement devised to ensure "ethnic peace " and political stability in the country. That Benin is widely regarded as a pioneer democracy in Africa (see, for example, Fage, 2002, p. 536) could be related to a sense of compromise and respect for diversity as epitomized in the distribution of power among dominant ethnic groups. An alternative interpretation of the facts is nevertheless possible: the distribution of power would not result from a constitutional rule or an informal, non-official mechanism of power rotation, but it would be the outcome of a fierce struggle for power among contenders whose levels of strength are not too different and are variable over time. A careful look into the recent political history of Benin suggests that, unfortunately, the second interpretation is probably the closest to the truth. The need for alternance has typically been brought to bear by political showdowns and secret dealings rather than through a transparent and well-accepted mechanism.

1.4 Recent political history

To have a good grasp of the interactions between political institutions and economic development in Benin, three key periods in the country's political and economic history need to be distinguished. Chronic political instability was the hallmark of the years 1944-1972, a Marxist-Leninist revolutionary regime ruled during the period 1972-1989 and, finally, the period from 1990 to the present was characterized by a democratic renewal.

1.4.1 Political instability before and after independence: 1944 to 1972

Dahomeans began to take an active role in the modern political life of the country around 1944, that is at the time of the Brazzaville conference when France ruled out colonial self-government and instead decided that each colony would be given electoral representation in the French Assembly in Paris (Iliffe, 2007, p. 242). The first Beninese intellectuals, educated in French schools and universities (in Dakar and France), were assuming leadership in a national movement that was tainted by ethno-regionalism from the very start. The multi-party political system in place was highly unstable owing to intense personal rivalries between strong figureheads representing three main regions and their associated political legacies: the North (around Parakou) led by Hubert Maga, the Centre (around Abomey) led by Justin Ahomadégbé, and the Southeast (around Port-Novo) led by Sourou Apithy. It is this context dominated by personal confrontations and fragmented identities that the Republic of Dahomey was proclaimed in December 1958, the elections to the first National Assembly took place in April 1959 (no party won a majority), the first presidential election was organized in July 1960, and the country's independence was declared on August 1 of the same year after some 70 years of French colonization. The newly elected president was Hubert Maga from the northern region, who obtained the support of the party standing for the Central region.

As was the case in other newly independent French-speaking countries, the early rules governing elections ensured that nationalism took a predominantly constitutional form, and the transfer of power from France to her ex-colonies took place peacefully. This is in contrast to East Africa where violence played a crucial role and to Congo where the Belgians did not build representative institutions or governmental training before granting independence (Iliffe, 2007, pp. 255-6). In West Africa in general, and in Benin in particular, the new political elite thus chose to introduce a system of liberal democracy in line with the model used in France. The new constitution, adopted in 1959, was largely inspired by the French Constitution of 1958. It provided for a parliamentary system with a president at the head of the country but also with a prime minister responsible to the parliament. Moreover, it set out fundamental rights for citizens, such as freedom of expression, association and the press.

Unfortunately, the country's first twelve years of independence were turbulent, marked as they were by a frequent alternation of military and civilian regimes. In fact, during the period between 1960 and 1972, Benin was the stage of intense ethnic and regional tensions, social movements of varying levels of intensity, abuses of power of all kinds, political intrigues, and incessant disputes between the country's three regional leaders. Unlike several newly independent countries in Africa, the Republic of Benin did not witness the emergence of a charismatic leader who was able to dominate the national political scene. Genuine Beninese citizenship hardly existed as voting behaviour was primarily driven by powerful patron-client networks that were large based on ethno-regional identity. Fragmented loyalties, adroitly manipulated by the political leaders, had the effect of fuelling instability and, in some cases, fostering violence.

Worker and student unions could perhaps have improved the situation by helping to transcend traditional identity feelings in the name of cross-cutting social interests. In practice, however, many union leaders were too easily seduced or co-opted by the political Big Men, and unions gradually became convenient platforms from which ambitious people could opportunistically rise to positions of political responsibilities inside the ethnically defined party machines. Any other tactic was met with harsh repression meted out by public authorities fearful of demonstrations which lay outside of their control. In the end, the co-option tactic prevailed and trade unions largely ceased to be independent bodies in the country's political landscape.

These were not ideal conditions to design and implement public policies to promote national development. The instability of political rule made long-term planning impossible while the existence of various centres of state power and the quasi-absolute control exercised by the three regional leaders over entire areas of the country complicated cooperation, coordination, and control. As a consequence, political decisions related to development strategic choices and investments were often deferred and the state apparatus was often unable to function. Discouraged by these malfunctionings of the political system, civilians were sometimes prompted to call men in uniform to restore order.

For much of the period, the doctrine of socialism/collectivism was the official political ideology, thus laying the ground for the subsequent regime. An important element of socialist politics was the introduction of "collective fields" in the early 1960's. Like in Nyerere's ujamaa communities in Tanzania, a collective field was defined as the field of a village community managed under the responsibility of the village council and under the supervision of the rural departmental committee. This implied that the proceeds from crop sales accrue to the village budget (Akindès, 2016). We know actually little about how effectively this doctrine was translated into facts, and whether it was equally endorsed by the three regional bigwigs. Yet, we can guess that the simple fear or anticipation of its implementation should have discouraged private investment in agriculture.

1.4.2 A Marxist-Leninist Revolution: 1972-1990

On 26 October 1972, Lieutenant-Colonel Mathieu Kérékou, from the northern region, undertook the sixth military state coup in Benin. Two years later, he became the new President of the Republic, and officially opted for scientific socialism based on Marxism-Leninism as the political doctrine that should guide the country's development. This involved the nationalization of production units and the development of collectivism, the creation of a single political party (the Parti de la Révolution Populaire au Benin, or PRPB), the creation of a single worker' organization (UNSTB), a single women's and a single youth organization, and a change of the national flag. This period also saw the introduction of Marxist tenets into public discourse and official documents, with special emphasis on the leading role of the Party, democratic centralism, and state economic interventionism, particularly in the agricultural sector where massive investments were to be made in order to create food self-sufficiency. Fundamental freedoms were restricted and a new constitution establishing the People's Republic of Benin was drafted and adopted.

It is only when compared to the first twelve years of independence that the revolutionary period (between 1972 and 1989) can be said to have promoted political stability. There were, indeed, numerous attempts to overthrow the government, sometimes coming from military quarters themselves (January 1977). The turmoil was not surprising given the poor economic performances of the new regime, coupled with its propensity to nurture corruption and rent-seeking. Thus, a series of investigations into parastatal organizations revealed the same problem of top-down corruption and widespread inefficiency. According to Chris Allen: "The institutions were found to be hierarchical, authoritarian and highly bureaucratic, leading to failure to perform essential tasks, to waste and inefficiency. The personnel, apart from being in many cases unqualified or ill-qualified, tended to be idle, undisciplined, arrogant and above all corrupt, …." (cited from Meredith, 2005, p. 278). Fraud was especially pervasive in the banking sector with dramatic consequences for the whole economy. In the words of Martin Meredith (2005):

> "Mathieu Kérékou, and his cronies had looted the state-owned banking system so thoroughly that nothing was left to pay the salaries of teachers and civil servants, some of whom were owed as much as twelve months' back pay. Three state-owned banks had collapsed in 1988 as a result of large unsecured loans awarded to members of Kérékou's inner circle and the bogus companies they had set up….. His closest adviser, Mohammed Cissé, a Malian marabout, it was subsequently discovered, had been in the habit of sitting in the manager's office at the Commercial Bank, transferring millions of dollars by telex to his bank accounts in Europe and the United States…. With the entire state banking and credit system drained of all liquid funds, normal business activity ground to a halt; companies could not operate, traders could neither sell nor buy." (pp. 387-8).

Groups of citizens, civil society organizations, trade unions and underground political parties started to express growing frustrations against the suppression of freedoms, corruption, months of salary arrears, and deteriorating living conditions in the country. In January 1989 a student protest over unpaid grants triggered off a general mobilization against Kérékou's regime involving teachers, civil servants, workers and church groups. The army did not keep quiet and was bubbling with plots. Unpaid soldiers did not hesitate to hijack shipments of banknotes sent in from abroad to alleviate the general economic crisis. Only Kérékou's elite Presidential Guard, drawn exclusively from his northern ethnic group, remained loyal to the regime (p. 388).

The regime was compelled to open up, especially so because to the internal demonstrations were added the external pressures from international financial institutions and donors in a context of relaxed geo-political relations at the world level (end of the Cold War). When Kérékou asked for Western aid to pay salary arrears, he was turned down. Under these mounting pressures, he abandoned Marxism-Leninism as an official ideology and, still expecting to manipulate events, he proposed a national "Conférence des Forces Vives de la

Nation" to find a solution to the deadlock. That solution was to take the form of a constitutional reform. Lasting nine days from 19 February 1990, the National Conference brought together 488 participants from all walks of life (business, professional, religious, labour and political groups), including the so-called enemies of the revolution living in exile at the time.

Against Kérékou's expectations, the conference proceedings, broadcast live on radio and television, consisted of a severe indictement of the venality and corruption of his regime. In a dramatic turn of events, "the delegates, presided over by Archbishop Isodore de Souza, declared themselves to hold sovereign power,suspended the constitution, dissolved the national assembly, appointed a former World Bank official, Nicéphore Soglo, as prime minister of an interim government and laid down a schedule for elections" (p. 389). The National Conference adopted a new Constitution on 11 December 1990, which re-established liberal democracy and market economy in Benin. In 1991, in a presidential election considered free and fair by international observers, Kérékou who had stayed on as an interim president, was severely defeated by Soglo. Unlike what his military background might have led us to expect, Kérékou accepted the voting verdict and ceded power to his political rival. As a result, Benin "became the first African state in which the army was forced from power by civilians and the first in which an incumbent president was defeated at the polls" (p. 389).

1.4.3 Democratic Renewal: 1990 to 2017

As soon as the Renouveau Démocratique (Democratic Renewal) was initiated, a series of intense and protracted struggles for power broke out between Africa's Big Men and opposition groups determined to oust them. Unfortunately, the rules of the old game were quickly restored and key figures of the opposition, former ministers and members of the elite, were motivated less by democratic ideals than by their determination "to get their own turn at the trough of public power and money" (Meredith, 2005, p. 389). Many Big Men were actually able to outmanoeuvre the opposition and remain in power. Hence the disillusionment of many ordinary people with the Democratic Renewal, and the oft-heard complaint that it had not changed political life in the country. Although there was certainly less repression and more possibilities existed to express dissent, the same elites (the 'crooks') were still in control (p. 390).

In this old game, all sides continued to rely heavily on ethnic loyalties for support, as attested by the fact that in the 1991 election, northerners voted massively for Kérékou while a very large majority of southerners voted for Soglo. Thus, neither ideology nor policy nor class mattered at election time. In the words of Meredith again: "After seventeen years of 'northern' rule [under Kérékou], what many southerners had in mind was not so much the notion of *renouveau démocratique* as the need for *alternance* –a political changeover: their turn was due". As for people in the North, Democratic Renewal meant that "hated southerners were in charge" (pp. 389-90). It is both puzzling and revealing that Général Kérékou's discomfiture in the 1991 election proved temporary. Five years later, on the occasion of the 1996 presidential election, the people expressed their discontent with the austerity measures adopted by Soglo by voting the former dictator back into office (Fage, 2002, p. 536).

Looking over three decades of Democratic Renewal (1990 to 2017), and comparing that period with the years 1960-1972, there is no doubt that Benin has succeeded in creating a good measure of political stability in the sense that power has changed hands in a relatively smooth and peaceful manner (power shift thus occurred in half of presidential elections). Regular elections (six presidential elections, seven legislative elections and three local and municipal elections) have been held according to the constitution, even though their organization sometimes suffers delays. Also, fundamental freedoms are well protected, and democratic institutions laid out in the constitution have been gradually put in place.

Behind the democratic institutions, however, an unhealthy game is played in which Big Men or political patrons exploit identity politics and use their network-based leverage to promote their own economic and political interests. Because the patron-client networks do not strictly coincide with ethno-regional boundaries, and probably less so than before, the North-South divide is not the only fighting line around which the sharing of political spoils is decided. The fact of the matter is that powerful informal actors on the political scene are the leaders of sub-groups of their own regional and ethnic entity, which often means clans or sub-clans. In vying for political influence, they seek alliances with other Big Men with whom they can define common interests, at least in the short of medium term. Political competition of a factional nature thereby ensures that coalitions made of different ethno-regional identities come to form the ruling government or the opposition.

As long as there is effective *alternance* in the form of periodical power shifts, political stability can probably be maintained in the country. To ensure that long-term development takes place, however, there is a need that men in power stop granting special favours to their own network, or mix of networks. They must start devising and implementing policies that are in the interests of the whole nation and are inclusive enough to enlist wide support among the ordinary masses. This is more easily said than done since they typically prefer to seek their re-election by catering to their traditional clients who form a cheaper and more reliable political voting bank. The fact that Beninese people evince low trust in their institutions is a worrying finding in this regard (see Table 1).

1.5 Conclusion

There are four main lessons to draw from the above overview.

First, Benin has a historical legacy marked by the existence of a succession of pre-colonial kingdoms and ministates. Often, several political units co-existed inside the country's present-day territory, and they were typically stretched over neighbouring countries, Nigeria in particular. According to some recent research, this legacy of centralized polities should have a positive impact on Benin's long-term development.

Second, Benin is characterized by the presence of multiple ethnic groups, some of which also live beyond the country's borders. Ethnic fragmentation is not necessarily an impediment to development, especially if it helps escape situations of persisting opposition between two antagonistic groups, such as been found in Rwanda and Burundi. If in the past politics has been largely defined by the North-South divide, today it appears to be the locus of competition between multiple factions which can enter into shifting alliances. As a consequence, political power does not belong to one group at the definite expense of the other groups. However, the fact that the contending factions tend to take a "winner-takes-all" approach to power has the effect of raising the stake of elections and promoting particularized privileges, specific transfers, and local public goods, rather than the creation of the sort of public goods that are required for the general development of the country.

Third, Benin has a long legacy of regional trade facilitated by a direct access to the sea. Some ethnic groups, the Yoruba in particular, have over time developed skills and experience in all sorts of trading business and their approach to life gives primacy to education and openness to the outside world. In a free market environment where ethnic antagonisms are not fuelled by cynical political leaders, the presence of entrepreneurial and outward-looking groups of people would act as a powerful driver of development.

Fourth, there definitely seems to be a critical problem with the justice and the tax collection systems in Benin. Trust in the courts and the judges or magistrates is very low, and people tend to believe that the latter are often corrupt. People also tend to believe that tax officials are corrupt. These worrying findings should mitigate the optimism of those who praise Benin's democratic system since the Democratic Renewal took place.

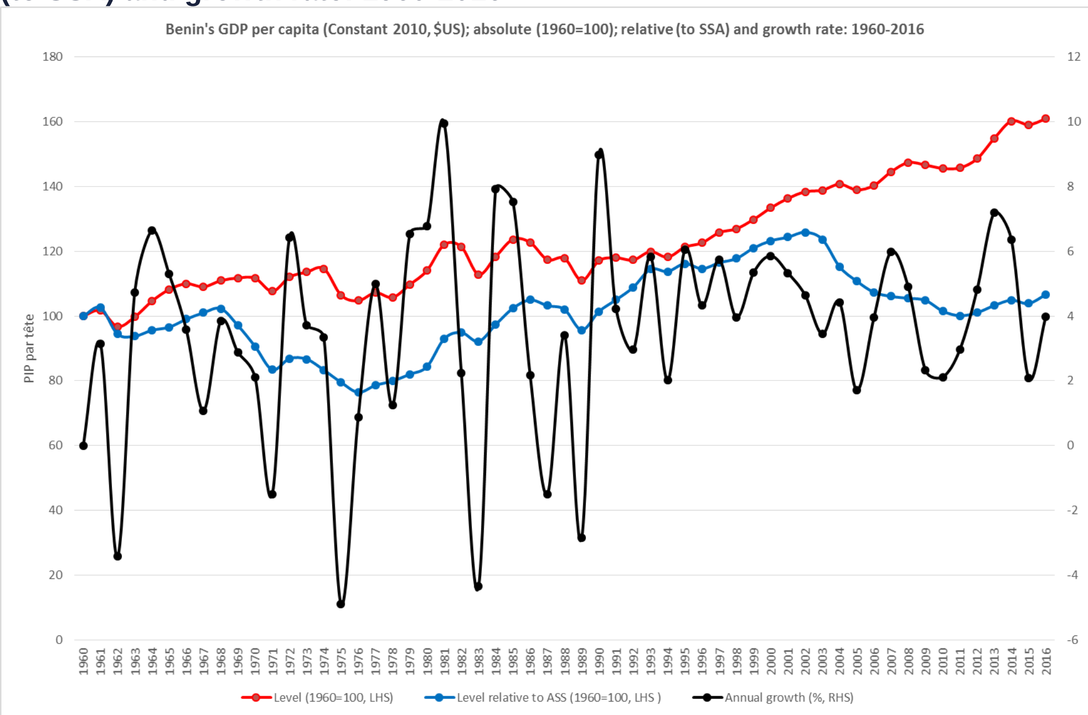
2 Benin's economic development from 1960

2.1 Economic growth (aggregate)

Considering the whole period since independence, Benin's growth performance has been relatively modest. With an estimated 2,010 US dollar GDP per capita (at 2011 international prices) in 2016, Benin ranks among the poorest countries (just a bit higher than the world country ranking's lowest decile). While its GDP per capita is 60% higher in 2016 than in 1960, this only reflects a weak annual growth rate of 0.9%[4]. Obviously, the high population growth rate Benin has experienced over the 55 year period (an average of 2.7% per year) requires a relatively high GDP growth to significantly raise per capita income levels. This clearly continues to be an important challenge for the country as the population's current annual growth remains close to this long period average, close also to that of the average Sub-Saharan African country.

Benin's growth performance from independence in 1960 to the current period closely matches the major changes in economic policy the country has witnessed under its successive political regimes. One can accordingly distinguish three main sub-periods (Figure 3.1):

Figure 2.1 Benin's GDP per capita (Constant 2010, $US); absolute (1960=100); relative (to SSA) and growth rate: 1960-2016



Source: WDI

[4] Unless otherwise indicated, GDP per capita is defined in terms constant US$ 2010. This is the only series which goes back to 1960. GDP per capita at PPP 2011 US$ is unfortunately only available from 1990 on. Comparing the two series after 1990 one observes a progressive divergence, the latter raising more slowly than the former. In 2016 GDP per capita at PPP 2011 US$ is about 4% lower than GDP per capita at constant US$ 2010.

i) *The 1960-1972 sub-period*, during which political instability went hand in hand with a very volatile and on average low growth rate: GDP per capita grew during this period by 1% per annum, less than the average Sub-Saharan African country (2.26%). This post-colonial period was marked by a continuing focus on exports of agricultural products - mostly cotton seeds whose output grew tenfold between 1965 and 1972 - and imports of manufactured products, with France as main trading partner (Dossou et al. p.90).

ii) *The 1973-1989 sub-period*, during which the Marxist and military regime managed the economy through state control and central planning. Major industries and banks were nationalized. Public involvement in the agricultural sector became important through government owned enterprises active in agricultural production, transformation and distribution and supervised by the newly founded SONAPRA (Société Nationale pour la Promotion Agricole). New public enterprises were set up in most sectors of the economy, with heavy public investment in three large projects: a cement plant in Onigbolo, planting and processing of sugarcane units in Savè, the exploitation and refining of offshore oil in Semè. Economic growth was quite uneven during this period, affected by counteracting factors of domestic or of foreign origin. Growth was weak in the early years (1973-1976) of the period, with a big drop in 1975 as a result of the oil crisis. It then picked up, under the pull of the large public investments and of strong demand from Nigeria. Growth per capita averaged a hefty 3.3% per annum from 1977 to 1981.

    However, it plunged quickly again after 1981 as major disequilibria became apparent (World Bank, 1984): i) an increasing external deficit, stemming from low export performance, partly due to the reversal of external demand and depressed terms of trade, as well as from huge imports of capital goods, an immediate consequence of the large public investment projects; the trade balance deficit reached its maximum (close to 30% of GDP) in 1982; ii) an increasing pressure on public finances as a result of a decline of import duties, of loss making public enterprises, of increased government consumption (mostly wages) as well as of high costs and lows returns on poorly targeted and inefficiently executed public investments; the overall budget deficit reached 14% of GDP in 1984 (World Bank, 1998). As a consequence of these twin deficits, external public debt expanded rapidly, to reach a ratio to 320% of exports (75% of GDP) in 1985. Public debt problems also involved the banking system which had lent massively to finance the public enterprises and had refinanced themselves with the BCEAO, the central bank of WAEMU. When the public enterprises fell into insolvency, the government had to step in and guarantee the bank’s debt to the BCEAO. It became clear that full service of total government debt could no longer be guaranteed. Arrears on external and domestic debt were building up. The banking system collapsed in early 1989. Deposits were frozen, which for many years undermined public confidence in the formal banking system. Having piled up a ratio of 80% of non-performing loans, the three-government owned commercial banks had to be liquidated.

    Amidst the financial crisis, Benin had to request debt relief from its creditors and new external financing. In 1989, a Structural Adjustment financing was set up by the World Bank, the IMF and other multilateral and bilateral donors. The *adjustment* part of the package, effective in 1989-1990, intended to tackle the twin deficits aimed at reducing absorption (e.g. through the downsizing of the civil service, liquidation of public enterprises). Given Benin's fixed exchange rate commitment within WAEMU, adjustment could not count on the increased external competiveness a devaluation might have achieved. The *structural* part of the package proposed wide ranging reform program and was designed to be implemented over several years.

The financial crisis, the ensuing socio-political crisis and the growth reducing short term effects of adjustment measures interacted to result in a dismal performance of Benin's economy during the 1982-1989 period: real GDP per capita decreased annually on average by 1.3% during this 7-year period. It must be noted that Benin's performance was not atypical for the region: many other Sub-Saharan countries faced similar adverse external shocks and domestic failures in managing the economy and experienced similar macroeconomic adjustment policies. Indeed GDP per capita also declined in the whole region during this 7-year period, on average by an annual rate of 1.4%.

Considering the whole 16-year sub-period, which has ended with Benin's biggest macro-economic crisis yet, it appears that Benin did not succeed in growing sufficiently to improve per capita income, which was in 1989 approximately at the same level as in 1972.

iii) *The sub-period after 1990*, during which Benin launched important economic reforms in parallel with its political reforms based on a new democratic consensus (see section 2). The wide-ranging economic reforms initiated in 1989 were designed and sponsored under Benin's first Structural Adjustment program (which covered the period 1989-1992) and by two successive Enhanced Structural Adjustment Facility (ESAF) programs (covering the 1993-1999 period). The economic reforms aimed at liberalizing trade, lifting domestic regulations (tax reform, revised labor and commercial legislation), improving then performance of a downsized public sector, privatizing government owned industrial and commercial enterprises, developing a more favorable investment climate (new investment code) and restructuring the banking system.

After the 1989 drop in GDP, growth picked up again in 1990 and remained in positive territory since. Real GDP per capita (GDP) rose at an annual rate of 1.2% (4.2%) over the whole 1990-2016 period. It was also much less variable than during the two previous periods. Growth was not fully synchronized with the average Sub-Saharan country, Benin growing more rapidly from 1990 to 2002, less systematically so afterwards. Indeed, growth was more dynamic during these first 12 years: GDP per capita (GDP) grew at 1.4% (4.6%) per annum, with only a relatively minor setback from the shock of the devaluation of 1994 of the FCFA and from concomitant adjustment measures. External competitiveness was actually boosted by the devaluation.

It is difficult to assess to what extent the liberalization of the economy has contributed to this growth performance. An indication may be found in the cotton sector, which forms the basis of the rural and agro-industrial economy and represents 70% of exports (see section ***): production was boosted (it increased threefold between the 1985/1986 and 1997/1998 seasons) and yields improved. Also, foreign direct investment, quasi nil before 1990, reached 4 to 6% of GDP in the early 1990s. But external factors have also plaid a major role, notably the pull of Nigerian growth[5]. Benin has also benefited during this period of solid support and high confidence from bilateral and multilateral donors (including HIPC debt relief on its external debt in 2000-2003). This put strong pressure on the country to implement the large array of reforms sponsored by donors.

However, growth became more variable after 2002, and slightly lower. From 2003 to 2016, growth of GDP per capita (GDP) averaged 1.1% (4%) per annum. Reforms were often not implemented with the necessary efficiency, as in the case the cotton sector reform, where organizational problems led to a sharp drop in cotton production (a drop by half between 2004 and 2010, reaching again its 2004 level only in 2014[6]). Foreign direct investment, dropped again after 2000 to minimal levels until picking up again in 2011. Growth failed to be sufficiently inclusive. The poverty headcount ratio at $1.90 a day[7] stood at 48.8 in 2003 and at 49.6 in 2015.

2.2 Growth and structural change

We briefly present the production structure of the Beninese economy at hand of the official national account statistics published by INSAE. We consider only the most recent period (1990-2015) as no such data are available before the 90’s. Sectoral employment data are also not readily available. To study the effects of sectoral reallocations of activity on labour productivity, we therefore rely on a recent study by Haile which covers the 2006-2015 period.[8]

Table 2.1 shows that Benin's economy is structurally dominated by the primary and tertiary sectors, which account for about 35 and 40% of GDP at factor cost respectively throughout the reported period. The size of the secondary sector is of 14% of GDP and the remaining 11% are produced by the government. The primary sector is heavily dominated by rain fed agriculture, in which cotton plays a dominant role (see section 3.3.1.1.). The secondary sector is dominated by small-scale processing units for agricultural products and construction. The tertiary sector regroups transport, telecommunications, banking and insurance as well as trade, catering and hospitality services. This sector is dominated by the activities of the Cotonou Autonomous Port (CAP) which is one of the main ports in the sub-region due to its transit role for the region's landlocked countries (Burkina, Niger, Mali) and plays a central role in Benin's economy (see section 3.3.1.2.). Table 2.1 also reports the large role played by the informal sector in Benin: two thirds of GDP originates in the informal sector. The ratio is highest in the primary sector (99%) followed by the tertiary sector (65%).

[5] The correlation coefficient between Benin and Nigerian GDP growth rates is particularly high during this 1990-2002 period: 0.68, versus 0.18 for 1972-1989 and only 0.03 for 2006-2015. (NB: Nigeria revised very extensively its GDP accounting in 2005 so that data of 2003-2005 have not been included in the computations)
[6] Data from https://www.indexmundi.com.
[7] WDI data,% of population, threshold at 2011 PPP level.
[8] Haile (2018) combines Beninese national account data with employment data taken from three waves of surveys of household living conditions (ECOMICoV 2007, 2011 and 2015) and complemented with the World Bank’s International Income Distribution Data SET (I2D2).

Table 2.1: Sector-based structure of GDP (% of Value Added at current factor prices)

	1991-1994	1995-1999	2000-2004	2005-2009	2010-2012
Primary	35.83	38.23	37.08	35.71	36.33
of which informal	*35.68*	*38.07*	*36.93*	*35.55*	*36.16*
Secondary	13.21	14.18	14.79	14.42	14.55
of which informal	*8.27*	*9.04*	*9.36*	*9.57*	*9.44*
Tertiary	38.53	37.17	38.59	40.20	39.82
of which informal	*28.20*	*27.34*	*28.73*	*30.02*	*29.86*
Government services	14.42	12.21	11.38	11.57	11.13
of which informal	*0.06*	*0.06*	*0.07*	*0.08*	*0.08*
GDP (factor costs)	100.00	100.00	100.00	100.00	100.00
of which informal	72.21	74.52	75.07	75.20	75.54

Source: INSAE, http://www.insae-bj.org/produit-interieur.html

Remaining at the aggregate sector level, on observes that the share of the primary sector decreases, by about 2 percent points after 1999, mostly to the benefit of the tertiary sector (+2.8 pp). There is also a significant and regular decrease in the share of government services.

A more disaggregated sectoral growth analysis is provided by Haile (2018) for the most recent period (2006-2015). Table 2.2 reports Gross Value Added at 2007 constant prices (GVA), Employment (Emp.) and Labour Productivity per worker (LP).

Table 2.2: Gross Value-Added, Employment, and labour productivity by sectors (%)

	2006			2010			2015		
	GVA	**Emp.**	**LP**	**GVA**	**Emp.**	**LP**	**GVA**	**Emp.**	**LP**
Agriculture	26.9	59.4	0.41	26.1	45	0.51	22.3	42.1	0.52
Mining	0.5	0.1	5.31	0.4	0.1	4.12	0.4	0.1	4.47
Manufacturing	20.1	7.3	2.51	14.7	7.6	1.71	14.7	7.8	1.86
Utilities	0.4	0.2	2.33	0.6	0.2	2.98	1.1	0.2	5.95
Construction	7.8	2.3	3.16	7.9	2.6	2.7	8	2.7	2.93
Commerce	13.5	19.1	0.64	12.5	27.7	0.39	13.5	28.7	0.46
Transport	7.7	3.3	2.12	9.6	4.3	1.97	10	4.5	2.19
Finance	1.5	0.2	6.76	3.6	0.3	11.16	5.6	0.2	24.7
Other Services	21.4	8.2	2.37	24.5	12.4	1.73	24.3	13.7	1.75
Total	**100**	**100**	**0.91**	**100**	**100**	**0.88**	**100**	**100**	**0.98**

Source: Haile (2018) - Excerpts from Appendix Tables 1, 2 and 3 p.18; The category "other services" includes public administration, education, health, real estate, renting and business activities, and community, social, and personal services. The data for GVA and Emp. are in%, for LP in million FCFA.

Agriculture is a sector which has seen its share in both GVA and in Employment decline, the latter more significantly so. Its productivity has thereby somewhat increased, while remaining one of the lowest. This probably reflects the fact that the sector has shed its lowest productivity or surplus workers. Manufacturing has kept a stable share in total employment, but has seen is productivity decline by some 20%, so that its share in total GVA decrease by 5 percentage points. This could be explained by labour hoarding in the face of a decrease of demand for the sector's output. Commerce and Other Services make up more than a third of total GVA and have slightly increased their share (by 3 percentage points). Both sectors have at the same time raised their joint share in total employment from 27.3 to 42.4% - an increase of 15 percentage points- …and witnessed a decrease of productivity of some 27%. None of these structural changes allows one to characterize either of these most important sectors as a potential "engine of growth". On the other hand, the (relatively) fastest growing sectors (finance and transport) are small in terms of employment and GVA and not in the position to pull growth significantly. On the whole, total productivity has increased by close to 1% per year on average between 2006 and 2015, which however hides two diverging episodes: a decrease of productivity of yearly 0.8% from 2006 to 2010, followed by an increase at a yearly rate of 2.2%.

Table 2.3, based on Haile (2018) helps to better understand which sectoral shifts in employment combine with inter-sectoral differences in productivity to generate the economy's changes in global productivity. The table features the decomposition of growth of overall labour productivity into its sectoral contributions (col. 3 -Total)[9]. Each sectoral contribution is the sum of two components: i) a structural component, obtained by multiplying the *change* in the sector's share in total employment by its reference productivity level[10] (col. 1); ii) a "within-sector productivity change" component, obtained by multiplying the change in the sector's productivity by its reference share in total employment (col. 2).

Table 2.3: Sectoral decomposition of labour productivity growth, 2006-2015

Sectoral Decomposition of labor productivity growth 2006-2015			
	Annualized% changes		
	Structural change (intersectoral)	Productivity within sector	Total
Agriculture	1.02	0.69	1.71
Mining	0.00	-0.01	-0.01
Utilities	0.01	0.08	0.09
Manufacturing	0.07	-0.60	-0.53
Constuction	0.11	-0.07	0.04
Commerce	-0.47	-0.53	-1.00
Transport	0.18	0.03	0.21
Finance	0.04	0.47	0.51
Other Services	0.75	-0.83	-0.08
Total	**1.73**	**-0.77**	**0.96**

Source: Haile (2018) - Excerpts from Table 3, p.18

[9] The technique applied is the standard Shapley decomposition method (Haile, 2018, p.10) used for computing the contributions of all the factors which determine growth of per capita GDP. We report only here the part concerning changes in productivity.
[10] A sector's reference productivity level (employment share) is defined as the average of its 2006 and 2015 productivity (employment share).

Globally, labour reallocation across sectors would have increased global productivity by 1.7% yearly if each worker had retained his productivity constant at the reference level. However, productivity has not remained constant and changes in sectoral productivity have, at constant shares in total employment, lead to a decrease of global productivity, at an annualize rate of 0.77%. The major combined contributions (col.3) to the change in global productivity come, on the positive side from agriculture, finance and transport, and on the negative side from commerce and manufacturing.

It thus seems that the major driving force of changes in global productivity over the 2006-2015 period is the reallocation of labour, away from the agricultural sector, initially the one with the lowest productivity. This helped increase average productivity on two counts: by the movement of labour out of agriculture and into somewhat more productive sectors, also by increasing the sector's apparent productivity over the period. The sectors which are at the receiving end of labour reallocation were however not able to transform this influx into higher growth. Labour did not move to high productivity sectors, on the contrary. Commerce, with a productivity even lower than in agriculture in 2015, and Other Services (for a large part government services) ranking as the third lowest productive sector depressed productivity growth over the period. When also considering the underperformance of manufacturing, where one could have expected higher productivity fostered by higher sectoral capital intensity and technology transfers from abroad, we are led to raise the question of sustainability. What is the long-term sustainability of structural changes that follow an agriculture-cum-service model, featuring mostly non-traded goods and primary commodities as output.

The low rate of productivity growth has to be considered together with the other two factors which contribute to per capita income growth, the share of working age population in total population and the employment rate. Over the 2006-2015 period, Gross value added per capita grew annually by 1.07%. Most of this growth came thus from productivity, the two other factors having opposite effects: the positive effect of the decrease in the dependency rate was largely compensated by a decrease in the employment rate of the working population (Haile, 2018). Therefore, the challenge for raising per capita income in Benin clearly lies in improving productivity across sectors and, *simultaneously*, in increasing the employment rate.

The question as to whether property rights in land are sufficiently secure comes up as a natural concern as far as productivity improvements in the agricultural sector are concerned. How secure land rights are best achieved is a tricky issue. Does the state need to intervene in a big manner to establish formal land rights through cadastral surveys and land titling, or can it rely on informal rights and support rather than replace them? This also raises the question as to which agency is competent to deal with land conflicts, including assignment problems and issues of repossession of land by banks when the land is used as collateral: state courts or informal agencies possibly regulated by the state.

The case of Benin is especially interesting because in 2013 the state has embarked upon a pioneering land titling reform undertaken in the framework of the MCA program financed by US development agency (other African countries are now following the same route). In the process, it has created a special agency in charge of surveying villages, mapping their lands and registering local land claims, and implementing the formalization process (the *Agence Nationale du Domaine Foncier*). The impact of this program has been recently evaluated with the help of a RCT methodology, offering a unique opportunity to assess the experience (Goldstein al. al, 2018). Also, a new law, establishing full-fledged (freehold) land rights supported by formal titles has been passed in 2016.

Clearly, serious problems have been encountered in the designing and the enforcement of the 2013 law. The possible sources of these problems are several: (i) the individualization of land rights in the context of traditional collective or communal land tenure; (ii) the mapping of customary land rights via the Plans Fonciers Ruraux (Rural Land Maps), and (iii) the mechanisms of rights' enforcement and dispute settlement. Also, in a country where mobility is high and ethnic diversity large, how were migrants' rights transformed as a result of the formalization of land rights is a crucial issue. Finally, did the fact that only temporary tenure rights were granted under a first phase of the reform (lasting five years) create disincentives for firms to invest and for banks to accept land as collateral? How were conflicting land claims adjudicated during that transitory period? How well accepted were the conflict settlement procedures?

2.3 Specific structural characteristics

This section concentrates on two specific structural features of Benin's economy, allowing to better understand the aggregate performance presented in the previous section. Analysis includes the discussion on leading real sectors (Section 2.3.1) and the financial system (Section 2.3.2).

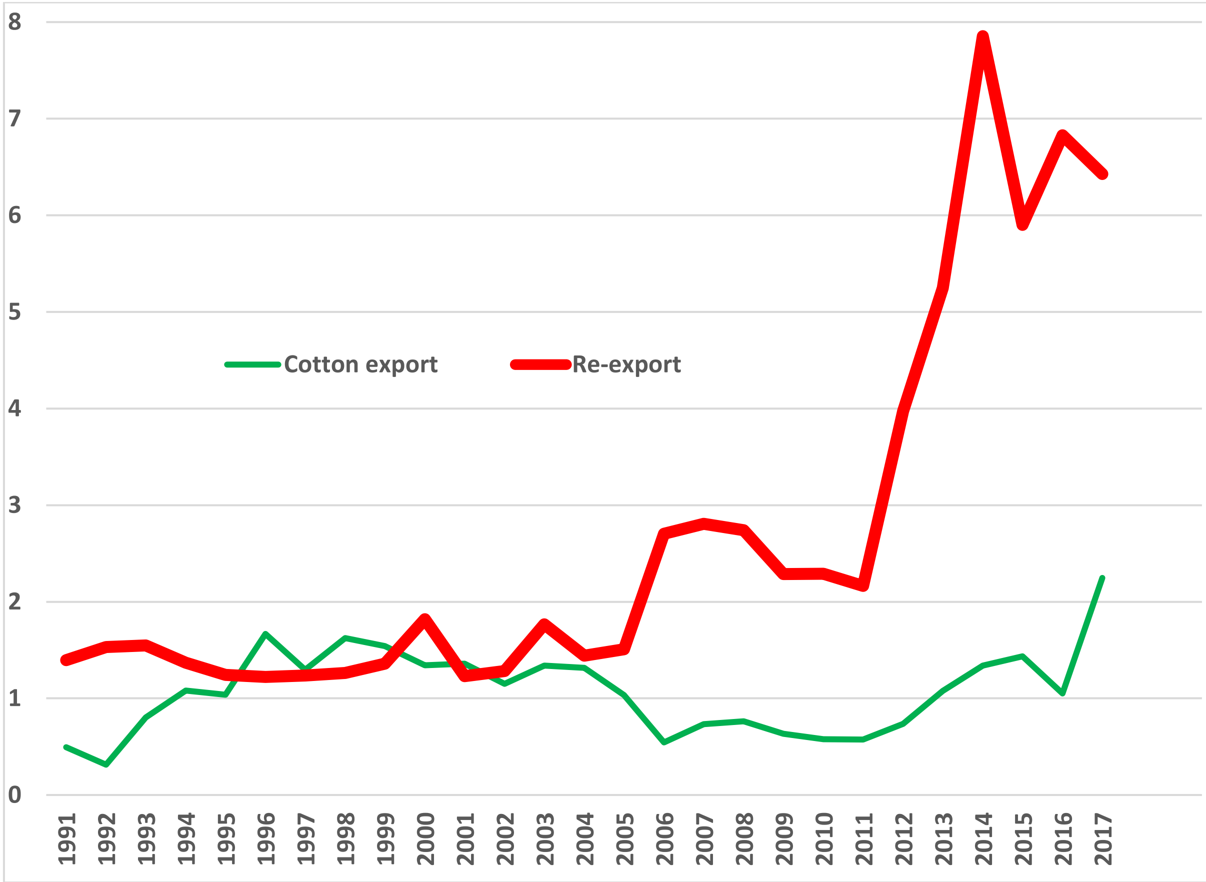
2.3.1 Leading real sectors

An overview

Benin is dependent on the activities of two main real sectors: cotton and cross-border trade (CBT). Cotton is produced in Benin and mainly exported abroad (Asia, Europe) whereas cross-border trade involves the importations of goods from Asia and Europe through the harbour of Cotonou and later re-exported to neighbour countries through informal channels. These two activities account, on average, for more than 70 percent of Benin's total exports. Figure 2.3.1 below reports data on real exports of cotton and re-exports of goods over the 1991-2017 period. The data allows to highlight two important issues Benin's economy is facing as regards these two sectors. First, re-export activities have played a dominant role in Benin's economy. The available estimates suggest that cotton and CBT account for about 13 and 20 percent of Benin's GDP, respectively.[11]

[11] These estimates are obtained from MAEP (2008) and Golub (2012) for cotton and CBT, respectively.

Figure 2.3.1: Exports of cotton and re-export of goods, in real terms (billions CFA francs weighed by CPI)



Sources: BCEAO (https://edenpub.bceao.int/ and various annual reports)

Nigeria is the main recipient country of CBT, accounting for more than 90 percent of Benin's re-export activities. On the other hand, cotton is mainly exported to Asia, Europe and USA. As such, there is a fundamental difference between these two activities. In particular, CBT entails a loss of foreign exchange reserves for Benin whereas cotton contributes to official export earnings. In the same way, re-export activities compete with the agro-industrial sector. However, the incentive of Benin's authorities for tolerating CBT derives from the fact that it generates custom and VAT revenues for the country. This is because CBT imports are declared for domestic consumption. IMF (2012) estimates the contribution of CBT to be about 14 percent of Benin's tax revenue. Below we elaborate on CBT and discuss spillover from Nigeria to Benin.

Second, the data in Figure 2.3.1 shows that export of cotton has been performing poorly since 1996. This trend coincides with a number of institutional changes that occurred in the sector over the past years. The institutional changes have most to do with the liberalization of activities as well as the privatization of the state enterprise involved in the sector. We discuss these issues and other challenges facing the cotton sector below.

Cross-border trade and spillover from Nigeria

Activities related to cross-border trade (CBT) between Benin and Nigeria largely stem from differential (trade, taxation, and exchange rate) policies in the two countries (e.g. Igué and Soulé, 1992). Nigeria uses tariff and non-tariff barriers to protect domestic industries in a number of economic sectors (e.g. Igué and Soulé, 1992, De Melo and Ugarte, 2013, and Golub, (2012): cars, textile, cigarettes and food items (such as rice, vegetable oil and poultry). In 1973 the military regime in Benin introduced lower import tariffs than in Nigeria, with the aim of extracting rents from re-export activities. This happened in the context of the first oil shock, which generated a boom in Nigeria. Togo also implemented similar import tariff cuts in 1993 in order to compete with Benin on the re-export market.

Although Beninese authorities derive tax revenues from re-export activities, the economy is very vulnerable to changes in economic conditions and trade protection policies in Nigeria. First, Nigeria is very much exposed to global shocks given the dominant role it plays in the world oil market. As such, the country plays an important role in the transmission of global shocks to Benin. During the recent global financial and great recession that started in 2007, for instance, Benin suffered from re-exported activities especially in the car sector. In the same way, Nigeria recently devalued its currency in 2016 as a result of persistent negative oil price shocks in 2015-2016. Second, Nigeria has often changed import tariffs on protected goods, generating substitution between re-exports from Benin and direct imports from the rest of the world (Asia, Europe, and USA) to Nigeria. In 1995 and 1996 for instance, the Nigerian government lowered import tariffs on rice from 100 to 50 percent. These changes led to an increase of rice imports from Asia to Nigeria and a decrease in re-exports from Cotonou. Likewise, the discontinuation of prohibitions on textile imports in 1997 led to similar substitution effects.[12]

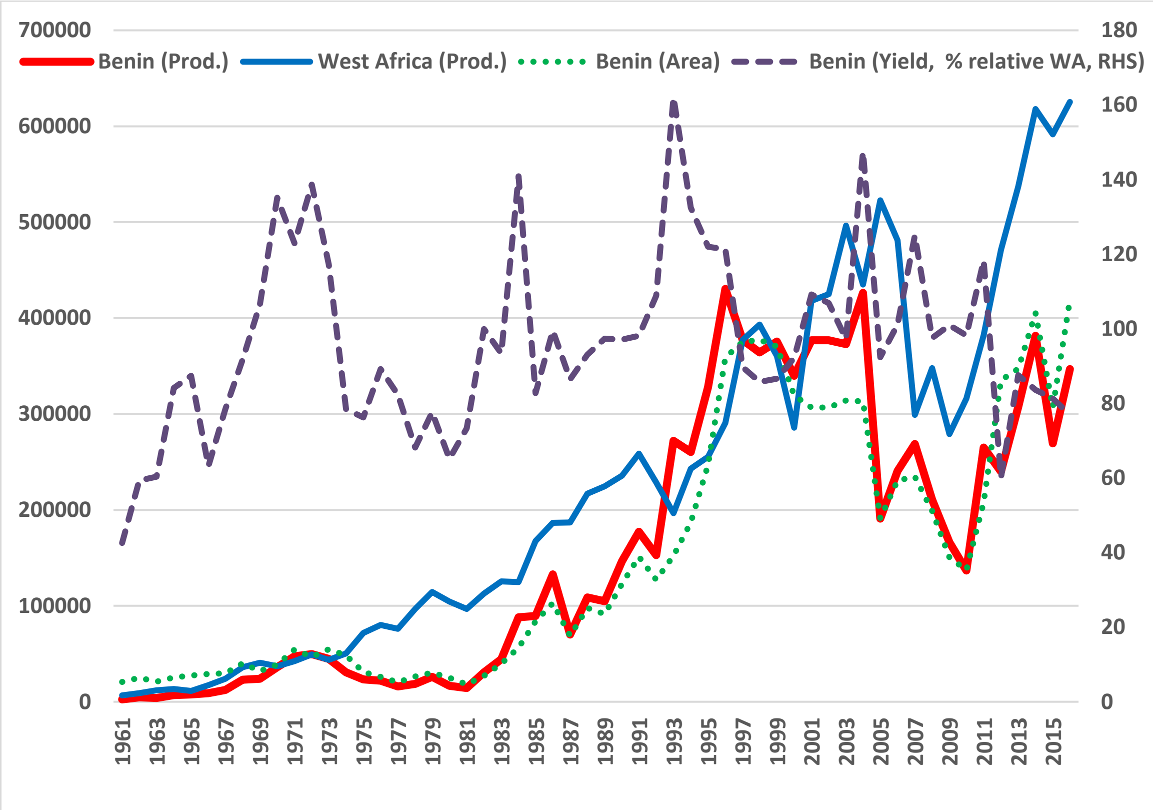
There are several channels through which these adverse shocks from Nigeria could spillover to Benin. First, because they imply cuts in Benin's government's tax revenue, they compromise its ability to finance public infrastructure and other expenditures. Second, they impact negatively on activities of the harbour of Cotonou and other service sectors including commerce, transport, telecommunication, insurance and banks that are related to re-export activities. Third, proceedings from re-exports largely accrue to the informal sector and have often been used to import intermediate and capital goods from Nigeria (e.g. Igué and Soulé 1992), which generates positive supply effects in Benin.[13] Fourth, external shocks improve the activities of the domestic agro-industry sector. It is difficult to provide a reliable estimate on the impact of re-export shocks given they run through the informal sector. Attempts to provide quantitative estimates of their effects use static general equilibrium models (e.g. Medenou, 2016, Gautier, 2000, Balaro, et al., 2013, Paquet and Savard, 2009). For instance, the estimate recently reported by Medenou (2017) indicates that a 10 percent increase in re-export demand from Nigeria in textile and food items would generate a 2.3 percent increase in customs revenues and a 0.3 percent acceleration of real GDP growth in Benin. Based on this estimate and the decrease of about 25 percent of re-exports between 2014 and 2015 (Figure 2.3.1) would imply a growth contraction of about 0.75 percent in Benin.

[12] Nigeria has also sometimes unilaterally closed its borders with Benin for political reasons. These happened for instance in 1996 and 2003 and generated similar negative effects on re-exports.
[13] Especially, Benin depends for 80 percent of oil imports from Nigeria.

The cotton sector

In Benin, cotton plays a major economic role, accounting for about 80% of export revenue (excluding re-exports) and 45% of tax revenue (excluding customs revenue). It provides livelihood for about one third of the population (total population is 10.7 million) and the basis for 60% of the industrial sector (18 ginning factories, 5 textile industries, and 2 agro-food industries for vegetable oil extraction) where it generates about 3,500 paid jobs (MAEP, 2008). In the same way, cotton contributes to activities in the services sector (e.g. transport and construction) and also plays a socio-political role in rural development (e.g. Kpadé, 2011).

Figure 2.3.2: Performance of the cotton sector in Benin and West Africa (WA)

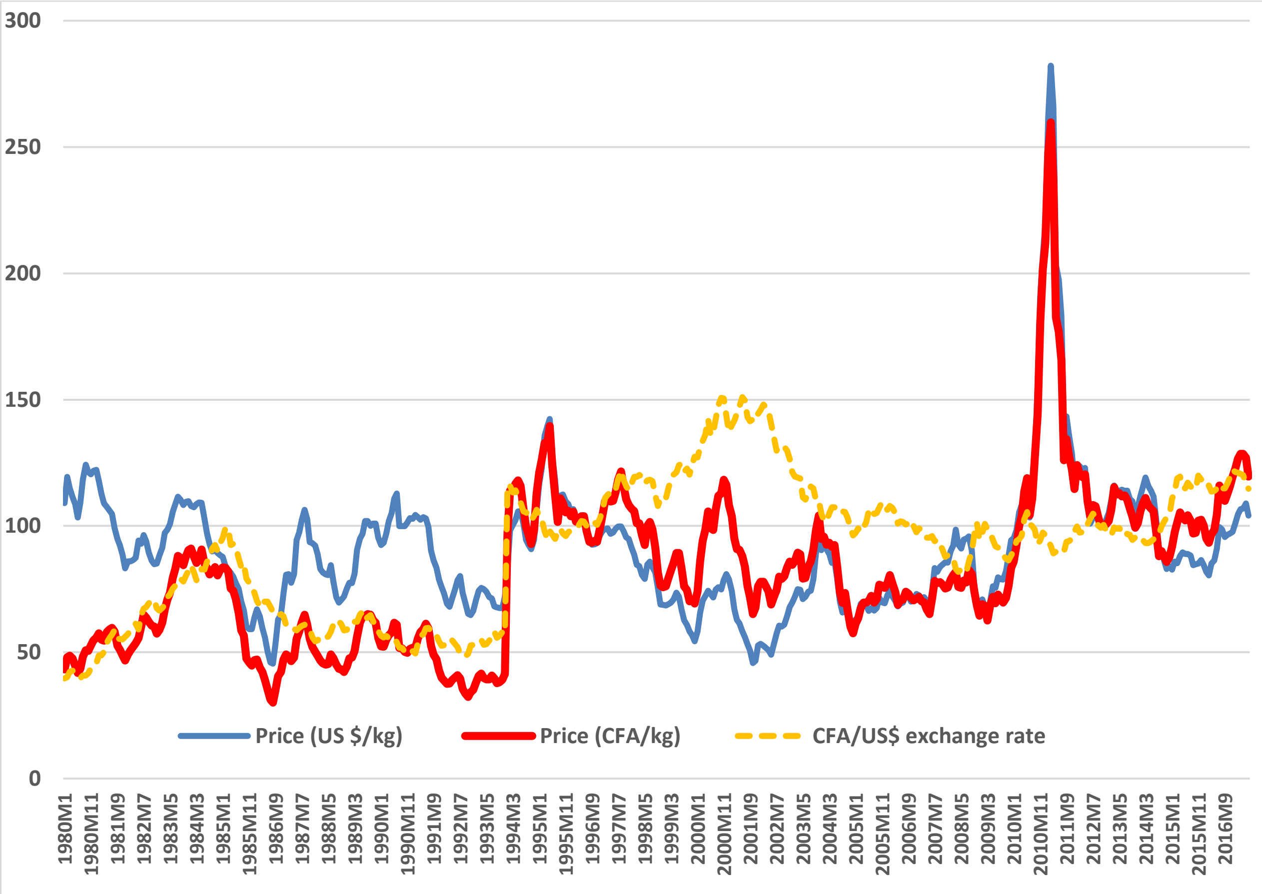


Source: FAOstat. Note: West Africa (WA) is a simple average of data from Burkina Faso, Cote d'Ivoire and Mali. Production is in tons, Area in ha and yield is in percentage relative to the value of average yield in the other West African countries.

In light of this importance, any problem in the cotton sector would severely affect Benin's development. Figure 2.3.2 reports the performance of the cotton sector in Benin and its francophone neighbouring countries (Burkina Faso, Cote d'Ivoire and Mali), on the basis of the production of cotton seeds, yields, and cultivated area over the 1961-2016 period. First, the data shows contracting performance in Benin's production in 1973-1992 and since the early 2000s. On the contrary, Benin slightly outperformed her neighbours in 1993-1997. Second, production moved hand in hand with cultivated land area suggesting that yield improvement was not the main driver of cotton production increases in the country. Indeed, Benin's yield is volatile and its value is lagging behind that of other countries (the average gap is about 4 basis points). More worryingly, in recent years the cotton yield in Benin has come down to the level where it was in the 1970s.

Domestic and external factors are responsible for Benin's performance (e.g. Bourdet, 2004, AIC, 2008, Ahohounkpanzon, and Allou, Baffes, 2002, Cabinet Afrique Décision Optimale, 2010, Gergery, 2009, Kpadé, 2011, Saizonou, 2008, Yérima, 2005).[14] Domestic factors include political forces and institutional arrangements in the cotton sector whereas external factors relate to forces that drive the domestic currency value of the world cotton price as well as export demand for cotton. We start with the latter and then turn to the former.

Figure 2.3.3: World cotton price and the CFA franc/ US dollar exchange rate (1996=100)



Source: IMF commodity database and IMF internal financial statistics (IFS). Note: After the CFA/kg was constructed all series were transformed in indices with base year 1996 as a normalized factor.

Figure 2.3.3 displays monthly data on world cotton prices in US dollar and CFA franc together with the CFA franc/US dollar nominal exchange rate over the period 1980-2017. The data shows that variations in both the nominal exchange rate[15] and the dollar value of

[14] In addition to these two factors rainfall shocks also affect cotton supply.
[15] Except for the 1994 devaluation in the CFA franc, the variations in the currency mainly reflect movement in the French franc (prior 1999) and the euro (after 1999) to which the currency has been pegged to.

world[16] cotton price have caused great fluctuations in the CFA franc value of the cotton price. In 2004-2009, for instance, the dollar value of cotton price showed a declining trend, which was amplified by a persistent appreciation of the CFA franc. Following this drop-in price, we see a contraction in production and land cultivated both in Benin and in the other countries. However, Benin displayed a much larger negative response, suggesting that country-specific factors may also have explained the behaviour of cotton supply.[17] During the years 1984-1993, the persistent appreciation of the CFA also contributed to low cotton prices, yet this did not prevent cotton supply from rising perceptibly not only in Benin but also in the other producing countries of the region. This again suggests that other factors than producer prices have been at work. Finally, cotton supply increased sharply in Benin and other countries following a strong increase in the dollar price and the devaluation of the CFA franc in 1994.

We can now turn to the domestic factors impeding cotton production. They are largely of an institutional or organizational kind and are therefore of special interest to us. Five groups of actors have been involved in the cotton sector: i) small scaled- producers; ii) importers and distributors of inputs; iii) ginning industries; iv) the government; and v) international donors (of which France and the World Bank are the major players). The role of each of these actors have evolved over time depending on the political regime and the institutional arrangements that were put in place in the cotton sector. Five sub-periods can be distinguished: 1961-1971; 1972-1981; 1982-1990; 1991-1999 and 2000-present. First, prior to 1972, two French companies (*Compagnie Française de Développement des Fibres et Textiles*-CFDT, and the *Société d'Assistance Technique et de Coopération*-SATEC[18]) were responsible for the main operations in the sector of Benin: provision and distribution of inputs, commercialisation and ginning of cotton, and exporting abroad. This vertically integrated system was also introduced in the other West African francophone countries. During this period, the level of cotton production was very similar in Benin and these other countries (see Figure 2.3.2).

Second, from 1972 to late 1970s, when the Marxist-Leninist regime of Kérékou was in power and created a number of parastatals to manage the agricultural sector, Benin started to underperform. In addition, the new regime encouraged subsistence agriculture at the expense of cotton, and French companies withdrew from the cotton sector. The regime also promoted community-level farmer associations, known as *Groupements Villageois* (GV), through which joint input credit could be channelled. Note that the activities of the GVs and their members were not limited to cotton production. They not only produced other crops but also pooled their resources in order to build local infrastructure, such as schools and health centres. Following these changes Benin's cotton production substantially diverged from production in neighbouring countries. Third, in the early 1980s the government took a renewed interest in cotton and a new parastatal (*Société Nationale pour la Promotion Agricole*-SONAPRA) was created in 1984 to stimulate cotton production and enhance the efficiency of the sector. Nevertheless, its mode of operation continued to be vertically

[16] Fluctuations in world dollar price of cotton are due to both demand and supply factors (e.g. Janzen et al., 2018). The impact of world supply on cotton price is due to subsidies in some leading cotton producing countries of which the US plays an important role.
[17] Yélognissè et al. (2017) recently provide evidence for the role on cotton price for cotton supply in the Benin context using data on local price paid to producers.
[18] The production of cotton date back to the pre-colonial period (Manning, 1982) but the two companies introduced new varieties that boosted the yield of cotton production. They developed independently their activities: CFDT in the North and SATEC in Central Benin.

integrated. An additional source of change came from external donors who supported development projects in the Benin's cotton sector. As a result, SONAPRA came to acquire ten ginneries. Following such changes yields and the cultivated area improved considerably in the 1980s (Figure 2.3.2). In 1985-1988, however, SONAPRA faced a debt crisis because of low international cotton prices and its limited ginning capacity to absorb the total amount of cotton production.

Fourth, in the early 1990s the government embarked upon a new policy consisting of the liberalization of the cotton sector and the privatization of SONAPRA with the support of the two main donors. Moreover, a minimum price guarantee and inputs subsidies were introduced. These reforms were gradually implemented. Thus, the *Fédération des producteurs du Bénin* (FUPRO-Bénin) was created in 1991 to federate the GVs and 80 percent of the importation and distribution of inputs were liberalized over the years 1991-1995. In the subsequent years, from 1995 to 1998, the liberalization of the ginning industry was initiated and eight, privately owned ginneries started to operate in addition to the ten ginneries belonging to SONAPRA. Limited cotton production, however, caused the total capacity of the eighteen ginning firms to be under-utilized. Note that despite all the above changes, SONAPRA remained the main operator in the sector. Thus, it continued to organize the allocation of inputs across the GVs and it later started to also allocate cotton seeds between the private ginning firms. Following the reforms, which were combined with the devaluation of CFA franc, cotton production increased considerably and for the first time Benin's production outperformed the other countries over the years 1993-1997.

Fifth, in 1998-2000 additional professional associations were created: the *Association Professionnelle des Egraineurs du Bénin* (APEB) for ginners, the *Coopérative d'Approvisionnement et de Gestion des Intrants Agricole*s (CAGIA) for the management of input quotas between private firms, the *Association Interprofessionnelle du Coton (AIC)* for the management of the whole supply chain, with a special emphasis on the allocation of cotton seeds between grinneries, and the *Centrale de Sécurisation des Paiements et de Recouvrement* (CSPR), a key institutional regulatory body created to achieve the recovery of of input loans to farmers and the payment of cotton seeds purchased by ginners. A number of administrated rules were also put in place such as fixed prices for inputs and cotton seeds across the whole country. When these bodies were established, SONAPRA stopped to operate the sector but continued to manage its ginneries. It is striking that this period of intense organizational change did no witness any effect on cotton. Moreover, conflicts emerged among the actors starting from 2002-2003. For instance, farmers complained about expensive input prices. In the same way, a number of private firms contested the outcomes of the input procurement procedure whereas some ginneries found fault with the quotas of cotton seeds. As a result, they boycotted the AIC-CSPR-GARCIA system and started parallel activities. For instance, the dissident distributors attracted some farmers by proposing lower prices than what the official system was offering. But the quality of the output delivered was not properly monitored. Likewise, the quality of privately supplied inputs could not be guaranteed and producers frequently complained that they were cheated in this regard. The ground was laid for a genuine crisis in the cotton sector. In particular, a lot of confusion was generated by the plurality of input sources and output outlets, and a number farmers and ginners became severely indebted as the CSPR could no longer track their activities. As a consequence, the system encountered delays in payments, which discouraged farmers. Many of them turned away from cotton production which was depressed in 2005. The government's reaction consisted in stepping in to finance the debt shortfall. Moreover, it adopted a framework agreement (Accord-cadre) with AIC, but with no effect. In 2007 the new elected president (Yayi Boni) dissolved the agreement with AIC and an ad hoc *Commission Nationale* was established to manage cotton inputs.

In 2008, SONAPRA was privatized and a new group, known as *Société de Développement du Coton* (SODECO), was soon created to take over SONAPRA after several problems in procurement management became manifest in 2006-2007. Once again, the new organizational changes failed to improve the situation in Benin's cotton sector. Yields and the cultivated area remained low. In 2009, a new framework agreement was signed between the government and AIC. But, following a now familiar scenario, the problems persisted and in 2012 AIC was suspended by the government. Yet, the new government which assumed power in 2016 re-established AIC.

Overall, the liberalization of the cotton sector did not succeed in improving its functioning and enhancing its efficiency, although some positive effects could be observed in the early stage. The causes of the failure are several. First, political actors controlled the whole reform process and thereby made reforms vulnerable to regime changes. Second, liberalization did not lead to competition as officially intended, in particular because the allocation of cotton seeds was administratively decided, and the procurement of cotton seeds was not transparent. Third, there were no clear enforcement mechanisms against those who violated the rules, with the result that these rules were not considered credible by the actors concerned. Finally, to a very large extent, the reforms were undertaken under the pressure (at the behest of) of two donors and they were therefore not appropriated or owned by the local authorities. The usual outcome in this type of situation is that reforms are circumvented and official rules and procedures are manipulated by powerful interests which tend to act behind the scene. These powerful interests are based on narrow links between politics and business, between political actors occupying critical positions in the government or the high administration, on the one hand, and Big Men, powerful patrons or oligarchs operating in the cotton sector in collusion with the former, on the other hand.

2.3.2 The financial system

In Benin, the financial sector is characterized by a dual system where formal and informal institutions coexist.[19] The formal system operates under the supervision of WAEMU. It includes three categories of institutions: commercial banks, microfinance institutions, and other financial institutions (pension funds and insurance companies). Banks play a dominant role.

During the Marxist-Leninist regime of Kérékou, private banks were nationalized into three state-owned banks: the *Banque Béninoise de Developpemen*t (BBD), founded in 1974 to finance the industrial sector, the *Banque Commerciale du Benin* (BCB), founded in 1975 for commerce, and the *Caisse Nationale de Credit Agricole* (CNCA), founded again in 1975 for agriculture. Due to poor management and especially excessive credit extensions to state enterprises and political supporters in the 1970s and 1980s, all these banks collapsed in a banking crisis that occurred in 1989.

[19] The informal financial sector is not discussed here. For information see for instance Tomety (1999).

In the 1990s, the banking sector was reformed in the framework of the structural adjustment programs and new private banks have since then been operating in the country. Following these reforms, the banking sector developed significantly. Some challenges remain, however. In comparison with other countries in WEAMU and SSA, Benin's banking sector is less developed and it also displays several vulnerabilities (IMF, 2016, 2018 and *Commision Bancaire de l'UEMOA*, 2016). For instance, the data reported on Figure 2.3.4 below indicates that Benin is lagging behind in many dimensions including regulatory capital ratios, liquidity, returns on asset and equity, and non-performing loans (NPL). As a result, difficulties to obtain external financing is the top structural constraint facing private firms in the country. From Figure 2.3.5, we can see that these constraints have increased in recent years (from 2009 to 2016). Other major constraints include electricity supply problems, informal sector competitors, and problems arising from taxation as well as corruption inside the public administration.

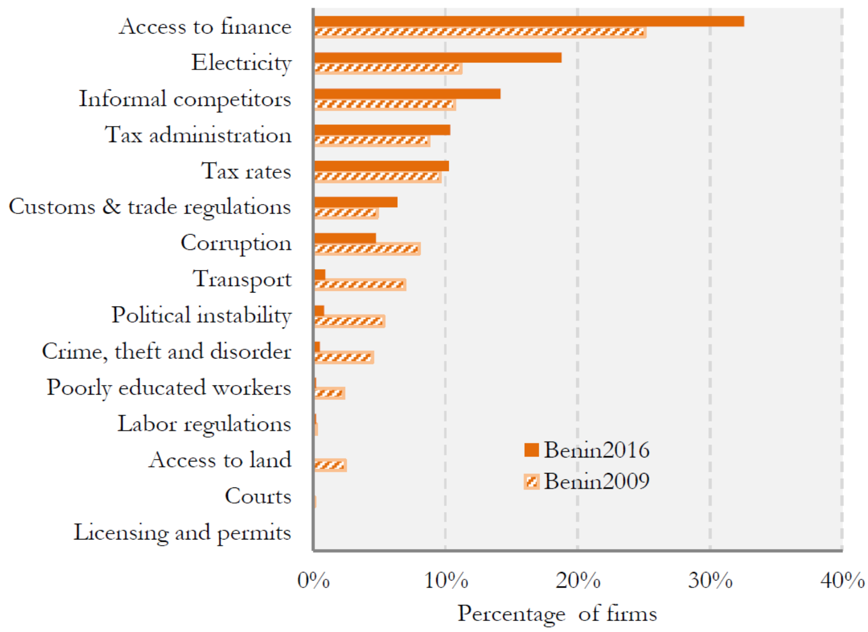
Figure 2.3.4: Performance indicators of banking system in Benin and Africa

Sources: IMF (2018); Note: (1) data for the period 2013-2015.

A number of structural factors are responsible for the under-performance of the banking sector. From the demand side these include: a poor business environment (Figure 2.3.5); a low quality of credit demand applications resulting from the poor quality of firm managers (MCA, 2012); and a large informal sector which implies a low base for financial intermediaries and concentration risks.

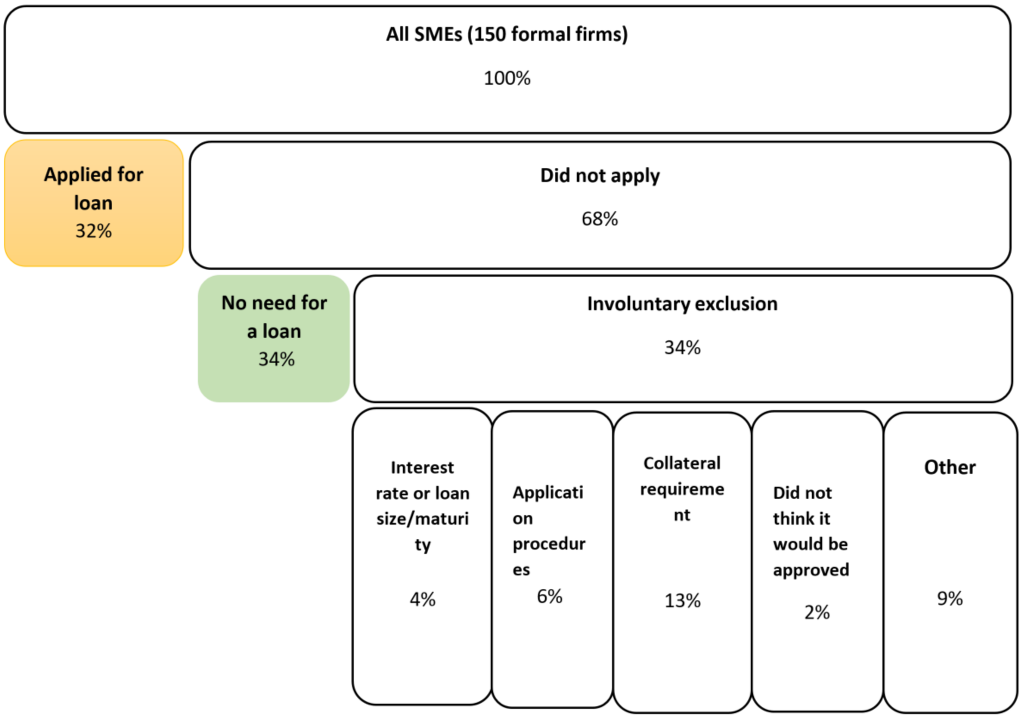
In order to understand the role of information on access to finance, we distinguish firms that apply for loans from those that did not. The data in Figure 2.3.6 shows that in the majority of cases (68%) firms did not apply for loans suggesting that demand factors may be explaining the poor access to finance. We further distinguish between firms that are voluntarily versus involuntarily excluded from external financing. The data shows that among the 34 percent of the firms that were involuntarily excluded from applying for loans, more than one-third (13 percent) attributed the problem to a lack of proper collateral and about one-fifth (6 percent) to the complexity of application procedures. These figures hint at serious problems on the supply side of credit markets.

Figure 2.3.5: Access to finance as the major constraint to private firms in Benin



Source: World Bank Enterprise Survey (2016), Country highlights

Figure 2.3.6: Understanding access to finance in Benin (2016)



Sources: World Bank Enterprise Survey 2016 on 150 formal firms (80 manufacturing and 70 services).

The poor quality of collaterals thus stands out as one key problem that constrains the use of bank credit in Benin. This reflects a poor quality of property titles, especially over land assets due to uncertain status, long delays in registration and high cost of verifying property titles. As pointed out earlier (see Section 2.2), Benin has embarked upon a pioneering land titling reform undertaken in the framework of the MCA program financed by US development agency.

A second constraint arises from the poor management of information asymmetry. A credit centralization initiative was started by banks in 2013 to exchange information on borrowers but the system does not function well.[20] Private credit bureaus have been recently authorized as part of reforms by WAEMU and the law was passed in 2017 in Benin. But the system is not yet functioning. Third, there are serious flaws in the judiciary system: low capacity in handling financial issues, complex and long litigation procedures that have the effect of complicating contract enforcement and discouraging access to credit for certain categories of borrowers. Fourth, there are weaknesses in banking supervision and regulations that undermine risk management in financial intermediaries and their performance (IMF, 2016). In some cases, long delays in banking resolutions (corruption, bureaucratic) allow underperforming financial intermediaries to stay open for long periods of time, wasting resources in operating costs and undermining credit supply. For instance, credit is structurally concentrated on very few but large business groups and, in particular, on the commercial sector (with a majority of activities linked to Nigeria). As a result, negative shocks in the trading sector, often originating in Nigeria, cause an important rise in the share of non-performing loans (NPL). Moreover, important bottlenecks in supervision and

20 One explaination could be the concentration of the banking sector. The banking system is concentrated on four banks which account for about 80 percent of credit and capital of the system.

regulation about concentration risks and non-performing loans constrain the quality of financial intermediaries.[21] In addition to long judiciary litigation procedures about NPL and the obligation of regulators to keep NPL in the balance sheets of financial intermediaries until the end of these procedures, concentration risk is a major challenge facing the banking system in the country.

Fifth, Benin's banks have a strong exposure to the government, which affects credit risks and poses a major constraint on the supply of credit to the private sector. The banking sector, and the whole economy, are thus negatively affected by the government's structural propensity to delay honoring its payment engagements with banks but also with private firms. In the same way, banks have recently invested relatively more in government securities. As a member of WAEMU Benin has access to the regional bond market of francophone countries. Starting from early 2000 there has been a number of reforms which encourage the issuing of government securities to finance the public deficit. As a consequence, banks have been investing in these securities which they perceived as less risky than loans to private firms.[22] Their large exposure to government financing increases their vulnerability: in 2012, for instance, Benin's banks holding securities on Cote d'Ivoire were negatively impacted by debt restructuring in that country.

2.4 The structure of aggregate spending

Figure 2.2 shows how total expenditures (absorption) by domestic agents, relative to GDP, have evolved after 1968. Total expenditures is the sum of domestic household consumption, of government final consumption and of total, private and public, gross capital formation (investment).

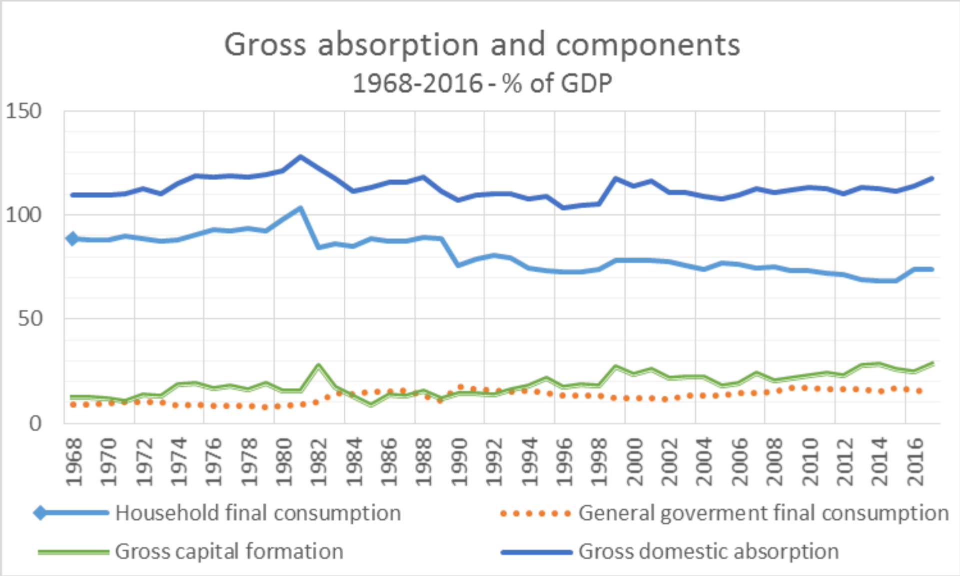
A first striking observation is that total *domestic absorption* always exceeded GDP. This indicates that Benin has relied during the whole period on foreign resources to finance its total expenditures. The extent of the use foreign resources, either through transfers or through borrowing from abroad, was on average 13% of GDP over the period, with a maximum of 28% in 1981 and a minimum of 3% in 1996. Absorption has particularly risen during the early years (1973-1981) of Benin's centralized economy experience, nourished by the large public investment program and by a raise in household consumption, possibly induced by the former. Absorption plunged, in the context of decreasing growth during the years leading up to the 1988-1989 economic and financial crisis. Dependence on external resources came to their lowest level when the first phase (1989-1999) of the donor supported adjustment programs ended. When ODA and multilateral concessional lending in support of ongoing structural reforms rose again, from the middle 2000s on, absorption also increased again. It reached 114% in 2016, averaging 112% for the 2000-2016 period. This raise in absorption can largely be explained by the concomitant higher rate of capital

[21] The issue of regulation and supersivion is even more pressent for microfinance institutions (MFI). Among the 721 MFIs, only 226 were regulated. This large unregulated MFI is a potential of risks that could, spread to the banking system, and further limit credit supply to the private sector. In 2010-2011 a crisis erupted in the sector following a ponzi scheme and the lost of deposit are still unsolved (Investment Consultancy and Computing Services, ICCServices)

[22] The accommodated policy of the central bank which facilitates refinancing of banks at low interest rates (about 2.5 percent) creates opportunity for banks to invest in these securities at about 6 percent.

formation, mostly of private origin, which can be observed since 1999 (see below) and which has not been compensate by an equivalent decrease in combined public and private consumption.

Figure 2.2: Structure of absorption, 1968-2016.



Source: WDI

A second feature of the absorption picture is the progressive and persistent fall in the share of household consumption after 1981. If quickly fell from 103% in 1981 to an average of 87% for the 1983-1989 years leading up to the 1989 crisis, before dropping again and levelling out at 75%, with an occasional drop to 68% (2013-2015)[23]. One can probably largely attribute the drop in the household consumption ratio over the crisis period and the subsequent period of structural adjustment to the hardship brought about by the crisis and, later, by the deflationary effects of domestic adjustment measures biased against consumers. The continuing slide of the ratio after 2002 is however more difficult to understand. Several specific factors can be mentioned: i) a progressive adjustment of household consumption to a lower growth of per capita and to its increased variability; ii) a fall in the employment rate; iii) output shocks biased towards subsistence workers in the agricultural sector; iv) price shocks on items with a significant weight in the household consumption basket (e.g. the reduction in gas subsidies in Nigeria which generated a 50 percent increase in fuel prices in Benin between 2011 and 2012[24]); v) increasing income inequality. A country comparison indicates that the Beninese consumption ratio has in

[23] There seems to be a methodological break in the WDI National Account series in 1981/1982. The observed consumption ratio falls from 103.2% in 1981 to 84% in 1982, a 19 percentage point drop, while capital formation has a share which raises from 15.6 to 27.6 over these two years. It is prudent to somewhat discount the data from these two years and focus on observations before 1981 and after 1982.

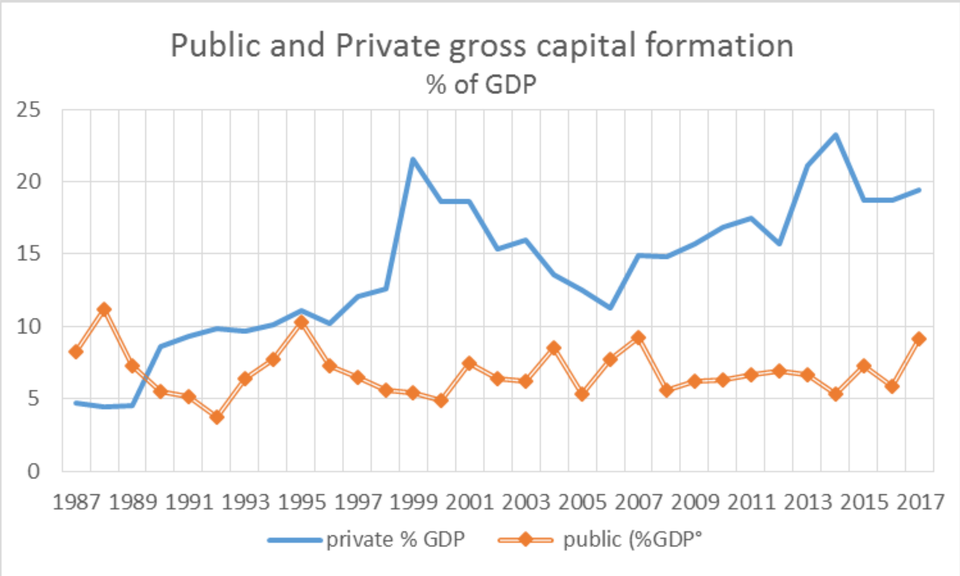
[24] See World Bank (2014). This price shock in Benin is the result of the Benin's huge dependency on illegal imports of fuel for its domestic consumption. Such a price shock would curtail consumption volume, but would also increase the relative price of private consumption relative to GDP. The net effect on the reported share of (nominal) Household consumption in (nominal) GDP could thus go either way, depending on the movement in GDP prices. The ratio between the consumer price index and the GDP deflator (source: WDI) actually declined somewhat (2%) between 2010 and 2014, which is consistent with the observed decline in the share of household consumption in GDP.

general be higher than in an average Sub-Saharan country and is presently (2016) close to it.

The share of *government consumption* in GDP increased from some 9% in the 60's to 16% in 1990, before being trimmed by the structural adjustment programs to some 12% in 2004, progressively increasing again to reach a new high of 17% after 2010, slightly above that of the average Sub-Saharan country.

The share of *gross capital formation* in GDP closely matched government spending policy until the end of the centralized economy experience in 1989, accelerating until 1982 and retreating thereafter. When the liberalization of the economy started in the early 1990s, private investment progressively picked up. It mostly accounts for the raise in the ratio of gross capital formation to GDP during the 90s. Total investment in the economy averaged 21.3% since the move to a market economy in 1990. More recently it reached even 27%. Such a period average level is close to that of a typical low-income country (19,2%) but well below that of East Asia and Pacific IDA_IRBD countries (38,2%).

Figure 2.3: Capital formation, public and private



Source: WDI

Figure 2.3 decomposes for the period after 1987[25] the share of gross capital formation into its two components, private and public investment. The share of private investment in total investment has progressively risen, to represent since the early 2000's about 70%. Public investment has averaged 6.5% of GDP over the 1990-2016 period, private investment 14.7%. For an average IDA-IRBD Subsaharan country, the respective shares for the same periods were 3.7% and 13.9%.

Given the significant structural changes Benin is confronted with, a sustained level of both public and private investment is a sine qua non for improving growth performance through increased productivity. Efforts in raising public investment, as in 2005-2007, have however

[25] WDI data for private capital formation only start in 1987.

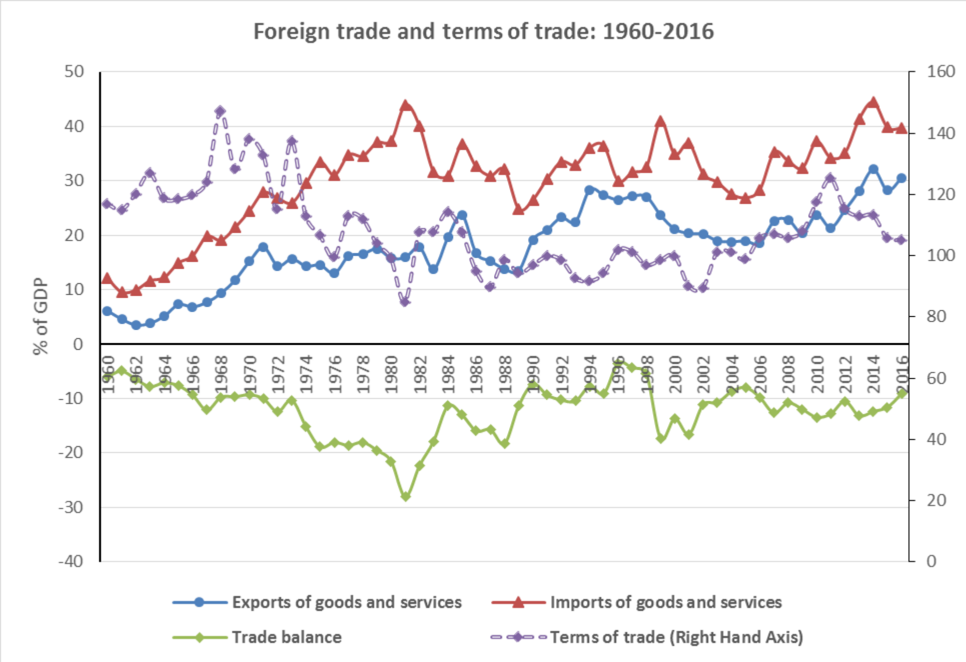
rarely been sufficiently persistent.[26] This may of course be the result of domestic financing difficulties or of some reluctance from donors, who finance a large part of public investment spending. However, besides its size, the efficiency of public investment is also cause for worry in Benin. The country lags in this respect, relative to other comparator countries, on two counts (IMF, 2018a, pp.29ss): it has larger infrastructure gaps (concerning roads, public health, education infrastructures) and the quality of its public (electricity supply, roads, railroads..) is lower. Closing these infrastructure gaps and improving investment quality could eradicate crucial growth bottlenecks, in the shorter term (electricity, roads..) as well as in the medium term (education). And, not the least, it could attract continued supprot from donors and mobilize additional private investment. In a market economy, the latter is a crucial factor of economic dynamism. It is also very sensitive to initial conditions and to future growth prospects and risks. This is especially true when a significant part of domestic private investment is financed from abroad, through FDI, which can have catalysing effects. Indeed, the share of private investment in GDP and FDI inflow have followed a similar patterns over the period in Benin: a raise at the beginning of economic liberalization, a retrenchment after several years of lower growth and a weakened pace of reforms and again a significant increase since 2007[27].

2.5 External trade

A word of caution is necessary before discussing external trade data for Benin. Economic activity in Benin is characterized by a large degree of informality. This is also true for international trade, especially so when one considers the extent which smuggling and illegal trade between Benin and Nigeria represent at times (see section 2.3). A significant part of import and/or export transactions can thus remain unrecorded, to an extent which may vary from year to year, depending on the strength of the incentives behind these illegal activities. Prudence is advisable, but one should nevertheless be able to detect in the available data the major trends and the specific features of external trade in Benin.

[26] IMF (2010, p.11) puts the target for public investment at about 9 percent of GDP over the medium, as “consistent with the country’s development needs and absorption capacity constraints”.
[27] FDI reached 4% of GDP in 1992, then declined progressively. It started recovering in 2006 and reached 4% again in 2014.

Figure 2.4: Foreign trade and terms of trade, 1960-2016



Source: WDI

The patterns of external trade of Benin over the 1960-2018 are, similarly to what has been discussed for the structure of aggregate spending (see section 2.4), broadly in line with the major changes in governmental economic policy Benin has experienced. During the post-colonial period (1960 to 1972) one observes a raise both in the GDP shares of exports and of imports, mostly with France as destination and origin, respectively for agricultural and manufactured products (Dossou et al. p. 90). The period of Marxist-Leninist inspired economic policy (1973-1989) sees the export share stagnate and the import share further increase, at a quick pace until 1981, then decrease. This corresponds to the observed patterns in household consumption and investment shares in GDP (see section 2.4). During this period, the terms of trade evolved in a strongly negative way, falling by 42% from 1968 to 1981, similarly to what was experienced in the whole WAEMU. This put a drag on real incomes which the government tried to counteract by profligate government expenditures. As a result or adverse evolution in exports, imports and terms of trade, the trade balance deteriorated sharply, reaching a deficit of 28% of GDP in 1981.

With the transition to a market economy after 1990, the export share in GDP rose again, from 13% of GDP in 1981 to 28% in 1994, before dropping to 19% in 2006, the rising regularly to 30% in 2014-2016. Given the importance of cotton in Benin's economy (see section 2.3) it is not astonishing to observe that the export share cycles closely match the cycles observed for the cotton production. The latter started from very low levels in the early 80s, peaked in 1995-2001, then progressively fell by more than half, before recovering slowly after 2010 and reaching its earlier peak again in 2014[28].

Terms of trade recovered from 2002 to 2010, before deteriorating again. Given the rise in import shares which paralleled the rise in export shares since 1990, the trade balance remained in deficit after 1990, at a sizeable level of 10% of GDP, not much below its 1960-

[28] Data from www.indexmundi.com/agriculture

2016 average (12%). This persistent and high level of deficit is not necessarily worrying, provided it finds its origin in imports of growth enhancing capital goods and can thus easily be financed by non-debt creating FDI flows or concessional financing (see section 2.6).

The global parallelism observed between export and import shares reflects two features of the Beninese economic context: i) many structural reforms have been designed to favour public and private investment in the export oriented cotton and manufacturing sector, implying increased imports of capital goods; ii) importing goods for re-export to Nigeria and landlocked Niger and Burkina Faso, an important trade activity for Benin, leads to a parallel recording of these goods as both imports and exports, at least for the official side of this trade.

A crucial question is whether exports can be identified as an engine of growth for Benin. The years from 2005 to 2014 were the most recent period of continuous high growth in export volumes. Export grew at an annualized rate of 7.8%. With an average share of 25% in GDP during this period, exports thus contributed directly to about 2% of annual GDP growth, close to half the observed GDP growth over this 9 year period. While this indeed suggests that exports have a major role to play in pushing growth, a qualifying argument is necessary. As already mentioned, growth in exports was paralleled by growth in imports. The latter grew more rapidly, at an annualized rate of 13,4%, implying a deterioration of the trade balance. Strong export growth was thus not sufficient to lead to an improvement of Benin's external constraint[29]. In addition, episodes of high exports growth are prone to being reversed, as was the case in 2015-2016 when the export volume decreased by 43%, relative to its 2014 level. To be a reliable and sustainable engine of growth exports would thus need to: ii) have a sufficiently high domestic value added content; ii) grow at a high and steady pace.

An analysis of the composition of exports helps to understand why the growth contribution of exports to growth is still not satisfactory. Figure 2.5 shows the composition of merchandise exports since 1998. Raw materials (mostly agricultural product such as cotton seeds, palm nuts, cashew nuts…), which are particularly exposed to the hazard of climate and of fluctuations in international prices, are on a decreasing trend but still represent more than half of total merchandise exports. The shares of intermediate goods and of consumers goods are on the rise, each representing the last years around 20% of merchandise exports. Both include mostly transformed agricultural products. The share of capital goods, the more sophisticated part of manufacturing, stands at less than 5%. There is no significant trend but some unusually large shares are sometimes observed, which is probably due to particularly high re-export activities during these years. WTO (2017) aggregates merchandise exports into three broad categories: Agriculture, Manufactures and Extractive industries (including Gold). In 2016 the respective shares were 71.6% (down from 80.7 in 2009), 18.5% (18.6 in 2009) and 9.9% (up from 0.7% in 2009). These figures confirm the strong link between exports and the performance of the agricultural as well as the relative low contribution of manufacturing to export dynamism. It also points to a weak degree of product diversification of Beninese exports.

[29] To more precisely assess the net effect of exports of growth and on the trade balance one would need to take into account, beyond the direct content of imports in exports, the multiplier effects of exports on the whole economy and the volume of imports.

The destination countries of merchandise exports[30] are the neighbouring African countries and Asia (India, Bangladesh and China), well ahead of Europe. The share of Asian countries has increased, from 36% in 2009 to 54% in 2016, the share of the African countries dropping over the same time period from 58% to 28%. Despite this reorientation of trade towards fast growing countries the diversification of partner countries remains, like the diversification of products, weak and below the average of African and Asian comparator countries, according to a recent IMF (2018) study.

Figure 2.5 Structure of merchandise exports

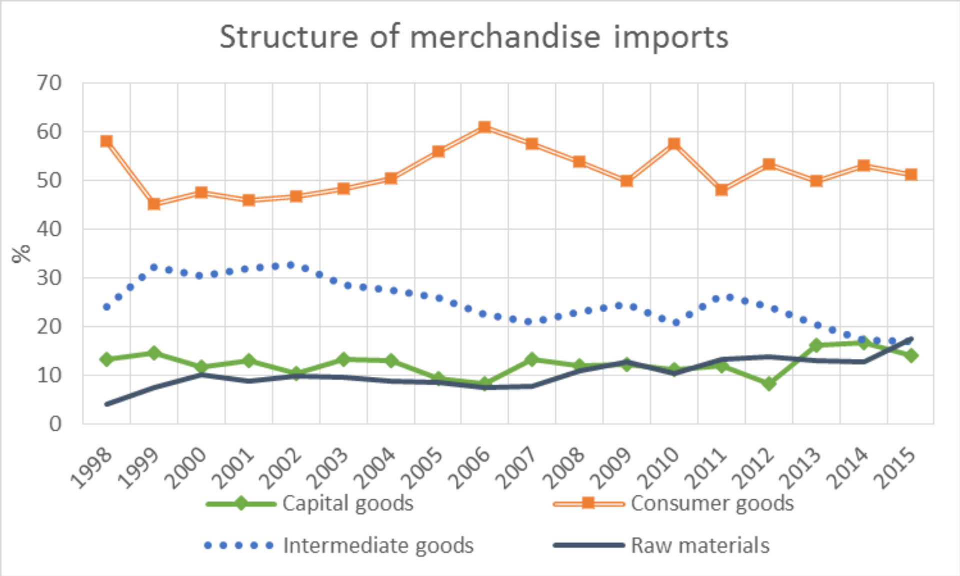
Source: World Bank - UNCTAD WITS Database

The share of services in total exports of goods and services is significant, although on a decreasing trend, from 35% in 1990 to 17% in 2016. Tourism has the largest share in service activities (in general more than 40%). Tourism even now accounts for about 2% of GDP. Transport is the other important component of export services and predominantly reflects the activities of the Port of Cotonou.

Concerning the composition of merchandise imports (Figure 2.6), one notes the high and relative constant share of consumer goods and the lower and declining share of intermediate products. Capital goods are on an increasing trend since 2006. Of course, part of these goods are for re-export to Nigeria and other landlocked countries, so that a more detailed analysis would be necessary in order to draw relevant conclusions about the implications of these evolutions for the patterns of domestic expenditures and growth. Europe (especially France) remains an important source of merchandise imports, followed by India, Thailand and China (WTO, 2017, Table A1.4).

30 WTO (2017) Table A1.3

Figure 2.6 Structure of merchandise imports



Source: World Bank - UNCTAD WITS Database

A last external trade issue that merits discussion is competitiveness. Although there are many facets to competiveness, we focus on the relative price component[31], using the real exchange rate as indicator[32]. As a member of WAEMU, Benin is on a fixed peg with respect to the euro (the French Franc before 1999). The peg has only been changed once since 1948. This was the case in January 1994 when the FCFA was devalued by 50%. Figure 2.6 shows the evolution in Benin's nominal and real effective exchange rates since 1994. The low level of the real effective exchange rate observed immediately after the 1994 devaluation (compared to 2010, the base level year of the index) reflects the correction of the important overvaluation which had been built up over the preceding years. This large gain in competitiveness was progressively eroded, as domestic currency import prices and later domestic wages and prices rose. Inflation went up to 39% in 1994 and was still 14% in 1995, before falling again below 5%. After 1998, the real exchange rate closely followed the nominal exchange rate, Benin managing to keep the inflation rate at levels close to those observed in trade partner countries[33]. Benin still has close trade links with France and other Eurozone countries as well as with other WAEMU and CEMAC African countries whose currency is also pegged to the euro. The nominal effective exchange rate therefore largely followed the trend in the French Franc/Euro exchange rate against the US dollar. As a result, Benin gained some competitiveness from 1998 to 2000, then faced a cumulative loss of about 20% from 2000 to 2008. Starting in 2010, the real exchange rate depreciated again by

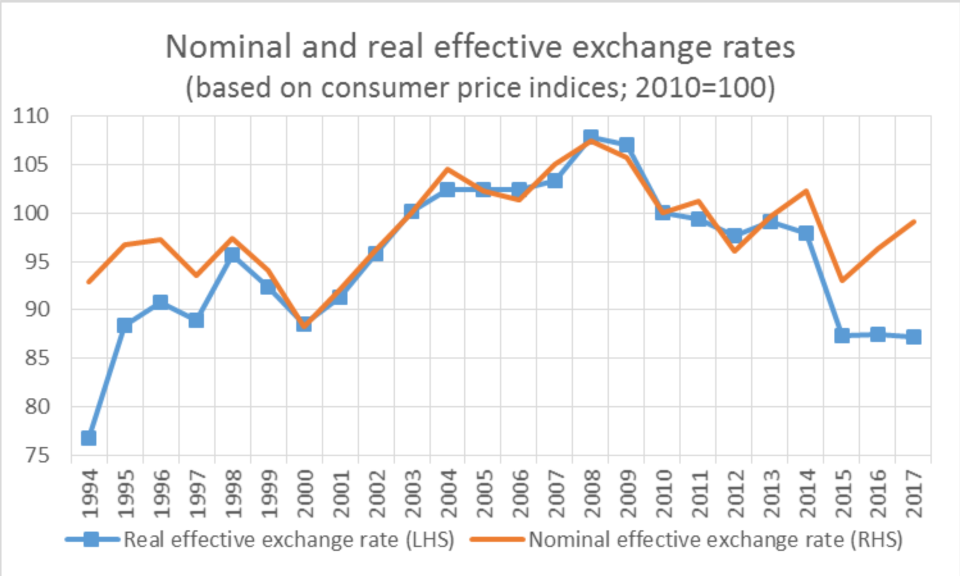
[31] Two other components are the quality of products and trade policy. Concerning the former aspect, IMF (2018a, p. 18) reports that "the product quality of Benin exports has remained relatively mediocre overtime". We do not discuss the latter issue, given its complexity. Benin applies the ECOWAS common external tariff (CET) since 2015.

[32] The reported real effective exchange rate indicator is based on consumer prices. Using producer prices would have been preferable, but not possible due to data limitations. For a small open economy like Benin the ratio of prices of non-traded goods to traded goods (the internal real exchange rate) would also have provides useful indications about competiveness. A study by IMF (2004) of the evolution of real exchange rate movements over the 1993-2004 period (before and after the 1994 devaluation of the CFA Franc) shows that both measures of the exchange broadly show similar evolutions.

[33] And broadly complying with WAEMU convergence criteria which include an inflation rate lower than 3% per annum in every member country.

some 19%, even by more than the nominal rate, inflation in Benin falling below that of its trading partners.

Figure 2.6 Nominal and effective exchange rates



Source: International Monetary Fund data: for 1991-2003 from various issues of IMF Country Reports; for 20042017 data retrieved from Federal Reserve Bank of St. Louis data bank

Although changes in the real exchange rate only give broad indications of actual changes in price competition. This is particularly true for Benin. Indeed, the reported effective nominal and real exchange rates are based on official exchange rates. However a significant part of international trade between Benin and Nigeria is informal. Transactions on these informal markets are channelled through the parallel exchange market of the naira, where the exchange rate is usually depreciated relative to its official exchange rate. Real exchange rates computed at official rates thus underestimate the actual degree of overvaluation[34]. Even if the reported competiveness indicator is imperfect, one can nevertheless conclude that it indicates that real exchange rate shocks have been sizable the last 25 years and that they have been very much out of control of the Beninese authorities. Indeed, as a member of a monetary union whose external exchange rate is a hard peg, the only option for Benin to have some control on price competitiveness for its tradable goods is to keep in check the evolution of its nominal domestic prices and wages. Given that in low income countries wages in the public sector often play a leading role for the dynamics of wages and prices in the private sector, public wage policy may be one of the limited number of instrument authorities can resort to.

2.6 Financing of the economy

Establishing a developing economy's financial accounts, including its transactions with the rest of the world, is a challenging statistical tasks, especially if the degree of informality in this economy is high. Table 2.4 combines national account data from INSAE with balance of

[34]Premia between the parallel and the official rate were often huge for prolonged periods, e.g. from 1993 to 1998 when they reached 300% (data on premia from Reinhard, 2018), falling to more moderate levels after the 1998 devaluation of the naira. Levels around 50% have again been observed in 2015, up to the 2016 devaluation of the naira.

payments data from WDI to assess the financing needs of the economy and the ways the latter have been covered by foreign financing. Using two different sources of data raises inevitable consistency issues and invites to caution. Nevertheless, imperfect as they are, the data still offer an interesting look into the major trends characterizing domestic and external financial flows of Benin. The domestic data for financial accounts only go back to 1999, which we take as the start of our period of analysis.

Table 2.6.1 Financing flows of Benin's economy: 1999-2014

% of GDP	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013	2014
Domestic Flows																
Gross domestic savings	**17.5**	**16.6**	**17.7**	**12.4**	**13.0**	**14.5**	**10.0**	**10.3**	**11.5**	**9.6**	**10.8**	**14.1**	**15.9**	**13.7**	**18.4**	**17.1**
Private sector	13.8	12.4	14.1	9.2	12.3	12.8	9.3	8.3	6.4	6.7	11.7	10.5	13.6	10.3	15.8	14.6
Public sector	3.7	4.2	3.6	3.2	0.6	1.7	0.8	2.0	5.0	2.9	-0.9	3.6	2.3	3.4	2.6	2.5
Gross domesting Investment	**26.9**	**23.6**	**26.1**	**21.8**	**22.2**	**22.1**	**17.8**	**19.0**	**24.1**	**20.4**	**21.9**	**23.1**	**24.1**	**22.6**	**27.8**	**28.6**
Private sector	21.8	16.1	19.9	16.7	16.6	17.1	12.7	14.4	16.4	14.2	15.9	16.7	17.8	16.9	21.7	23.2
Public sector	5.1	7.5	6.2	5.1	5.6	5.0	5.1	4.5	7.6	6.1	6.1	6.4	6.3	5.6	6.1	5.3
Need for funding	**9.4**	**7.0**	**8.4**	**9.4**	**9.2**	**7.6**	**7.8**	**8.7**	**12.6**	**10.8**	**11.1**	**9.1**	**8.2**	**8.8**	**9.4**	**11.5**
Private sector	8.0	3.7	5.8	7.5	4.2	4.4	3.4	6.2	10.0	7.6	4.1	6.2	4.2	6.6	5.9	8.7
Government deficit excluding foreign grants	1.4	3.3	2.6	1.9	5.0	3.3	4.4	2.5	2.6	3.2	7.0	2.9	4.0	2.2	3.5	2.8
Foreign financing	**12.9**	**12.9**	**16.7**	**10.9**	**8.7**	**9.0**	**10.1**	**12.0**	**14.0**	**12.9**	**11.2**	**12.1**	**12.3**	**11.3**	**13.2**	**12.7**
Net primary and secondary income from abroad	3.6	3.8	5.6	4.3	0.7	1.2	3.1	4.4	3.7	3.3	2.0	1.5	1.6	1.6	2.0	2.4
Official development assistance (net flows)	7.9	9.5	10.5	7.3	7.7	8.7	7.3	7.8	8.0	8.9	9.5	9.9	8.6	6.2	7.2	6.2
Foreign Direct Investment (net inflows)	1.5	-0.5	0.6	-0.6	0.3	-0.9	-0.2	-0.2	2.3	0.7	-0.3	0.8	2.1	3.5	3.9	4.2
Memo:																
Outstanding external debt	51.2	49.8	49.6	44.2	36.7	34.6	36.3	9.8	10.5	13.0	13.8	16.9	16.6	15.3	16.7	19.8
Government deficit including foreign grants	-1.7	1.9	0.5	1.4	3.2	0.9	2.5	0.8	-0.4	1.6	4.0	1.5	1.7	0.4	2.6	1.9

Source of Data: INSAE (for Domestic flows) and WDI (for foreign financing)

A first observation is that domestic savings are systematically lower than domestic investment, resulting in a persistent need for external funding. This savings deficit, relative to investment, is significant, with an average of 9.3% of GDP for the whole period, and no sign of abating, on the contrary. Both the private and public sector have a savings rate which is insufficient to cover their expenditures for capital accumulation. The private savings rate decreased from 1999 to 2006 before recovering again, a trend which coincides with the patterns of growth in per capita income. The 2000-2006 significant deceleration in per capita growth led consumers to decrease their savings rate so as to preserve their consumption level while firm profits came presumably also under stress. The opposite evolution is observed for the 2009-2014 period. The savings rate of the public sector stands are the low period average rate of 2.6% of GDP. It reflects difficulties in mobilizing more domestic fiscal revenue. Government consumption thus largely exhausts government revenue, leaving only a small space for financing investment out of domestic public resources or even no space at all, as was the case in 2009.

Gross domestic investment has averaged 23% of GDP over the whole 1999-2014 period, with somewhat higher investment rates after 2006, largely the result of the dynamism of private investment during this period. Indeed, as already mentioned in section 2.4, the largest part of domestic investment is private (75% over the period). Both are in principle complementary[35], especially so when there is a public infrastructure gap which discourages private investment, domestic or foreign. Both public and private investment are necessary for sustainable growth. A level of 23% is quite close to the average rate observed in low-income countries. But the efficiency of a given investment rate is also a crucial issue. An indication about how efficiently investment translates into growth is given by the incremental capital-output ratio (ICOR). World Bank (2014) reports that Benin's average ICOR over the 2004-2013 period has been around 5 and significantly higher than for comparator countries. With an ICOR of 5, the increase of 9% percentage points in the rate of investment to GDP, which is the increase that has been observed between 2006 and 2014 in Benin, would have contributed, if maintained, to an additional annual GDP growth of 1.8%. Had Benin's ICOR instead been 3.8, the value observed for Bangladesh, a comparator country in the World Bank study, the same increase in the investment rate would have contributed to 2.4% additional annual GDP growth, a significant difference of 0.6%[36].

Given the relative differences in savings and in investment rates of the private and the public sector, it appears that the need for external funding mainly originates in the private sector.

Turning to the foreign funding which has been made available to the economy, it should first be noted that the supply of foreign financing appears to be larger than the total needs. This is unfortunately the consequence of the inconsistencies which arise from putting together two different statistical frameworks (national accounts and balance of payment), both with their own reporting difficulties. In addition, accounting practices for ODA are particular, as not all ODA is linked to disbursement of external funds. This is especially important for our period of analysis, during which Benin has benefited from different mechanisms of debt relief[37]. The largest discrepancies between need and availability of external financing are observed in 2000 and 2001, which are also the years when ODA is above its average level.

A significant part of the external funding needs of the private sector is covered by foreign direct investment, especially for the more recent years. Another part is covered by private transfers (net primary and secondary income from abroad, which includes workers' remittances) which are not negligible, with a period average of 2.8%, though on a declining trend. The remaining part of external funding needs of the private sector is either cover by ODA flow benefiting the private sector or by debt financing. As domestic firms have only a

[35] IMF (2018b, p.65) indicates that infrastructure public investment can be complementary to private investment when it raises the productivity of private capital; it can however also crowd out private investment when it is financed through increased taxes which discourage private investment, or by domestic borrowing which rations financing available for firms, or by unsustainable foreign borrowing.

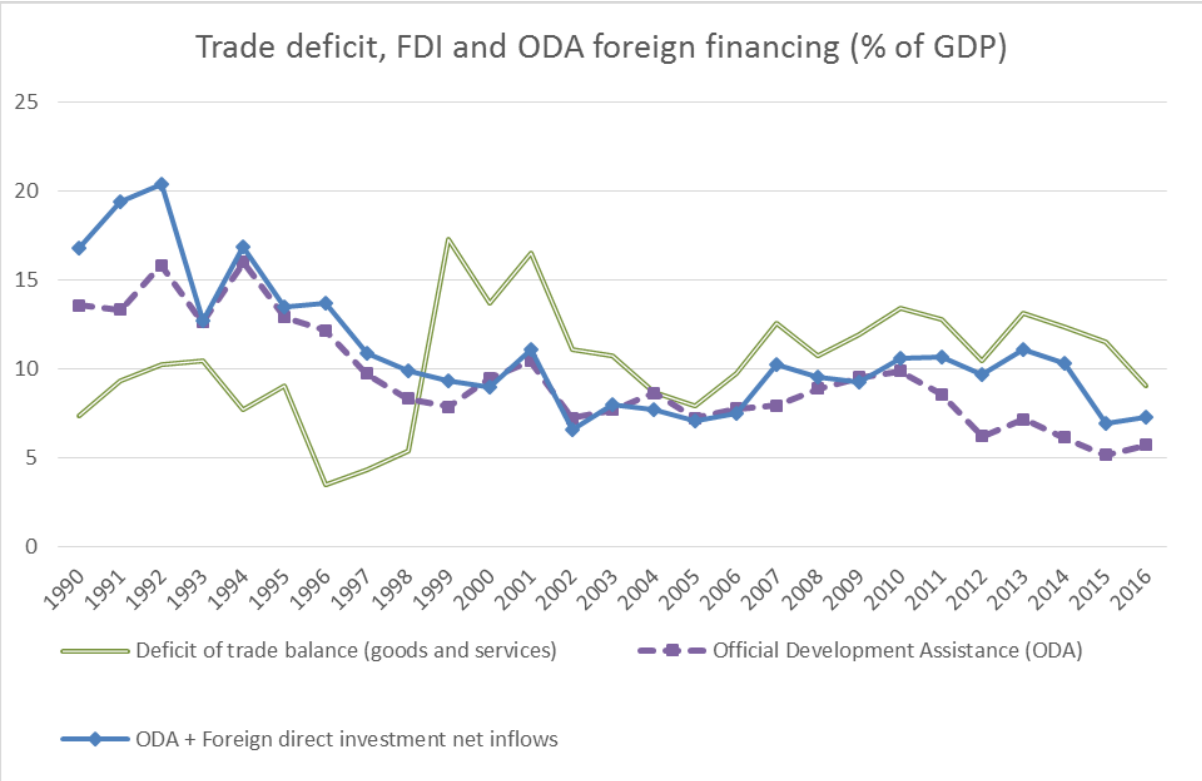
[36] As discussed in IMF (2018a), efficiency of public investment is directly linked to the quality of the governance of the country. The study reports results from a cross-country analysis. Public investment efficiency is measured by efficiency scores relative to a peer group. Efficiency scores are based on physical indicators (e.g. access to water, length of roads, ...) and indicators of infrastructure quality. They are computed through a data envelopment analysis. The results show that Benin lags all comparator groups. With this methodology, it is estimated that Benin could improve the efficiency of its public investment by 55%

[37] Benin qualified in 2000 for the Highly Indebted Poor Countries (HIPC) debt relief initiative and reached its completion point in 2003. It also qualified in 2006 for the Multilateral Debt Relief Initiative (MDRI) when a large part of its multilateral debt was written off. Starting in 2000, these debt reduction operations had an impact on reported ODA flow, as part of these debt reductions were considered as ODA.

very limited direct access to foreign borrowing[38], the external funding is ultimately intermediated through the domestic banking system.

The government's need of external funding is met by ODA grants, which however are insufficient to fully finance the difference between public savings and public investment. The government's balance after taking grants into account is still a deficit (see Table 2.6.1). The latter has to be financed either by soft ODA loans or by non-concessional debt, external or domestic.

Figure 2.6.1: Financing of the external balance of goods and services: 1990-2016



Source of data: WDI

Putting ODA flows in perspective with Benin's persistent and large needs of external funding, one has to conclude that the economy is strongly dependence of the aid flows. Indeed, ODA represents the largest part of Benin's external funding. Averaging 8.2% over the period, its share in total external funding is about 70%. The importance of ODA grants and loans for closing the gap between domestic savings and domestic investment is also illustrated in Figure 2.6.1, for a more extended period (1990-2016). The figure displays the deficit of the external balance on goods and services and its financing by ODA and FDI (shown as the difference between the two lines ODA+FDI and ODA). The dominant role of ODA clearly appears. Before 1999 ODA even exceeded the trade balance deficit[39]. After 2000, ODA and FDI flows do not any more finance the trade deficit completely. However, when one also

[38] The International debt statistics database indeed does not report any long term non-guaranteed private debt.
[39] This could be the result of the changes in the composition of external debt, ODA debt replacing non-ODA external liabilities, of an accumulation of reserves…. ODA commitments may also have been particularly important in the wake of the 1994 FCFA devaluation.

takes net income flows from aboard of about 2% of GDP into account, the gap is more or less closed, although not always. In the latter case there is accumulation of external non-concessional external debt.

A key question is therefore the sustainability of this strong dependence of Benin's economy on ODA financing. Should ODA significantly decline, Benin's development would be seriously hampered unless additional FDI financing could be attracted. If the latter did not materialize, the temptation could be to replace ODA financing by scaling up borrowing of external debt at market rates. Debt distress could then loom again in the future. It has to be noted that external debt levels have already been on the raise again (see table 2.6.1), after the large HIPIC and MDRI debt write-offs Benin has benefited from in the early 2000s[40].

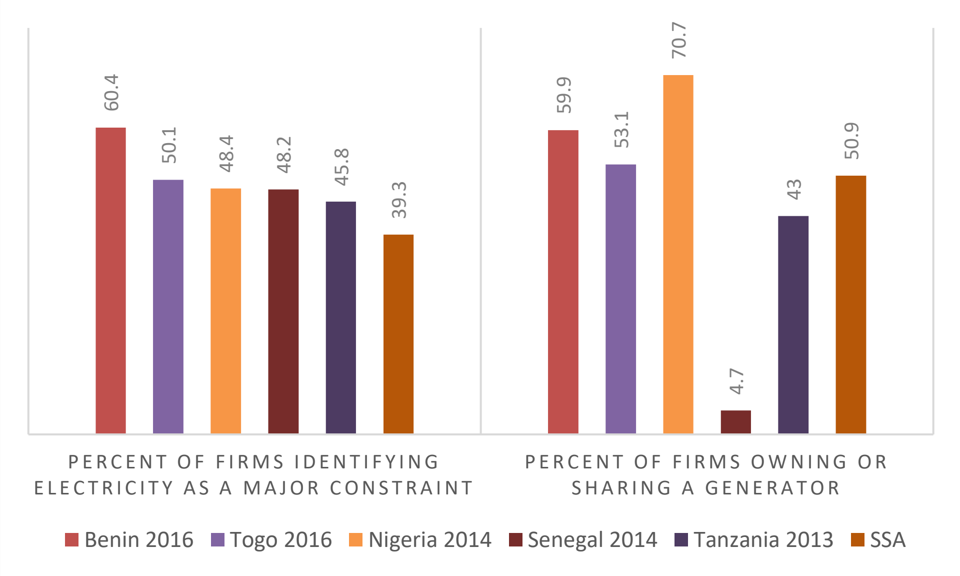
2.7 Physical Infrastructure

A key problem that shackles Benin's economic development is the dearth and low quality of electricity, transport and telecommunications infrastructures. Here below, we provide some evidence documenting this crucial deficiency.

Let us begin with energy. The structural deficit of electrical energy infrastructure can be grasped on the levels of access, cost and quality (UCF, 2012; Ianchovichina, 2008; Benin, 2006; the World Bank, 2016; Ghilardi and Sola, 2015). Costs of production factors (electricity, telecommunications, etc.) are generally higher than those of other African countries[41], which themselves are higher than those in other regions of the world. As for the quality of electricity and telecommunications services, it is often mediocre (Benin, 2006). Finally, together with the problem of costs, access to electricity is the constraint on the development of firms most cited by economic operators: 60.4% of Beninese firms identify it as such (see Fig. 2.8.1). This is confirmed by the World Bank's Doing Business Report (2016), which ranks Benin 179th of 189 economies for access to electricity. When there is a significant constraint, agents look for alternative workarounds (Hausmann et al. 2008). In this particular sub-sector, to circumvent the constraint, companies can resort to private production sources such as their own generators. This can be seen clearly in Fig. 2.8.1 since, with the exception of Nigeria (where energy is not such a constraint), it is Benin that has the highest proportion of companies with electricity generators, with about 60 percent of firms, compared to about 5 percent in Senegal and 43 percent in Tanzania.

[40] Most of the new external debt is with multilateral creditors (e.g. the 2016 extended credit facility arranged with the IMF). Disbursements are, for this type of debt, conditioned on performance in putting into effect recommended growth facilitating policies.
[41] See Report on the Diagnostic Study on Trade Integration in the context of the Integrated Framework.

Figure 2.8.1: Electricity supply constraint in Benin and comparator countries



Source: Enterprise Surveys, www.entreprisesurvey.org

The development of roads, water and telecommunications is another critical factor for the competitiveness and growth of an economy. By effectively connecting businesses to the input, output and technology markets, they can reduce production costs and improve competitiveness in both the domestic and international markets. The lack of road infrastructure, in rural areas in particular, causes difficulties in accessing the local and sub-regional markets while the lack of rail transport infrastructure has serious congestion effects on the road network (Nigeria) (Ianchovichina, 2008; UCF, 2012; Gnimassoun, 2016). The logistic performance index assesses the level of transport and trade infrastructure over the 2007-2016 period. On a scale of 5, the index for Benin rose from 1.89 in 2007 to 2.39 in 2016, thus showing progress. Overall, the quality of trade and transport infrastructure in Benin remains close to the average for SSA (estimated at 2.29), but is much below the best quality level observed for Tanzania.

A study by Ianchovichina (2008) notes that while the state of infrastructure in Benin is generally poor, in some sub-sectors the constraint is less severe: thus, among a group of 30 African countries, Benin is performing well in terms of access to drinking water. On the other hand, if 40 percent of the firms identify telecommunications and transport infrastructures as a strong constraint on economic activities, the low quality and the high cost of infrastructure services constitute an even more severe constraint. Gnimassoun (2016) reaches the same conclusion: while he identifies several factors as impeding the competitiveness of the Beninese economy, he considers infrastructure as one of the most worrying problems. This diagnosis has been recently confirmed by an aforementioned study of the IMF (2018a), which reports results from a cross-country study based on efficiency scores measured relative to a peer group and computed through a data envelopment analysis. The results show that Benin lags all comparator groups for indicators of infrastructure quality (see Subsection 2.6).

Evidence from the aforementioned study of INSAE (p. 19) show the presence of considerable geographical disparities. For example, in terms of access to electricity, the three departments ranking highest in terms of access to electricity are Littoral (84.1 percent), Ouémé (43.7 percent) and Atlantic (39.2 percent), all located in the southern part of the country. At the other end of the spectrum, two of the three departments with the worst supply, Alibori (10.8 percent), and Atacora (13.5 percent), are in the North. The third one, Kouffo (15.6 percent), belongs to the Centre. In terms of access to drinking water, of the three departments with the best supply - Littoral (97.4 percent), Borgou (58.9 percent) and Ouémé (55.5 percent) -, only one is in the North, while of the three departments with the worst access, only one does not belong to the North.[42]

Lack of telecommunications infrastructures (ICT) is expected to prevent innovation efforts (Ianchovichina, 2008). Both the supply and use of the Internet remain fairly low in Benin compared to other countries, with only 6.79% of the population using the Internet in 2015 compared to 22.39% in Subsaharan Africa. Moreover, progress in adoption of ICT in Benin turns out to be remarkably slow, in contrast to other African countries where it is very high: adoption rate was 0.23 percent in 2000, compared to neighbouring Nigeria where, starting from an even lower base than Benin (0.06 percent in 2000), the rate rose up to 47.44 percent in 2015. In Senegal, progress was from 0.40 percent in 2000 to almost 22 percent in 2015. The low use of Internet services in Benin is partly due to the lack of telecommunications infrastructure and new technologies, and partly to the cost of the various services involved. In addition to use, other factors to consider are the quality of the connection and related services. The low availability and accessibility of good low-cost connections clearly reduce the scope for economic gains from the Internet in the case of Benin.

We can finally point out that the Enterprise Survey, which assesses the extent of the infrastructure challenge along two dimensions –adequacy of the physical infrastructure and institutional capacity in each sub-sector– concludes that management and governance problems in the transport public sector of Benin are pervasive and unsettled.

2.8 Social Indicators

We are fortunate to have available a rather recent "Growth and Poverty Reduction Strategy" Report of the World Bank for the period 2011-2015 (World Bank, 2015). This report contains a lot of useful data about poverty, inequality, education, and health to which the reader may easily refer to. Another useful report is the "Note sur la pauvreté au Bénin en 2015", published by the Institut National de la Statistique et de l'Analyse Economique (INSAE, 2015) and part of the "Enquête Modulaire Intégrée sur les Conditions de Vie des Ménages", second edition. In the following, we will use information contained in these two reports as well as more recent data extracted from the World Bank Development Indicators.

2.8.1 Poverty incidence and inequality

Poverty incidence

With a Human Development Index of 0.427 Benin was ranked 167th out of 187 countries in the 2011 Human Development Report. The incidence of poverty at the national level is quite

[42] Access means access to SONEB running water at home, SONEB water elsewhere, standpipe or public tap, village pump or well equipped with a human-operated pump.

high too: the poverty headcount ratio was thus estimated to be 40 percent in 2015. More worryingly still, there is no discernible tendency for this ratio to decrease: it was 37.5 percent in 2006. This worsening tendency is confirmed by other evidence: the poverty gap has also increased (especially in rural areas) and the same holds true of inequality among the poor. As expected, poverty is more widespread in rural than in urban areas although the difference is not important (only a few percentage points). It also bears emphasis that poverty as measured by the headcount ratio has recently increased in all the departments of the country except along the coast where it was already much lower than in the rest of the country. As for the poverty gap and inequality among the poor, they have increased in all departments over the years 2011-2015.

A second approach to measuring poverty consists of looking at non-income poverty, as assessed on the basis of a composite index that is a linear combination of dichotomous variables of household living conditions and property or assets. In the case of Benin, the headcount of non-monetary poverty is significantly smaller than the headcount of monetary poverty, and it has slightly decreased over the years 2011-2015.

Given the ethno-regional polarization of the country underlined in Section 1, it is important to say more about the inter-departmental variations in the incidence of poverty. Here below we display the headcount poverty ratios for all the departments regrouped by broad region, as they have been estimated for 2015 (extracted from INSAE, 2015). Figures are presented in the order of department names:

- Southern, or coastal departments (Littoral, Ouémé, Atlantique, and Mono): 26%, 28%, 41%, 47%.
- Central departments (Plateau, Zou, Collines, and Kouffo): 37%, 43%, 47%, 49%.
- Northern departments (Borgou, Alibori, Donga, and Atakora): 39%, 40%, 42%, 42%.

We see that by far the lowest rates of (monetary) poverty are observed in two southern, coastal departments: Littoral, where the capital city of Cotonou lies, and Ouémé, which includes the old and thriving city of Porto Novo. Departments in the other two broad regions, central and northern, show very high rates running from 37 to 49 percent. It is surprising to see that in the southern, coastal region, two departments have very high poverty rates (47-49%), contrasting with the low rates of their immediate neighbours along the coastline. The highest poverty rate in the country is found in Kouffo (central region), closely followed by Mono (southern region) and Collines (central region).

We now repeat the same exercise for non-monetary poverty:

- Southern, or coastal departments (Littoral, Ouémé, Atlantique, and Mono): 21.5%, 17%, 17%, 40%.
- Central departments (Plateau, Zou, Collines, and Kouffo): 31.5%, 34%, 24%, 44%.
- Northern departments (Borgou, Alibori, Donga, and Atakora): 30%, 35%, 19%, 47%.

Clearly, the correlation between the two measures of poverty is far from perfect. The lowest rates of non-monetary poverty are found in three (out of four) departments of the southern region (Ouémé, Atlantique, and Littoral), in one department of the central region (Collines), and in one department of the northern region (Donga). The highest rates are observed in one department of the northern region (Atakora) and in one department of the central region (Kouffo). The general pattern is therefore only partly confirming expectations: if the incidence of poverty (whether monetary or non-monetary) is comparatively small in the southern, coastal departments, there is strong heterogeneity inside the coastal region itself. This is so much so that a southern department, Mono, is one of the three worst achievers in the country, whether the monetary or the non-monetary measure is used. In fact, prosperity in Benin is centered on the clusters around Cotonou and Porto Novo, which cover only part of the country's coastline.

A third approach is based on an assessment of subjective poverty, that is, on whether people consider themselves to be poor and the manner in which they assess their living conditions. Results here are roughly consonant with those of the second approach: subjective poverty is smaller than the headcount of monetary poverty, and it has perceptibly decreased over the years 2011-2015.

A final approach rests on a combination of the first three approaches. It looks at hard core poverty defined as the set of people who cumulate all the symptoms of poverty simultaneously. The proportion of this group of multidimensionally poor people in the total population has been estimated at 15.3% in 2015, as against 13,6% in 2011. This points to a deterioration of the poverty situation seen from the angle of these especially disadvantaged people.

Turning now to the individual characteristics of poor people, the following findings deserve emphasis. First, individuals belonging to households headed by persons who have at least completed their primary school are less affected by monetary and non-monetary poverty. Second, and more surprisingly, the incidence of monetary poverty is higher in male-headed than in female-headed households (but the opposite is true for non-monetary poverty). Third, a similar non-convergence is observed when the effect of household size is examined: while monetary poverty is more important in relatively large households, non-monetary poverty exhibits the inverse relationship (it is larger in smaller households).

A key factor behind the recent rise of (monetary) poverty in Benin is that it does not have well-established safety net systems that can be rapidly activated in times of crisis. In recent years, indeed, Benin was hit by global shocks, such as the food, fuel and financial crises that began in 2008, and by domestic shocks, such as the floods of 2010 and 2012. All these crises have revealed important shortcomings in Benin's safety net systems. Spending on safety nets amounted to 0.3 percent of GDP between 2005 and 2009, well below the sub-Saharan Africa average of 2.3 percent. Strengthening Benin's safety net system, -particularly in the form of cash transfers for the chronic poor combined with labour-intensive public works for households with available labour-, is essential to break the cycle of chronic poverty and to allow for a more effective, targeted, and timely response to future shocks (see the "Country Partnership Strategy FY13-17 for the Republic of Benin", 2013, by International Development Association and Interbational Finance Corporation).

Inequality

The Gini coefficient for income inequality in Benin is both high and increasing: at 0.39 in 2003, it rose to 0.46 in 2011 and close to 0.48 in 2015. When decomposing the national Gini index, it is striking that inter-departmental income inequality contributes to more than 90 percent of national-level inequality. Spatial disparities therefore appear as a critical feature of income inequality in Benin (INSAE, 2015).

Here below, we display the Gini coefficients for all the departments regrouped by broad region (for the year 2015):

- Southern, or coastal departments (Littoral, Ouémé, Atlantique, and Mono): 0.405, 0.485, 0.345, 0.401.
- Central departments (Plateau, Zou, Collines, and Kouffo): 0.371, 0.477, 0.460, 0.408.
- Northern departments (Borgou, Alibori, Donga, and Atakora): 0.499, 0.394, 0.414, 0.436.

There is no clear pattern emerging from this departmentwise differentiation of Gini inequality measures. If the lowest inequality is found in a southern department (Atlantique), it is in another department from the same region (Ouémé) that we observe one of the highest department-level inequalities in the country (in fact, the second-highest coefficient after Borgou in the northern region.

Note finally that the worsening of income inequality at country level, as reflected in the Gini coefficient, is also confirmed by other statistics such as the share of the lowest income decile, or the two lowest deciles, in aggregate income. Thus, the share of the poorest 10 percent of the population has declined from 2.9 percent in 2003 to 2.5 percent in 2011 and 1.0 percent in 2015. As for the share of the poorest 20 percent, it has declined from 7.0 percent in 2003 to 6.1 percent in 2011 and to 3.2 percent in 2015.

2.8.2 Education

Literacy

Benin has a catastrophic record of literacy achievements, ranking among the worst performers in the world. As Table 2.8.1 shows, literacy rates in Benin are much lower than those estimated for Subsaharan Africa (excluding high income countries). It is true that they have increased significantly over the last three decades (despite a regression between 2002 and 2006), yet not enough to even fill the gap with other African countries in general.

Table 2.8.1: Literacy rates in Benin and Subsaharan Africa (excluding high income countries), years 1979-2012

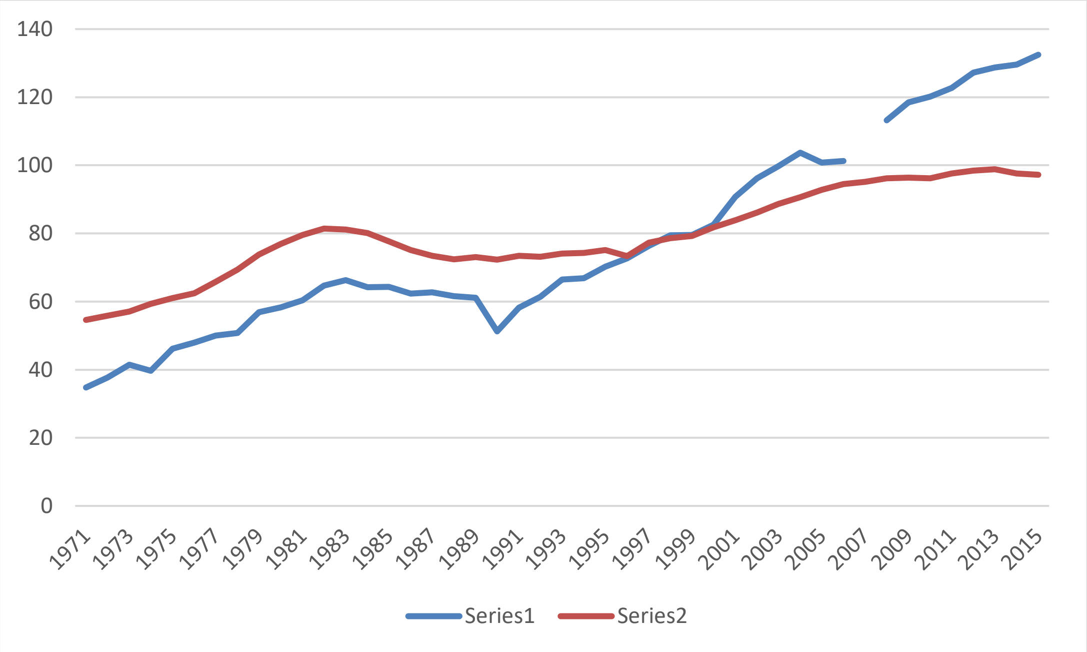
	Adult males (>14) Benin	Adult males (>14) SSA	Young females (15-24) Benin	Young females (15-24) SSA	Youth total (males and females) Benin	Youth total (males and females) SSA
1979*	25.19	60.331	18.255	54.677	29.787	63.182
1992	39.903	63.644	26.69	59.055	39.877	65.98
2002	47.866	67.773	33.238	61.609	45.31	68.10
2006	40.616	68.088	30.787	62.252	42.363	68.423
2012	44.96	70.057	40.938	68.068	52.492	72.795

* Year 1984 or 1983 for Subsaharan Africa.
Source: World Bank Development Indicators.

Primary Education

The situation regarding primary school gross enrollment differs from the situation for literacy: in this case, indeed, although Benin had initially (in the early 1970s) much lower rates than SSA , it has succeeded in overtaking the latter during the 1990s (see Figure 2.8.1). This is so much so that in 2015 Benin's gross enrollment rate in primary schools exceeded that of SSA by a wide margin (132 as against 97 percent for SSA).

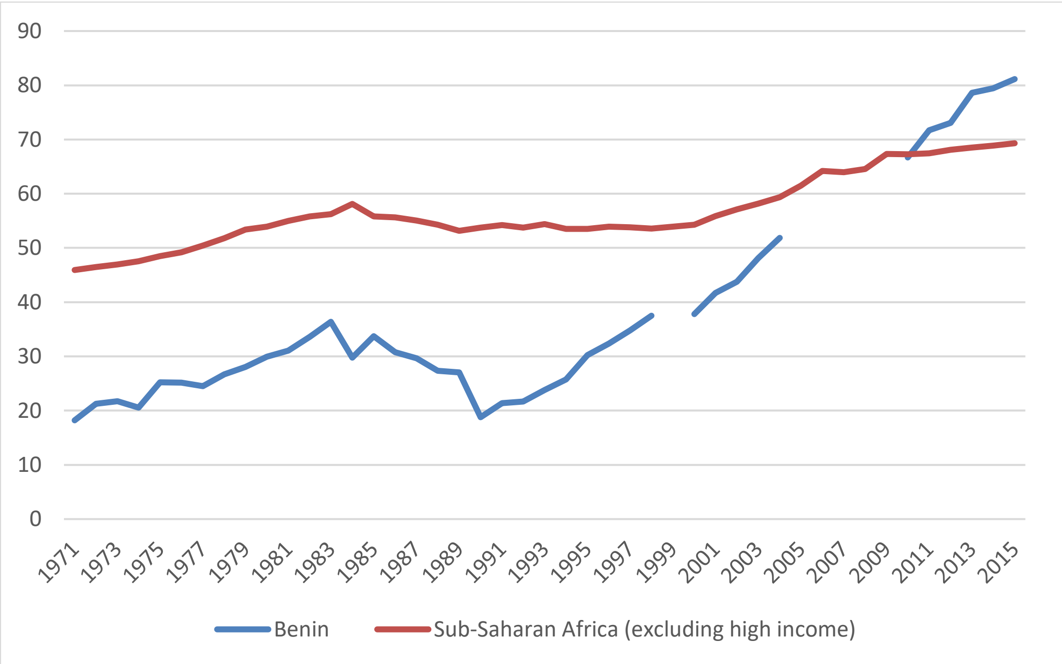
Figure 2.8.1: Primary School Enrollment (Gross), Benin and SSA (excluding high income countries), 1971-2015 (from World Bank Indicators)



This performance is explained by remarkable progress on the front of gross admission rates. The question must nevertheless be raised as to whether rapid growth in admission rates has not been obtained at the price of a deterioration in the quality of schooling. One way to answer that question is by looking at primary school completion rates as we do in Figure 2.8.2. What we find is encouraging since Benin again appears to have not only made up for his initial gap with the rest of SSA, but also to have (recently) overtaken the latter. Another clue can be obtained from the evolution of the pupil-teacher ratio for primary schools. We do not show up the figures because they are oddly and suspiciously erratic: the ratio has thus considerably improved (decreased) between 1980 and 1990 (from 54.6 to 30. 5) only to rise abruptly to reach 62.2 in 2003, from which year the ratio starts again to continuously improve. In 2015, it stood at 45.0, to be compared to 37.5 for SSA, for which the evolution has been rather steady (displaying a slow but regular decline over the years). As for the proportion of repeaters among enrolled primary school pupils, the main finding can be easily summarized: a peak was reached in 1985 after a regular deterioration in the years before, and following that peak, a steady decline of the ratio occurred to get Benin closer and closer to the value observed for SSA (about 11 percent in Benin compared to 8 percent in SSA).

Our last indicator to assess quality of primary schooling is the most appropriate because it measures it through learning outcomes rather than indirectly through inputs (like the pupil-teacher ratio), or through outcomes liable to reflect levelling-down effects (like completion rates and repeater ratios). Unfortunately, findings are quite worrying when we turn to this more reliable indicator: learning outcomes in primary education show no significant improvements since 2005. An assessment carried out in 2011 on a sample of 167 public primary schools and 3 private primary schools showed that: (i) only 28 percent of second grade students (CP) from public schools and 43 percent from private schools were literate while 18 percent and 47 percent, respectively, had mastered the curriculum in mathematics; (ii) only 12 percent of fifth grade (CM1) students from public schools and 42 percent from private schools were literate, while 11 percent and 38 percent, respectively, had mastered the curriculum in mathematics (World Bank, 2015). These findings seem to match the aforementioned bad literacy performances of Benin.

Figure 2.8.2: Primary school completion rates, Benin and SSA (excluding high income countries), 1971-2015 (from World Bank Indicators)



Post-primary education

Data available for secondary school (gross) enrollment are much scattered than for primary school. From Table 2.8.2 below, however, we can see that enrollement in secondary schools has considerably increased: starting from a lower initial base in 1971, Benin has rapidly caught up with SSA in the mid-1980s to largely exceed the latter's achievement in 2015.

Table 2.8.2: Secondary School Enrollment (Gross), Benin and SSA (excluding high income countries), 1971-2015 (from World Bank Indicators)

	Benin	SSA
1971	4.31%	13.05%
1983	21.22%	22.3%
2000	21.8%	25.8%
2011	49.1%	40.6%
2015	58.8%	42.5%

Source: World Bank Indicators

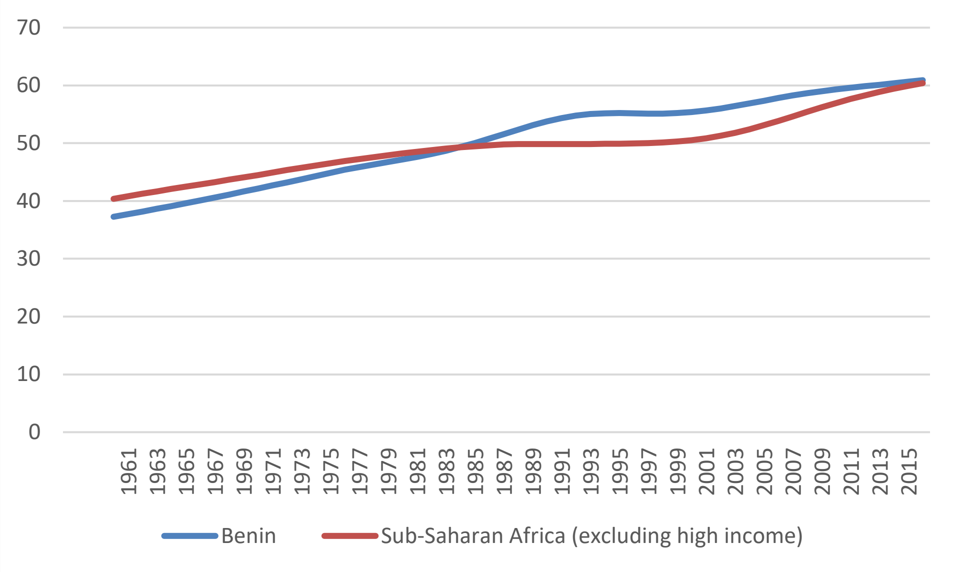
According to above-cited the World Bank Report (2015), "increasing numbers of students exiting from basic education exert pressure for higher enrollments in secondary, vocational and tertiary education. However, the gender gap widens as students move through the education system, with girls' enrollment consistently lagging that of boys. Rapid expansion puts pressure on resource availability and has a significant impact on quality and the relevance of the curriculum, particularly in tertiary education. The system must be reformed to mitigate further decline in quality". This requirement is especially critical because "Benin does not benefit from extractive resources like many of its neighbors, its development must be more knowledge intensive. Higher investment in human capital will enable the country to move up the technological ladder and diversify into higher value, knowledge- and research-intensive activities which promise better returns and are less subject to competitive pressures when compared to the raw agricultural products on which Benin has been largely relying to date".

Achievements in tertiary education enrollment are easily summarized on the basis of World Bank data: the ratio was still as low as 2 percent only in 1996, and then it gradually went up to reach 16 percent in 2013. Since then, however, it started to decline (13 percent in 2016). The comparison with SSA (excluding high income countries) shows that Benin has made more progress since about 2000: for SSA, indeed, the values of the ratio are 3.9 percent in 1996, 8.6 percent in 2013 and 8.8 percent in 2016.

2.8.3 Health

Starting with life expectancy at birth, Fig. 2.8.3 shows that there is no big difference between Benin and SSA and, in 2016, both units had reached about the same value: 60.9 years for Benin and 60.4 years for SSA. Curves and outcomes for total mortality rates are pretty similar to those displayed in the figure below. An important factor behind the fall of mortality in Benin has been the decrease in malaria-related mortality**,** most likely thanks to the massive distribution of bed nets. Thus, the proportion of children sleeping under a bed net increased from 20 percent in 2006 to 76 percent in 2011 (DHS 2011).

Figure 2.8.3: Life expectancy at birth, Benin and SSA, years 1960-2016 (from World Bank Indicators)

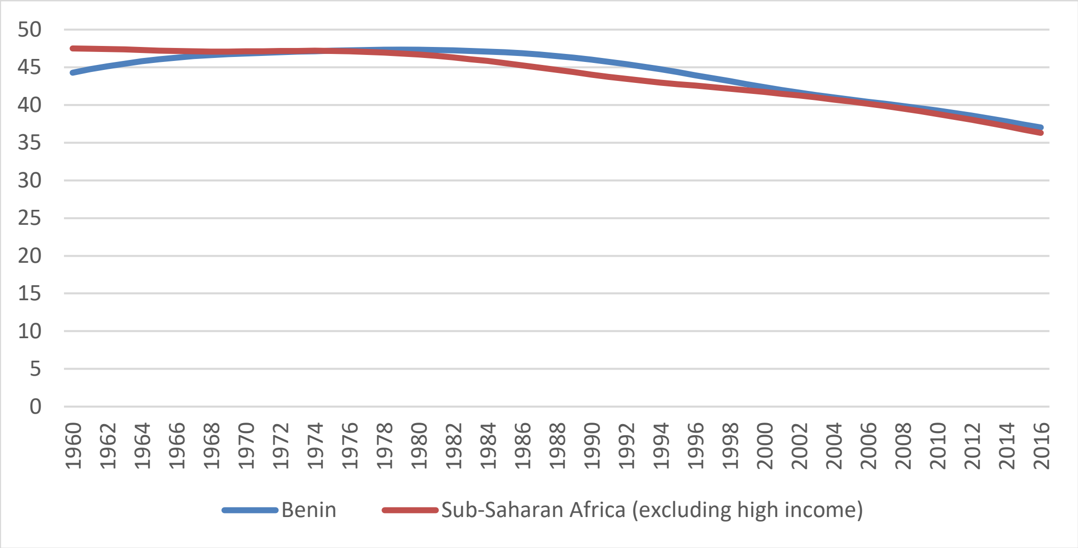


A look at comparative evolutions of neonatal mortality rates in Benin and SSA (not shown) essentially shows that while the statistic was identical in the two observation units in 2007 (at 34.5 per 1,000 live births), progress became slower in Benin in the following years. In 2016, the neonatal mortality rate was 32.5 in Benin as against 27.7 in SSA. The same situation is obtained for infant mortality rates: 63.1 per 1,000 live births in Benin as against 53.3 in SSA in 2016 (although Benin was doing better than SSA during the period 1990-2005).

What about the incidence of malnutrition measured by the proportion of children under 5 who are underweight (in terms of weight for age) ? Data from World Bank Indicators indicate that it has steadily declined in Benin: from 26.2 percent in 1996, to 21.5 percent in 2001, 20.2 percent in 2006 and 18.0 percent in 2014 (data for SSA are not available). The picture emerging from DHS (2011) data is less encouraging, however: malnutrition of children under five not only remains high but it has worsened over the past ten years. Moreover, Benin's malnutrition rates of the order of 45 percent for stunting and 16 percent for wasting stand above the average of West and Central Africa. As expected, stunting and wasting are of greater concern in rural areas, yet prevalence is marginally lower among female children compared to males. The aforementioned World Bank Report (2015) notes that the Government's food and nutrition reform program has suffered from weak institutional arrangements, reflected in various disjointed, small-scale sectoral components housed in the Agriculture, Health and Family Affairs ministries. The overall quality and efficiency of health care delivery systems clearly need to be improved.

Finally, we display the comparative evolutions of crude birth rates (per 1,000 people) since 1960 in Fig. 2.8.4. It is evident that these evolutions do not differ much between Benin and SSA, and the birth rates in 2016 are rather close: 36.3 for Benin and 37.43 for SSA.

Fig. 2.8.4: Crude birth rates (per 1,000 people) for Benin and SSA, years 1960-2016 (from World Bank Indicators).



3 Binding constraints on Benin's economic development

Because Benin is a country poor in extractive resources, its development must be more knowledge-intensive. This means that its economy has to diversify into higher value, knowledge- and research-intensive activities that offer better returns than traditional activities based on raw agricultural products. This re-orientation of the economic development strategy necessitates that huge investments are made in human capital so as to allow the country to move up the technological ladder. Over the last decades Benin has actually made noticeable progress on the educational front and this is a step in the good direction. Yet, two mitigating remarks need to be made here. First, Benin started from a very low basis, and even today its achievements in terms of literacy of the population remain very disappointing. Second, much of the educational progress is in the form of rising gross enrollment in primary (and post-primary) schooling. The quality of education, however, has not been raised and has probably deteriorated during the period of increasing admissions into the schooling system. This is worrying inasmuch as it is a fundamental requirement for sustained increases in income per capita. The task is especially challenging because of high population growth rates in the recent past.

If Benin does not possess mineral or non-mineral resources, it benefits from a direct access to the sea. Moreover, it has a long legacy of regional trade in which some ethnic groups, the Yoruba in particular, have played an important role over the last centuries. The coastal cities of Porto Novo and Cotonou, and their hinterland, constitute the growth pole of Benin's economy. It is in their tiny departments that poverty is kept under control unlike in many other parts of the country where it remains intolerably high. Development in Benin thus appears to be unbalanced and to be marked by big spatial disparities.

Benin suffers from ethno-regional polarization deeply rooted in the historical past. It did not result, however, in one party monopolizing political and economic power. Instead, power shifted from North to South and vice-versa, not according to some well-institutionalized rule but following the play of competitive politics. A winner-take-all approach has tended to prevail with poisonous effects on the political environment and the approach to power. This implies that the comparatively poor northern part of the country has not been consistently deprived of the levers of political power. But effective public investments in critical assets such as transport and communications infrastructure have not been made, and opportunities to change the course of lopsided spatial development have been essentially wasted.

The fact of the matter is that power did not accrue to men equipped with a vision of the requirements of their country's or their region's long-term development, and the determination to implement them. Rather, it accrued to Big Men who follow a patronage logic that obeys particularistic interests. Even under a so-called Marxist regime, general long-term interests did not prevail as key sectors of the economy, banks and financial institutions in particular, were simply appropriated by president Kérékou and his clique, and used for their own short-term benefit. Albeit under more subtle forms, this kleptocratic system survived through the ensuing Democratic Renewal period as witnessed by the continuing meddling of politicians in the economy: the oligarchs acting behind the screen of formally democratic institutions make key decisions in, and appear to be the effective owners of parastatals and formally independent private corporations. This is especially patent in the case of the privatized cotton sector.

No democracy can function well if the judiciary is subject to interferences from the executive power, and if people do not believe that judges act impartially. In this respect, the situation in Benin is worrying: trust in the courts and the judges or magistrates is very low, and people tend to believe that the latter are often corrupt. Low trust is also expressed toward important sectors of the public administration, particularly tax collectors. Plausibly, these negative evaluations of the public sector and the court system reflect the widespread idea that magistrates and officials are there to serve the interests of the Big Men and their clients or allies. Corruption in public administration remains a major constraint on private sector development, investment and economic growth. Informal payments, and rent-seeking in the administrative bureaucracy have been sources of inefficiency and productivity losses for many firms, especially those belonging to the formal sector. In addition, these symptoms of weak governance seriously affect the business climate and tend to deter foreign direct investment. This is especially damaging because it goes with a low investment in public infrastructure, which plays a critical role in improving global productivity.

Benin not only trades through the sea but also through her border with the giant neighbour, Nigeria. Because Benin is part of the West African Economic and Monetary Union (WAEMU) while Nigeria is not, it is particularly vulnerable to swings in bilateral exchange rates and to Nigeria's exchange rate and trade policies. This situation creates strong incentives for illicit trading and the concomitant expansion of the informal trading sector.

One of the most pressing concerns regarding the development pattern of Benin is its sustainability in the medium and long run. As it stands, the economy remains heavily dependent on external financial flows, and Official Development Assistance (ODA) in particular. The ongoing structural transformation of the Beninese economy does not hold promises for a foreseeable reduction in such dependence on external financing. Indeed, the significant decrease in the share of agriculture in domestic value-added has not been associated with a corresponding increase in the share of tradable manufactured goods but with a rapid increase in the share of non-tradable services. Directly related to this weakness is the low diversification in export goods: the economy remains heavily dependent on the export of a few raw agricultural products (among which cotton stands foremost) which are highly vulnerable to climatic hazards and swings in international commodity prices.

Because they compound the above effects, low rates of labour productivity growth in all the sectors of the economy are a major concern. Inefficiencies in the manufacturing and tertiary sectors combine with stagnant yields in agriculture to determine slow progress in per capita income. Whereas in the informal segment of these sectors, which is substantial, low labour productivity is caused by a lack of capital, in the formal segment it stems from a low productivity of capital, itself the result of low capacity utilization, inefficient organization, etc. In the agricultural sector, an additional issue is the level of land tenure security. Although the government has recently made attempts at reinforcing this security by allowing formal individualization of land rights, the results have been disappointing. One possible reason is that the reforms have stopped short of more radical individualization, or that they have created more ambiguity in land rights than existed under the pre-reform situation.

There are several critical constraints on Benin's economic development that emerge from the above diagnosis and deserve further in-depth analysis:

- the intermeshing of business interests and politics;
- the weak governance of public sector institutions;
- the management and organization of the cotton sector;
- the economic relationship between Benin and Nigeria;
- Land rights and tenure security.

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