The Republic of Benin
Diagnostic Trade Integration Study (DTIS) Update:
*From rents to competitiveness*
Final report – Mai 2015
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## Abbreviations and Acronyms

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<td>ABENOR</td>
<td>Agence Béninoise de Normalisation et de gestion de la qualité</td>
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<tr>
<td>ABePEC</td>
<td>Agence Béninoise de Promotion des Échanges Commerciaux</td>
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<tr>
<td>ACE</td>
<td>Africa Coast to Europe submarine cable</td>
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<td>ACP</td>
<td>Africa, Caribbean, and Pacific countries</td>
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<td>AEO</td>
<td>Authorized Economic Operator</td>
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<tr>
<td>AFS</td>
<td>Acompte Forfaitaire Spécial</td>
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<tr>
<td>ALCO</td>
<td>Abidjan-Lagos Corridor Organization</td>
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<tr>
<td>BCEAO</td>
<td>Banque Centrale des États de l' Afrique de l'Ouest</td>
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<td>BPO</td>
<td>Business Process Outsourcing</td>
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<td>CBCE</td>
<td>Centre Béninois du Commerce Extérieur</td>
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<tr>
<td>CEBENOR</td>
<td>Centre Béninois de Normalisation et de Gestion de la Qualité</td>
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<tr>
<td>CET</td>
<td>Common External Tariff</td>
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<tr>
<td>CNCB</td>
<td>Conseil National des Chargeurs du Bénin</td>
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<tr>
<td>COMESA</td>
<td>Common Market for Eastern and Southern Africa</td>
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<td>CPI</td>
<td>Centre de Promotion des Investissements</td>
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<tr>
<td>CPIA</td>
<td>Country Policy and Institutional Assessment</td>
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<tr>
<td>DANA</td>
<td>Direction de la Nutrition et de l'Alimentation Appliquée</td>
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<tr>
<td>DB</td>
<td>Doing Business</td>
</tr>
<tr>
<td>DNPV</td>
<td>Direction Nationale de la Production Végétale</td>
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<td>DPQC</td>
<td>Direction de la Promotion de la Qualité et de la promotion du Conditionnement</td>
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<td>DTIS</td>
<td>Diagnostic Trade Integration Study</td>
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<tr>
<td>EBA</td>
<td>Everything But Arms</td>
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<tr>
<td>ECENE</td>
<td>Enquête sur le Commerce Extérieur Non Enregistré</td>
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<tr>
<td>ECOWAS</td>
<td>Economic Community of West African States</td>
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<tr>
<td>EDI</td>
<td>Electronic Data Interchange</td>
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<td>EIF</td>
<td>Enhanced Integrated Framework</td>
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<tr>
<td>EPA</td>
<td>Economic Partnership Agreement (with the EU)</td>
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<td>EPADP</td>
<td>EPA Development Programme</td>
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<td>EPZ</td>
<td>Export Processing Zone</td>
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<td>ETI</td>
<td>Global Enabling Trade Index</td>
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<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>ETLS</td>
<td>ECOWAS Trade Liberalization Scheme</td>
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<td>EU</td>
<td>European Union</td>
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<td>FCFA</td>
<td>CFA Franc</td>
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<tr>
<td>FDI</td>
<td>Foreign Direct Investment</td>
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<td>GATT</td>
<td>General Agreement on Tariffs and Trade</td>
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<td>GCI</td>
<td>Global Competitiveness Index</td>
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<tr>
<td>GDP</td>
<td>Growth Domestic Product</td>
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<td>GPRSP</td>
<td>Growth and Poverty Reduction Strategy Paper</td>
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<tr>
<td>HS</td>
<td>Harmonized System</td>
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<tr>
<td>ICT</td>
<td>Information and Telecommunications Technology</td>
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<tr>
<td>ILEAP</td>
<td>International Lawyers and Economists Against Poverty</td>
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<tr>
<td>IMF</td>
<td>International Monetary Fund</td>
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<tr>
<td>INSAE</td>
<td>Institut National de la Statistique et de l'Analyse Économique</td>
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<tr>
<td>ITC</td>
<td>International Trade Centre</td>
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<td>LDCs</td>
<td>Least Developed Countries</td>
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<td>LPI</td>
<td>Logistics Performance Index</td>
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<td>MEF</td>
<td>Ministère de l’Économie et des Finances</td>
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<tr>
<td>MFA</td>
<td>Multi-Fiber Arrangement</td>
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<tr>
<td>MFN</td>
<td>Most Favored Nation</td>
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<tr>
<td>MICPME</td>
<td>Ministère de l’Industrie, du Commerce, des Petites et Moyennes Entreprises</td>
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<tr>
<td>NTB</td>
<td>Non-Tariff Barrier</td>
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<td>OBOPAF</td>
<td>Observatoire des Opportunités d’Affaires</td>
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<tr>
<td>OCBN</td>
<td>Organisation Commune Bénin Niger des chemins de fer et des transports</td>
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<tr>
<td>PCA</td>
<td>Post Clearance Audit</td>
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<td>PCS</td>
<td>Prélèvement Communautaire de Solidarité</td>
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<tr>
<td>PSDC</td>
<td>Plan Stratégique de Développement du Commerce</td>
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<tr>
<td>PSI</td>
<td>Pre-Shipment Inspection</td>
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<td>PSRPA</td>
<td>Plan Stratégique de Relance du Secteur Agricole</td>
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<td>REER</td>
<td>Real Effective Exchange Rate</td>
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<td>SEZ</td>
<td>Special Economic Zone</td>
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<td>SODECO</td>
<td>Société de Développement du Coton</td>
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<td>SPS</td>
<td>Sanitary and Phytosanitary</td>
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<td>TBT</td>
<td>Technical Barrier to Trade</td>
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<tr>
<td>Abbreviation</td>
<td>Full Form</td>
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<tr>
<td>TCI</td>
<td><em>Taxe Conjoncturelle à l'Importation</em></td>
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<td>TFP</td>
<td>Total Factor Productivity</td>
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<td>TFQF</td>
<td>Tariff-Free, Quota-Free</td>
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<td>TPR</td>
<td>Trade Policy Review</td>
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<tr>
<td>UNCTAD</td>
<td>United Nations Conference for Trade And Development</td>
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<td>USAID</td>
<td>United States Agency for International Development</td>
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<tr>
<td>VAT</td>
<td>Value Added Tax</td>
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<tr>
<td>WAEMU</td>
<td>West African Economic and Monetary Union</td>
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<td>WDI</td>
<td>World Development Indicators</td>
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<td>WTO</td>
<td>World Trade Organization</td>
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Executive Summary

The Government of Benin has requested an update of the 2005 Diagnostic Trade Integration Study and has asked the World Bank to take the leading role in this exercise. The update’s objectives are to (a) take stock of progress in the mainstreaming of trade in the government’s national development strategy and of implementation of the Action Matrix recommendations; (b) complement and deepen the analysis in selected areas; and (c) revise and update the Action Matrix to take account of the evolving context since 2006. The aim of the analysis is to assist the Government of Benin in defining an overall competitiveness strategy for inclusive, job-creating export-led growth in accordance with the key priorities identified in the 2013 Plan Stratégique de Développement du Commerce (PSDC), and to further mainstream trade into the general policy orientation defined by Benin’s key policy documents, including the Growth and Poverty Reduction Strategy Paper (GPRSP) update.

The DTIS Update (DTISU) offers a diagnosis, analytical framework and action plan, giving trade expansion a key role in the reduction of poverty and vulnerability. As mandated by the Paris Principles, the DTISU’s approach is strongly aligned with the MICPME’s Plan Stratégique de Développement du Commerce (Trade Development Strategy Plan, henceforth TDSP) and draws also from the diagnosis in the Government of Benin’s recent poverty assessment (INSAE 2014) as well as the 2011 update of the GPRSP. It emphasizes the linkages between poverty, jobs, and trade with two key objectives: (i) reducing poverty through trade-led growth, and (ii) reducing vulnerability.

The DTISU’s approach is also built around the role of the MICPME, focal point of the EIF process in Benin. Because the DTISU’s Action Matrix spans areas that go beyond the strict responsibilities of a trade ministry, the MICPME is viewed as having a twin role in the process: (i) Action on a core set of measures falling directly under its responsibility; and (ii) Advocacy and Proposal (A&P) for a wider set of actions falling under the responsibility of other line ministries or belonging to higher-level strategic choices.

Three key messages emerge from the DTIS’ analysis of the challenges and opportunities facing Benin’s trade integration:

i. **Benin’s economy is largely dependent on rents derived from Nigeria’s trade policy. These rents are vulnerable.** These informal flows amount to a total, according to our estimation, $5bn. A large part of Benin’s economy is involved in the re-export of imported products to Nigeria using parallel channels; similarly, 85% of Benin’s gasoline supply is imported informally from Nigeria by traders, taking advantage of Nigeria’s fuel subsidies. By some educated estimates, informal trade contributes up to 20% of GDP (Golub 2012). By all accounts these rents benefit many sides of the economy: government fiscal revenues through the taxation of informal transit, informal traders, and consumers of Nigerian subsidized gasoline. However, they are vulnerable to changes in Nigeria’s trade policy (see Benin 2013a) and to price convergence between ECOWAS member States, which will be accelerated by the implementation of the Common External Tariff. Moreover, while lucrative, the rents actually hamper the modernization of Benin’s economy. The informality of this parallel trade spills over to associated services such as transport and other associated services, leaving
large parts of the national economy out of the reach of taxes and regulation and fueling a vicious circle of informality, distortions, and poverty.

ii. **Benin is not “locked” in an informality trap: with appropriate reforms, the country can develop new ways to leverage its strong locational advantage.** Benin is strategically located, as the crossing point of two regional corridors with substantial growth potential, Abidjan-Lagos and Cotonou-Niamey, with near-direct access to the large neighboring Nigerian market. Combined with appropriate reforms and investments, this locational asset can be a source of sustainable competitive advantage for formal trade-related activities, including logistics and a wide array of transport- and trade-related services. The development of a formal, modern trade services sector would bring a double dividend to Benin’s economy, providing a source of employment and growth on its own and securing a source of competitive advantage for future transformational activities including export-oriented light manufacturing. While the development of transformative activities will not happen overnight, Benin can kick-start the process around two entry points: (i) collaboration with reputable logistics operators to modernize the Cotonou-Lagos Corridor using information technologies that could lead to organizational reforms, paving the way for inter-modal, containerized logistics with support services meeting international standards; (ii) reform of the export processing zone (EPZ) emphasizing a rationalized and stable business environment with associated government services rather than costly fiscal incentives.

iii. **Urgent reform is needed in Benin’s agricultural sector and should include the objective of diversification into new export crops.** Reducing poverty in Benin will depend on the modernization of its agriculture sector, which represents 82.4% of employment and where 38.9% of employed individuals still live in poverty (INSAE 2014). Lack of support, poor governance, and dysfunctional institutional arrangements in recent years have pushed the cotton sector to the verge of collapse. While various factors have contributed to the crisis, comparison with neighboring countries shows that it is largely home-grown. By contrast, the rapid rise of pineapple and cashew production demonstrates that successful diversification into non-traditional export products is possible. However, this growth has not been accompanied with the necessary support from government. The time has come for a change in the approach towards agriculture, with erratic regulatory changes giving way to a coherent modernization strategy based on workable institutional arrangements in the cotton sector, as well as a long-term vision for both traditional and non-traditional crops, the development of public services for non-traditional crops, and the re-establishment of trust and mutual respect between stakeholders.

A fully aligned DTISU complementing the national trade strategy

**Benin faces a formidable employment challenge.** With population growth standing at over 3%, the national economy needs to create over 100,000 additional jobs every year in order to absorb new labor force entrants. However, in spite of Benin’s prudent macroeconomic management, growth has so far proved barely sufficient to keep pace with the expanding labor force and has not generated any surplus through productivity growth to translate into higher incomes at the individual level. As a result, poverty, , using the international poverty line at $1.25/day, still affects one in two Beninese and has failed to recede significantly. The poor in Benin are also vulnerable, with agricultural production strongly affected by weather events and a million people exposed to food insecurity.
The DTISU emphasizes two key policy priorities:

1. Diversification building on the development of competitive logistics services and a conducive business environment,
2. Agricultural reform aimed at the provision of a stable institutional environment, the elimination of cross-cutting constraints (including deficient SPS infrastructure and logistics), and the promotion of non-traditional crops.

The development of formal activities to substitute for parallel trade would reduce one of the root causes of the prevalence of informality in Benin’s economy. In so doing, these activities would create the right incentives and conditions for the progressive formalization of the economy, one of the TDSP’s core strategic axes, and would create the conditions for a progressive enlargement of the tax base, which would itself contribute to the fulfillment of WAEMU’s convergence criteria. Thus, the DTISU proposes a limited set of priorities but with powerful synergies, represented graphically in Figure 1.

While reaching beyond the traditional areas of responsibility of a trade ministry, agricultural reform is intimately linked to the trade strategy because the performance of Benin’s agricultural sector (and in particular of the cotton sector) largely conditions prospects for poverty reduction, economic transformation, and trade performance. Figure 1 shows the links between the DTISU core priorities and Benin’s broader development objectives. In this framework, there are areas of action for the MICPME, but also areas where the MICPME can be an advocate for broader changes in the economy.

Figure 1: Synergies between the DTIS update’s core priorities and Benin’s development strategy

Based on this framework, the DTISU develops four axes for short-term action that provide the thread of the action matrix:

1. Reinforce the export-promotion/SPS management nexus: Diversification into nontraditional products and transformation requires a joint effort of export promotion and improved quality management, as the two are strongly correlated; this will require coordination between the MICPME and SPS management agencies (recommendations A2, A3, D2, D4 to D6);
2. **Pursue customs reform**: Customs’ role as “doorkeeper” of Benin’s trade platform must be enhanced through better and more extensive use of ICT, as well as complementary and modern organizational reforms (for example, the use of performance contracts) aimed at improving client orientation, transparency, and accountability at all levels (recommendations B4-B9);

3. **Pursue logistics/facilitation modernization, develop trade-related service activities around it, and make it a springboard for diversification**: The elimination of informal trade may be difficult to achieve through the control/repression approach envisaged in the TDSP, as it imperfectly addresses the incentives (created by price differences with Nigeria). A more novel approach could be to establish a well-circumscribed area that offers a more collaborative approach between public and private sector, using the two entry points discussed above (EPZ and logistics). The EPZ should be re-energized through the provision of infrastructure at competitive price/quality levels, facilitated by efficient government services, in order to attract productive investments close to the border with Nigeria. The logistics sector associated with the Port of Cotonou should be used to focus government attention on a well-circumscribed but potentially transformative agenda that focuses on developing logistics around modern containerized traffic and using the future rail infrastructure, in partnership with a reputable international operator. A “clean channel” such as this could have a demonstration effect, providing a model to be extended step-by-step to other areas of the domestic economy and steadily bringing progressively in the mainstream smaller-scale players. The positive incentives created by this approach would entail cost advantages in having access to efficient and reliable services, as well as guarantees and predictability offered by a better business environment and government assistance (recommendations A1, A3, A4, B1-B3, C2-C4);

4. **Seek improved relations with Nigeria**: Once Benin has regained control of its trade flows through the establishment of clean channels and credible customs reforms, the Government could seek improved relations with Nigeria through the progressive elimination of rents based on tax evasion that are costly to the Nigerian treasury (currently estimated at $1 billion a year). This would allow both sides to develop collaborative modes of border management, consolidating Cotonou as one of the entry points to Western Nigeria’s markets (recommendations A2, A5, B1, B5-B6).

These four axes are closely aligned with the TDSP, as illustrated in Figure 2. The left-hand side of the figure provides a visual representation of the TDSP’s structure, with “specific objectives” in the left-most column, strategies in the second one, and a selection of key actions among the matrix’ proposed actions in the third one. On the right-hand side of the figure, the boxes summarize the DTISU’s four key axes discussed above and red arrows show how they relate to the TDSP’s selected actions.

In sum, the DTISU proposes a practical action plan organized around key axes in close alignment with the TDSP’s action matrix. Each of these axes is in itself an ambitious, complex project which will bear fruit only in the medium term. In this sense, there are no easy reforms in the implementation of the TDSP/DTISU strategy. However, implementation should start on the ground, step-by-step, following the detailed Action Matrix offered in the DTISU as a complement to the TDSP’s own Action Matrix. The existence of a costed action matrix in the TDSP can be expected to facilitate implementation and should prove a useful starting point in the dialogue with donors.

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2 Improved bilateral relations with Nigeria is equally recommended in the review of Nigeria’s trade policy (Benin 2013a)
We now turn to a more detailed summary of the DTISU’s main sectoral recommendations in trade policy, trade facilitation, services, and agriculture.

**Trade performance**

**Benin suffers from a chronic trade deficit.** If there is some signs that Benin’s currency is overvalued, the root cause of Benin’s trade deficit, which amounts to about 15% of GDP according to official Balance-of-Payments accounts. This is due most of all to a structural lack of competitiveness, which, in turn, has several facets, some sectoral and others more cross-cutting.

At the sector level, low export growth largely reflects the decline of the cotton sector and slow diversification into new agricultural crops. The output of cotton has been shrinking over the last few years due to a combination of factors, some institutional and some weather-related. The drop in production tonnage has been partly compensated by the positive orientation of international prices in recent years, mitigating its impact on the trade balance. On average, cotton represented about one fifth of Benin’s exports in 2010-2012, so the 50% drop cotton tonnage between 2006 and 2011 would have cut exports by 10% had it not been for the rise in prices.

Non-traditional exports such as cashews and pineapple have only partly offset the negative effect of the cotton crisis. The main bright spot for Beninese trade is cashew exports, which have grown by 40% in dollar terms over the last three years and now represent about as much as cotton in
Benin’s export portfolio (17% for cashew against 18% for cotton on average during 2010-2012). However, the commercialization of cashew is in the hands of foreign intermediaries and practically no local transformation takes place, depriving Benin of most of the gains from trade. Pineapple exports have failed to take off, despite their potential. This weakness is due to a combination of poor SPS management, lack of market information and export promotion, and severely inadequate logistics. In spite of the cotton sector’s decline and the progressive rise of non-traditional crops, Benin’s exports remain fairly concentrated even compared to other low-income countries.

Cross-cutting constraints on export growth are highlighted by various governance indicators, which show little progress since the 2005 DTIS. For instance, the Global Competitiveness Index 2013, constructed from large-sample surveys of traders, still identifies corruption as the main obstacle to business, together with typical stumbling blocks such as poor access to financing and an inadequate supply of infrastructure. Practically every dimension of the business environment is in need of reform and modernization, including land titles, the establishment of a tribunal of Commerce, regulation, the prevalence of informality (and concomitant heavy tax burden on formal enterprises), customs, and both hard and soft infrastructure.

While formal exports face formidable hurdles, parallel re-exports to Nigeria thrive, amounting to more than US$5 billion according to our calculations. These reexports are motivated by large differences between Nigerian and international prices. These differences are the result of Nigeria’s high tariffs and import prohibitions on some products that are considered strategic. On the other hand, a large part of Benin’s fuel supply is imported through parallel channels by traders taking advantage of Nigeria’s fuel subsidies. In total, informal trade makes up a substantial share of Benin’s GDP (20% according to Golub 2012). These arbitrage opportunities, however, can vanish suddenly. For example, several episodes of abrupt trade-policy changes in Nigeria, in the mid-1980s and mid-2000s, have exposed Benin’s vulnerability to such changes. More importantly, with the progressive emergence of an ECOWAS customs union, and more immediately with the impending alignment of Benin and Nigeria’s tariff policies under the newly agreed ECOWAS Common External Tariff, the progressive disappearance of large price differences between member States appears increasingly likely. Price convergence, therefore, will gradually erode the rents from parallel trade.

Arbitrage rents, while lucrative, also hamper the modernization of Benin’s economy. The informality of parallel trade spills over to ancillary services such as transport and other support services, placing entire segments of the national economy largely (although not entirely) beyond the reach of taxes and regulation. This deprives the State of much-needed tax revenue and hinders its capacity to invest in infrastructure, education and public services, contributing to a vicious cycle of poverty and informality. Rents generated by the private sector are also not likely to be reinvested in the economy because of their informal nature. Until incentives shift decisively in favor of formal activities, Benin’s economy will have difficulty modernizing.

Aside from parallel re-export to Nigeria, regional trade continues to perform far below its potential. Formal trade is hampered by a myriad of non-tariff barriers including roadblocks, the non-recognition of certificates of origin, protracted negotiations with customs officers at land borders, and a general lack of information about and interest in ECOWAS’s Trade Liberalization Scheme (ETLS). As a result, even without counting large-scale re-exports to Nigeria, according to a recent ECENE survey of informal trade, over $800 million worth of goods cross Benin’s borders informally every

3 Unless otherwise noted, trade statistics use mirror statistics.
year, mostly carried by small-scale traders (INSAE 2011), while half of formal regional trade takes place on an MFN basis, which means it does not benefit from the tariff reductions available on paper. For example, during the food crisis, substantial price differentials for food staples between production and consumption areas within the region led to hardship and food insecurity in shortage areas.

**Trade-policy issues**

**Benin is facing a significant change to its external-tariff from the WAEMU CET to the ECOWAS CET as ECOWAS transitions to a free exchange agreement and a customs union.** The new ECOWAS CET includes a fifth band with a 35% rate for certain consumer goods, substantially higher than the WAEMU CET’s highest band of 20%. The effect on average protection is small when calculating the simple tariff average, as relatively few products are affected by the tariff changes. However, using a trade-weighted average of Benin’s current import patterns, the effect is no longer trivial — raising the weighted average tariff from 15.9% to 18.1% and affecting in particular those products that matter the most in Benin’s household expenditure patterns, such as animal products (including poultry), edible oils, and textiles and clothing.

**The transition to the ECOWAS CET is forecast to raise tariff revenue by about 10% according to the World Bank’s TRIST model.** Imports will go down as a result of the tariff increase, but not sufficiently to offset the increase in the tariff rate that will affect important consumption products for households because of the low elasticity of Benin’s import demand. However, an examination of Benin’s customs data shows that, as half of Benin’s imports from the region continue to enter on a non-preferential basis because of poor implementation of rules of origin, the CET’s rise, instead of favoring regional trade (a phenomenon known as trade diversion), will actually hamper it. Thus, the rise in tariff revenue reflects that the transition to the ECOWAS CET is unlikely to result in any boost to intra-regional trade flows, unless rules of origin issues in the ETLS framework are resolved (see below).

**The transition to the CET will also have a bias against the poor.** An analysis of Benin’s household expenditure patterns shows that products in the fifth band will have a disproportionate effect on the income of households in the bottom 20% of the income distribution, raising the cost of living for those households by 10-12% (against only 8% for the richest households). Measured in terms of effect on household welfare, the CET is even more regressive, with a negative effect on poorer households almost three times stronger than on the richest households.

A recommended approach to mitigate these regressive effects would be to reduce the impact of other factors on prices, such as the cost of transport (in particular in rural areas where the incidence of poverty is highest). In accordance with Objective 1 of the Trade Development Strategic Plan, the Government should also encourage strong competition in distribution services so as to minimize the passing on of higher tariffs to prices paid by consumer. Finally, the Government should work with its ECOWAS partners to promote the effective use of the ETLS so that regional food products circulate freely in the zone and are not affected by the CET (recommendation A1-A3, A5).

Benin’s tariff transition will also be affected by the implementation of the Economic Partnership Agreement (EPA) with the European Union (EU), which will eliminate tariffs on 75% of the region’s imports from the EU over a twenty-year period. When the tariff phase-out is complete, the increase in tariff revenue triggered by the creation of the CET’s fifth band will be
entirely offset. The Government of Benin should take the progressive transition to the EPA as a prompt to rebalance its tariff structure away from trade taxes and towards a more broad-based taxation regime, in parallel with efforts to bring the large informal sector into the mainstream.

**Making trade facilitation a basis of the country’s comparative advantage**

**Improving trade facilitation is at the heart of the government’s strategy to position Benin as a regional logistics hub.** The interface between State administrations and the private sector, which includes trade facilitation and needs improvement, as recognized in recent documents such as (inter alia): the Growth Strategy for Poverty Reduction 2011-2015, the Strategic Development Orientations 2006-2011, and the 2013 TDSP. The modernization of customs and clearance procedures at the Port of Cotonou has a key role to play if Benin is to develop as an entry point for neighboring markets, as an estimated 80% of goods entering the port of Cotonou are destined for final delivery outside of Benin, primarily to Nigeria and, to a lesser extent, Niger and Burkina Faso. However, the region already has many medium-sized ports, and Nigeria is planning two greenfield port developments. The race for the region’s logistics-hub position is likely to be result in a winner-take-all scenario. With other countries investing in technology and procedural improvement such as single windows, AEO, or geo-tracking of transit cargo in order to stay in the race, Benin can afford no delay in modernizing.

**Benin has made substantial progress in improving its logistics environment.** Cotonou’s harbor has been enlarged with a new container terminal, a two-berth wharf and a sand-stopping jetty that reduces port dredging costs by over US$2 million a year. Five gates, 2.5km of road and 1.5km of railway track have been added and the use of ICT has been enhanced. The coastal Abidjan-Lagos highway has been improved on its Beninese segment. Finally, an MOU on the rehabilitation of the railway line between Benin and Niger was signed in November 2013 in partnership with the Bolloré group (recommendation B3).

**Benin should build on these achievements to further reduce costs and improve the quality of logistics infrastructure and services along the main two corridors (East-West and North-South).** There is strong competition in the sub-region for containerized traffic, which already weighs on fee-setting. While this competition is good for trade, it may have implications for the financial viability of infrastructure investments. Moreover, an examination of planned investments in the sub-region suggests a serious risk of overcapacity if all projects go ahead, as most concessions are in the hands of only two private operators, some promises are likely to remain unfulfilled. In order to be among the winners of this competition, Benin needs to persevere with accompanying “soft” investments in customs and regulatory modernization (recommendations A4, B2-B4, B6-B9).

**Benin should engage its modernization effort by the creation of “clean channels”.** The national economy’s progressive transition into formality will be a complex and politically-challenging process. There are two entry points into a clean-channel logic. The first one is the export-processing zone, which should be re-energized through the provision of infrastructure at competitive levels of price and quality. The second one is the logistics sector. The authorities should focus on containerized traffic (where regional competition is most intense), putting in place formal ICT-based procedures and effective dialogue and cooperation with a reputable private-sector operator. Trans-shipment of transit traffic from the port to the planned railway is an activity that could be credibly monitored and managed and should be accompanied by fair and transparent administration of customs transit regimes, including the imposition of border taxes at official rates and fair values. If successful, the
“clean-channel” model could then be progressively extended to and replicated in other sectors of the economy (recommendations A4, B1, B5-B6).

The industry is currently largely informal and characterized by a plethora of small, substandard players. Reforms under way in Côte d’Ivoire and Burkina Faso under the World Bank-supported regional program to develop a transit corridor (DPO) provide useful blueprints. The ongoing trucking survey will provide useful information on where to start the reform (recommendation B2).

In the last decade, Benin has made great strides toward better functioning customs. Between 2007 and 2014, Benin’s Logistics Performance Index (LPI) rose from 1.8 to 2.6, putting it ahead of most countries in the region, and container dwell times have been cut from 28 days in early 2012 to around 12 days at the end of 2013. A new Customs code was approved by Parliament in June 2014, clearance procedures have been improved by the use of Asycuda++, a basic risk-control analysis function has been introduced, and customs computer networks have been centralized on a single server. A single window is also being deployed at the Port of Cotonou. All these measures have been supported by donors and go in the right direction.

However, Customs improvements at the Seme-Krake border are progressing slowly. The project of a single-stop border post has been stalled by a dispute with the contractor in 2012 and there has been little progress since. Border crossing remains a complex process as merchandise is trans-shipped from Beninese to Nigerian trucks at the border, usually by consolidation of about two Beninese trucks on a single Nigerian one to take advantage of Nigeria’s lump-sum (per truck) formula for the calculation of import duties. Alleged harassment of Beninese drivers suspected of smuggling, by Nigerian authorities discourages border crossing by Beninese trucks. Moreover, disputes between Benin and Nigeria lead to frequent and unpredictable closure of the border for Beninese trucks, which occurred in September 2013 (recommendation B1).

Further modernization of Benin’s customs will require more and better use of technology. Private sector perceptions reported by the Global Competitiveness Index of the World Economic Forum suggest that after improving between 2007 and 2010, customs effectiveness has deteriorated again, partly because of Benin Contrôle’s misguided procedures until 2012. Benin has also slipped in LPI rankings since 2007, reflecting faster progress in neighboring countries. Escort systems at Benin’s borders (which deal with documentation, not the trucks themselves) create queuing and delays, as documents are physically forwarded in batches from one customs administration to the other. This should be phased out and replaced by ICT connections between customs administrations on both sides of the border. ASYCUDA could also be better used by recording not just activities but also outcomes, allowing for an assessment of customs’ performance. ASYCUDA’s risk-management module, furthermore, may be simple, but it can play a useful role if used systematically and can be a tool to familiarize customs personnel with risk management before upgrading towards more sophisticated systems later on. Migration to ASYCUDA World will also be a useful step (recommendations B3, B7-B9).

Technology is not enough: high-level political support for reform is also needed. In spite of progress, border management in Benin still offers poor support to the private sector. Contractual arrangements with inspection companies should be stable and designed to properly balance the need for effective surveillance against that of trade facilitation, so as to foster the perception of a stable and predictable policy environment among private sector operators. This should be reflected in transparent licensing/procurement processes, associated with a clear performance contract and the
transfer of knowledge (on customs valuation) to the customs administration. The reported practice by politically-connected traders of negotiating customs valuations in order to adjust the amount of border taxes effectively paid should be eliminated; this would require a clear stand at the top. The Government of Benin needs to make the collection of border taxes equitable and rules-based, rather than negotiable for some and predatory for others.

Laying down the prerequisites for a competitive services economy

Benin’s services sector is a story of missed opportunities. Although the production of services already contributes more than 50% of value-added in Benin, it has strong untapped potential. With a privileged geographical location as a transit platform for two landlocked countries (Burkina Faso and Niger) right next to the largest market in Africa (Nigeria), Benin has the potential to become an important services exporter in the region. However, empirical evidence shows that Benin has been underperforming, with services imports growing much faster than exports and an overall poor contribution of services trade to the GDP. The current supply of services is considered by most economic actors as an obstacle to business and trade, hampering the country’s competitiveness, and the objective of universal (or wide) access to basic services is not met.

Four major governance issues will need to be addressed to unleash services trade in Benin:

1. Transparency
2. Legal security
3. The role of the state
4. The vicious circle of informality

The key constraint to the expansion of Benin’s service sector is not trade protection per se. While some obstacles to trade remain (e.g. some monopolistic rights in key sectors like telecoms), the main issue is not one of discrimination or lack of openness. The binding constraints are, in fact, in the areas of infrastructure, size of market and governance, as well as the lack of an adequate regulatory framework in the services sectors that would otherwise allow trade to bring all its expected benefits to the country (recommendation C2 and C4).

In order to lift existing constraints, the Government of Benin should put in place a services trade development strategy resting on three pillars (recommendation C1):

1. Improving the regulatory framework of services in Benin, including in the context of further multilateral and regional trade integration
2. Addressing the key governance issues that impair the development of an efficient and internationally competitive services sector;
3. Engaging reforms in priority services sectors where Benin has an export potential, including in particular transports, telecoms and tourism

Services trade integration, in particular at the regional level, has a role to play in addressing those constraints. While trade-opening alone will not be enough to put Benin’s service sector on a better growth trajectory, trade integration and its “capacity-enhancing” components, whether soft (regulatory harmonization and/or cooperation) or hard (infrastructure), can play a significant role in improving the country’s performance, in particular at the regional level.

At the subsector level, the government of Benin needs to implement (i) an up-to date tourism development plan and (ii) a practical action plan to implement ICT-sector reforms (recommendation C4). The tourism development plan should include transparent procurement
procedures, clear mechanisms for the allocation of land for economic development, a clear and credible legal framework, with dispute-settlement mechanisms, to protect both investors and local populations, and a strong emphasis on sustainability and the preservation of natural sites and the environment (recommendation C3).

**Putting Benin’s agriculture back on its feet**

Agriculture is and will remain the backbone of Benin’s economy in the medium term. Cotton is the primary source of income for over 300,000 smallholders and, indirectly, for over three million Beninese through its linkages to associated services and transformation activities. It is also an inclusive source of income and a useful counterforce to the agglomeration forces that characterize the modern sector, with activity spread over a large part of the country, in particular those with the highest incidence of poverty.

However, Benin’s cotton sector is undergoing a severe and protracted crisis. After rising spectacularly from 20,000 tons in 1980 to 350,000 tons in 1995 and 428,000 tons in 2004, cottonseed production collapsed to 140,000 tons in 2010. Indeed, from West Africa’s premier cotton producer, Benin is now out-performed by Mali and Burkina Faso. Moreover, it could not benefit from the 2010-11 world price hike, as national production was then at its lowest.

The crisis of Benin’s cotton sector is home-grown, as world prices remained high at 90 cents a pound until mid-2014. Structurally, the sector has failed to drive/achieve a transition from the extensive-margin growth that characterized the expansion phase (surfaces under cultivation were multiplied by ten between 1980 and 1995) to intensive-margin growth based on higher yields per hectare. In turn, the lack of structural transformation and technical change is largely due to the Government’s failure to put in place a good governance model.

The governance of Benin’s cotton sector has been dysfunctional for many years. In the 1990s, the sector’s reform followed a “Beninese model” that split activities, starting with the privatization of the input sub-sector in 1993, followed by processing in 1995. This structure led to widespread inefficiencies, the establishment of dominant positions, in particular by the Talon group, overcapacity (587,000 tons of capacity in 1998 for a production of 350,000 tons), and uneconomic investments in processing facilities, with most plants located in the South, far from production. In the first half of the 2000s, the institutional structure was reformed but new arrangements were no better. Input imports were controlled and their allocation corrupt and incompetent; producers were paid late, leading to the development of a parallel market and the Centrale de Sécurisation des Paiements et de Recouvrement, the parastatal managing credit and producer payments, piled up deficits. Since then, the sector’s governance has been characterized by ad-hoc government interventions driven by short-term objectives and personal conflicts, and a near-complete absence of long-term vision.

Today, the crisis has reached boiling point. The State is heavily indebted to the cotton processing sector, threatening the processors’ financial viability and that of the banks financing cotton campaigns. Producers suffer from payment delays, forcing them to borrow and aggravating poverty. New delays and the disorganization characterizing the early phases of 2013-14 harvest risk jeopardizing the crop’s quality, leading to discounted prices on international markets.

Benin’s cotton sector must adopt a vertically-integrated structure — the only viable arrangement in weak institutional environments. In an institutional environment with no credible legal system to enforce contracts, moral hazard is prevalent and markets relying on forward transactions and individual credit simply cannot function. Competitive input markets are
dysfunctional when counterfeit fertilizers and seeds circulate freely on the market and farmers have no way of telling legitimate from counterfeit products at the time of purchase. Arrangements where farmers get inputs on credit against a promise of exclusive selling are not time-consistent in the presence of opportunistic cash buyers, especially in unpredictable environments where future promises to pay are heavily discounted relative to hard cash. In such environments, a vertically-integrated single-buyer structure, though second best in general because of the monopsony distortions it generates, is the only incentive-compatible system.

The best option for Benin may well be to combine vertical integration with zoning, as occurs in Burkina Faso. While zoning does not overcome monopsony distortions, it makes it possible to benchmark the performance of vertically-integrated operators at the regional level against one another. However, zoning requires the policing of contractual arrangements around zone “frontiers” and the respect of zone monopolies. The first step in getting towards a workable institutional setup for the cotton sector is to clarify property rights over SODECO and the legal uncertainty created by the currently inextricable political situation (recommendation D1).

Benin’s agriculture also has substantial diversification potential outside of the cotton sector. Cashew production is expanding very rapidly in Benin as in other West African countries. Although numbers are uncertain, output is estimated at around 150,000 tons and the FAO ranks Benin as West Africa’s 4th largest exporter. Benin’s cashew is among the best, ranking high in quality above Ghana or Côte d’Ivoire. Cashew nuts are exported raw to Vietnam and India, with only small amounts processed locally.

Benin’s cashew production suffers from a lack of support. Constraints to growth include reliance on low-performance varieties, poor agricultural practices, a lack of adequate financing, and the high price of capital equipment and conditioning (jute bags). The export value chain is informal and dominated by a myriad of semi-professional individual collectors selling to Indian traders. As a result of this informality, prices are volatile and practically no gains from the trade are appropriated by local agents, with all the bargaining power concentrated in the hands of foreign traders who possess and control all the information about market conditions.

Local transformation also faces formidable hurdles and its viability is uncertain. Cashew processing remains embryonic, with just five plants in the entire country (four of which were set up in 2011) processing in total about 5% of domestic output. The transformation sector suffers from its small scale compared to Asia’s large processing plants, as well as all the familiar constraints that weigh on industrial activity in Benin: lack of infrastructure (in particular transportation), lack of reliable energy and water sources, high cost of capital, lack of skilled labor, the relatively high cost of African labor compared to Asia’s, and a lack of market information. Moreover, Asian processors market the byproducts of their processing activities, which reduces unit costs, while Beninese cashew processors do not.

Pineapple production is rising fast in spite of low productivity and logistical constraints. Low productivity (22 tons/ha in smallholder farms against 70 tons in modern ones) stems largely from poor use of inputs, as pineapple farms often use inadequate cotton fertilizers that are inadequate. Farming practices are equally unsuitable. Manpower is also a problem, as most production takes place in the Atlantic province, where the proximity of urban areas attracts laborers away from relatively hard work on the farms. Being extremely time-sensitive, the pineapple value chain also suffers from Benin’s inadequate transport logistics. The fruit is loaded in bulk in non-refrigerated trucks and damaged by the shocks on rough roads. Transportation is slowed down by dozens of roadblocks along
the way, each requiring lengthy bargaining. Air freight is irregular; when no cargo space is available, the fruit is dumped on the local market at a quarter of its price. The regional market offers a small additional outlet but here, again, transportation is extremely expensive. The Government of Benin needs to improve outbound logistics for pineapple at all stages (recommendation D4).

**Quality control needs to be improved.** Quality checks are performed at the airport, once transportation costs have been incurred, and are also limited to visual checks only. The Direction Nationale des Produits Végétaux (DNPV), which issues export certificates, does not have the capacity to detect pesticides residuals. Quality is also affected by the use of ethrel for fruit coloring. Benin’s pineapple value chain, furthermore, is not equipped to deal with the management of such sensitive additives.

**Local transformation would have a chance if it were not hampered by the usual constraints on industrial production.** The cost disadvantage of Beninese pineapple juice relative to imported products is estimated at 18% — nothing prohibitive, especially given that Beninese juice is produced by direct squeezing rather than through concentration and is thus a higher-quality product. Smart marketing and basic improvements in the currently poor production conditions (outdated capital, irregular and expensive electricity supply, lack of financing, etc.) could eradicate this cost disadvantage. Government authorities should put in place a strategy for the development of this activity.

**Finally, shea butter is, like the rest of the economy, in need of formalization.** While strongly supported by donors, production is still largely informal, relying on trees growing in the wild. Those trees take 30-35 years to grow and are threatened by uncontrolled deforestation in the absence of forestry management. Most of the laborers are female operating in very harsh conditions. Transportation is disorganized, sometimes in recycled chemical containers that pollute the product. Again, quality control is nonexistent and transactions are based on trust (recommendation D9).

**Cross-cutting constraints to agricultural growth are well-known and largely caused by the State’s failure to perform its basic functions.** Metrology is inadequate and quality control is either nonexistent or non-credible in the absence of certified laboratories. The Direction Nationale des Produits Végétaux (DNPV) lacks resources and qualified personnel. The same is true of the Direction de l’Alimentation et de la Nutrition Appliquée (DANA). Thus, informality in agriculture is not a choice of the private sector: it is a penalizing consequence of the State’s incapacity to play the role it would/ought to in any modern economy (recommendations D2 and D3).

**The Government and donors must pursue policies that will reinforce professional organizations in agriculture.** Professional organizations have a role to play in the dissemination of information, in the definition and enforcement of the “rules of the game” that well-functioning markets require, and in overcoming key coordination problems in agriculture, such as the regulation of agricultural campaigns (date and price-setting). Strong professional organizations are particularly important in reducing the climate of distrust between various actors, as well as with the State (recommendation D5, D6).

**The Government of Benin needs to adopt an agricultural quality strategy in accordance with ECOWAS’s ECOQUAL regional quality policy and ensure that it is effectively deployed on the ground rather than remaining theoretical.** This means investing resources in key agencies and adopting realistic and non-predatory quality-control systems based on the separation of standard-setting from verification functions.
Agricultural support services, upstream and downstream, must be reinforced. This includes rural roads and tracks, technical training, basic infrastructure to encourage labor to remain in the countryside (schools, health, transport), statistical information, and export promotion. In particular, there is a strong demand from producers to be better informed about business opportunities in Nigerian markets. ABePEC has a role to play in the production and dissemination of such market information (recommendations D7-D8).
## Action matrix

### Trade

<table>
<thead>
<tr>
<th>Action code</th>
<th>Identified constraint</th>
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<th>Current approach to deal with constraint</th>
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</tr>
</thead>
<tbody>
<tr>
<td>A1</td>
<td>Low utilization of WAEMU/ECOWAS preferences</td>
<td>no</td>
<td>Regional negotiations on limited issues (green card etc.)</td>
<td>Lingering non-tariff barriers bans &amp; non recognition of certificates of origin (CO)</td>
<td>Put in place the monitoring committee foreseen by the implementation of the Decree on the limitation of control stops on corridors</td>
<td>MICPME, Customs, CNP, CCIB</td>
<td>No more NTBs reported by the private sector</td>
<td>Formal proposal for electronic repository</td>
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<td>Improve users' information</td>
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<td>Put in place a system registering complaints about NTBs (e.g. such as BORDERLESS in Ghana)</td>
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<td>Propose a single repository of COs, accessible from all border posts</td>
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<tr>
<td>A2</td>
<td>Lack of commitment for regional integration</td>
<td>no</td>
<td>Donor-supported regional monitoring scheme at WAEMU level</td>
<td>Lack of implementation of regional commitments</td>
<td>Implement key commitments (e.g. seeds catalog, animal health)</td>
<td>MICPME, Customs, MAEP, CNP, CCIB</td>
<td>Bali TF agreement and regional commitments all implemented; regulatory repository set up</td>
<td></td>
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<td></td>
<td>Regionalize the Bali trade facilitation (TF) agreement; set-up trade regulations repository located at WAEMU secretariat</td>
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<td>Set up a TF/NTB committee at country and reg. level</td>
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<td>Transform the TF working group in a committee with a mandate broadened to NTBs</td>
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<td></td>
<td>Build upon tools such as WAEMU monitoring when expanding to ECOVAS</td>
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<td>A3</td>
<td>Lack of knowledge of:</td>
<td>yes</td>
<td>Consolidation of various export promotion agencies into ABePEC</td>
<td>ABePEC recognized by private sector to do good work but underfunded and lacking skills</td>
<td>Improve funding for the “deepening” of export promotion activities</td>
<td>MICPME, APIEx, CCI, CNAB, donors, CNBP, CCIB</td>
<td>(i) Number of training programs; (ii) Impact evaluation on export performance</td>
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<td>- Business opportunities (particularly in Nigeria)</td>
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<td>Facilitate NAFDAC certification; re-energize the Benin-Nigeria trade agreement by enlarging it to Nigerian border Federal States</td>
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<td>- Foreign SPS / quality requirements</td>
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<td>Put in place a fund to support SMEs to achieve conformity</td>
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<td>- quality management</td>
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<td>A4</td>
<td>Lack of attractiveness of investment climate</td>
<td>yes</td>
<td>Creation of EPZ in Sémé-Podji</td>
<td>Low attractiveness of EPZ, low take up</td>
<td>Provide energy, water treatment, public services at adequate levels and competitive prices and simplified doing business procedures</td>
<td>MICPME, Ministre des Finances</td>
<td>Infrastructure improvements in SP: energy, water treatment, telecoms public services for workers (health, education, housing)</td>
<td>H L M</td>
<td>2.3</td>
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<tr>
<td>A5</td>
<td>Weak institutional capabilities; resource constraints at MICPME</td>
<td>yes</td>
<td>Technical assistance from donors</td>
<td>Capacity building needs not yet filled</td>
<td>Identify the needs, Draft a capacity building plan, Look for financing (EIF)</td>
<td>MICPME, CNPB, CCIB</td>
<td>Capacity building plan, nb of managers trained, own financial contribution</td>
<td>H L M</td>
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## Trade facilitation

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<tr>
<td>B1</td>
<td>Insufficient regional dialogue on transit issues</td>
<td>yes</td>
<td>Bilateral agreement with Nigeria</td>
<td>Issues are of practical, not legal nature</td>
<td>Establish working groups at several levels (economic operators, customs, local authorities, government) in order to improve flow at Sémé-Kraké. Strengthen bilat. Commission Bénin-Niger to improve flow at Malanville</td>
<td>Customs, MICPME, Transport</td>
<td>Reduced incidence of border closures at Sémé-Kraké, reduced time at Malanville</td>
<td>H L M</td>
<td>2.1</td>
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<tr>
<td>B2</td>
<td>Inefficient trucking industry</td>
<td>yes</td>
<td>None</td>
<td>Informal, small-scale and inefficient operators</td>
<td>Complete trucking surveys, discuss findings with stakeholders, prepare trucking reform sector strategy</td>
<td>MICPME, Transport</td>
<td>Strategy paper prepared and discussed</td>
<td>H L M</td>
<td>3.2</td>
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<tr>
<td>B3</td>
<td>Low utilization of railway</td>
<td>yes</td>
<td>Privatization</td>
<td>Deficient oversight and financing</td>
<td>Identify funding for extension, improve public/private dialogue capabilities</td>
<td>MICPME, Transport</td>
<td>Capacity building program set up by DTT</td>
<td>H M H</td>
<td>3.2</td>
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<tr>
<td>B4</td>
<td>Capacity constraints to implement customs reform strategy</td>
<td>no</td>
<td>Project teams set up to implement reform program; Technical assistance ongoing/planned for some components</td>
<td>Limited management capacity and insufficient technical assistance</td>
<td>Train customs personnel on project and change management; needs assessment</td>
<td>Ministry of Finance, DGDDI</td>
<td>Training session organized; Assistance requested for unaddressed needs</td>
<td>H</td>
<td>L</td>
<td>H</td>
<td>3.1</td>
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<td>B5</td>
<td>Poor control of trade flows to Nigeria</td>
<td>yes</td>
<td>Implicit tolerance for unofficial reexports to Nigeria and collection of charges on this traffic</td>
<td>Ineffective control of smuggling and unsustainable dependency on Nigerian trade policy</td>
<td>Include reexport control &amp; fight against smuggling in customs modernization program</td>
<td>Ministry of Finance, DGDDI</td>
<td>Increased volume of transit trade to Nigeria officially recorded</td>
<td>M</td>
<td>H</td>
<td>H</td>
<td>3.1</td>
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<tr>
<td>B6</td>
<td>Costly transit regime</td>
<td>no</td>
<td>Escort of transit trade after attempt to introduce GPS tracking; high transit fees on cargo crossing Benin on Abidjan-Lagos &amp; Cotonou-Niamey corridors</td>
<td>High costs for traders shipping goods through Benin; Poor customs monitoring of transit trade</td>
<td>Remove transit fees inconsistent with multilateral/regional commitments; fully implement ISRT; replace customs escort by geotracking system</td>
<td>Ministry of Finance, DGDDI, MCIPME</td>
<td>Reduced cost of transit through Benin; Improved monitoring of transit flows</td>
<td>H</td>
<td>M</td>
<td>M</td>
<td>3.1</td>
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<td>B7</td>
<td>Persistent delays in customs clearance process, in particular for perishable goods</td>
<td>no</td>
<td>Customs declaration made in advance mandatory for perishable goods, enabling immediate release if no inspection is needed</td>
<td>Customs declaration still submitted after arrival for a large share of imports</td>
<td>Extend categories of products with advanced customs declaration</td>
<td>Ministry of Finance, DGDDI</td>
<td>Reduced customs clearance time</td>
<td>M</td>
<td>M</td>
<td>H</td>
<td>3.1</td>
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<td>B8</td>
<td>Excessive autonomy of regional customs offices and limited coordination with central administration</td>
<td>no</td>
<td>Connection of most customs offices to ASYCUDA++ and centralization on a single server</td>
<td>Limited customs controls over land borders and poor flow of information between central and regional levels in practice, hampering the central use of intelligence</td>
<td>Ensure consistent application of customs rules &amp; recording of customs operations at all border posts, improve information sharing with central administration</td>
<td>Ministry of Finance, DGDDI</td>
<td>Information on customs operations at land borders available at central level</td>
<td>M</td>
<td>M</td>
<td>H</td>
<td>3.1</td>
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<tr>
<td>B9</td>
<td>Non-compliance and limited professionalism of some customs brokers and agents</td>
<td>no</td>
<td>Licensing of customs brokers</td>
<td>Persistent of high non-compliance with rules and practice by unqualified professionals with limited risks of sanctions</td>
<td>Strengthen regulatory control of customs brokers; enforce sanctions; publish up-to-date list of licenses brokers; provide training on customs procedures</td>
<td>Ministry of Finance, DGDDI</td>
<td>Training organized; up-to-date list available; increased rate of accurate declarations</td>
<td>M</td>
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<tr>
<td>C1</td>
<td>Absence of a services trade strategy</td>
<td>No</td>
<td>Services working group established; met once since 2013</td>
<td>Lack of dedicated resources, unclear prerogatives &amp; action mandate, composition unrepresentative</td>
<td>Formalize the services working group (e.g. with a circular); include private sector/civil society; elaborate regulatory diagnostic and negotiation strategy</td>
<td>MICPME, DGCE</td>
<td>Creation of group, minutes of meeting, decisions</td>
<td>H, ST L M</td>
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<td>Studies on the services export potential of Benin and the optimization of its participation in the GATS and EPA negotiations</td>
<td>Low level of awareness of issues at stake</td>
<td>Reinforce the capacity of services working groups; Prepare regulatory diagnostics, competition diagnostics</td>
<td>MICPME, services working group &amp; relevant agencies</td>
<td>Diagnostics published, offers/requests presented at WTO &amp; regional level; reforms implemented</td>
<td>H, MT M M</td>
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<tr>
<td>C2</td>
<td>Poor governance and legal security in the services sector</td>
<td>No</td>
<td>Creation of a Ministry of Public Policy Evaluation, entreprenant status, judicial reform</td>
<td>Lack of implementation &amp; enforcement</td>
<td>Energize evaluation program</td>
<td>Ministère de l'Évaluation des Politiques Publiques</td>
<td>Publication of evaluation reports</td>
<td>H, MT H H 4.3</td>
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<td>Speed up the creation of the Commerce Tribunal and make it operational; reinforce mechanisms of arbitrage and mediation</td>
<td></td>
<td>Speed up the creation of the Commerce Tribunal and make it operational; reinforce mechanisms of arbitrage and mediation</td>
<td>MICPME, Ministry of Justice</td>
<td>Creation of tribunal and arbitration mechanisms</td>
<td>H, MT H H 4.3</td>
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<td>C3</td>
<td>Absence of promotion strategies and maintenance of obstacles to trade in services sectors with high potential</td>
<td>No</td>
<td>Strategies in telecoms, IT-enabled services, and tourism</td>
<td>Lack of implementation of reforms, lingering monopoly positions</td>
<td>Implement sectoral strategies; Eliminate monopoly rights on key segments of the telecom market; Improve conditions for offshoring companies; Improve governance and respect for social/environmental considerations in tourism sector; update tourism policies &amp; regulations; promote investment; reinforce the capacity of public actors in this sector</td>
<td>MICPME, relevant ministries</td>
<td>Implementation of strategies &amp; of the competition framework for telecoms</td>
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<td>4.3</td>
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<tr>
<td>C4</td>
<td>Poor investors protection</td>
<td>No</td>
<td>Doing Business dialogue</td>
<td>Slow progress</td>
<td>Support OHADA Uniform Act on Corporate Law; Revise Code des Procédures Civiles</td>
<td>MICPME, Ministry of Justice</td>
<td>Reforms implemented</td>
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## Agriculture

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<td>D1</td>
<td>Institutional crisis in the cotton sector</td>
<td>Yes</td>
<td>Nationalization of processing and input sectors</td>
<td>Inefficiency of public monopoly; crowding out of private sector</td>
<td>Preserve vertical integration in a zoning system; elaborate a zoning plan with a timeline of implementation (in the ST)</td>
<td>MICPME with Finance ministry and Ministry of Agriculture (MAEP)</td>
<td>Clearing of cross-arrears in processing; action plan</td>
<td>H H H</td>
<td>5.2</td>
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<td>D2</td>
<td>Deficient SPS framework, inadequate quality management</td>
<td>Yes</td>
<td>SPS: several agencies in charge: ABENOR, DANA, DNPV, DPQC; Quality management: ABSSA &amp; LACSSA</td>
<td>Institutional deadlock around ABSSA; resources and skills deficit</td>
<td>Elaborate national quality strategy (ST); consolidate SPS agencies; decouple regulatory functions from enforcement/testing</td>
<td>MICPME with MAEP and Ministry of Industry</td>
<td>ABSSA operational; national quality policy document; streamlined SPS framework</td>
<td>H H H</td>
<td>5.4.2</td>
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<tr>
<td>D3</td>
<td>Inadequate metrology system</td>
<td>No</td>
<td>None</td>
<td>ABMCQ lacks adequate resources</td>
<td>Invest in weighing equipment, weighbridges at port and airport; set-up an equipment installment plan (ST)</td>
<td>MICPME, MAEP, ABMCQ, donors, NGOs</td>
<td>Effective use of metrology</td>
<td>H L H</td>
<td>5.4.3</td>
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<tr>
<td>D4</td>
<td>Logistics constraints for non-traditional agricultural products</td>
<td>No</td>
<td>None</td>
<td>No strategy</td>
<td>Eliminate roadblocks, set-up/dynamise the monitoring framework on the reduction of roadblocks (ST) and implement a complaint mechanism</td>
<td>MICPME with MEF &amp; MAEP</td>
<td># complaints from private sector about roadblocks</td>
<td>H L H</td>
<td>5.3; 5.5</td>
<td></td>
<td></td>
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<tr>
<td>Action code</td>
<td>Identified constraint</td>
<td>In AM 2005?</td>
<td>Current approach to deal with constraint</td>
<td>Limitations of current approach</td>
<td>Improvement/new actions proposed</td>
<td>Responsible agency</td>
<td>Monitoring indicators</td>
<td>Priority level/timeframe</td>
<td>Diff. Payoff</td>
<td>Ref. section</td>
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<tr>
<td>D5</td>
<td>Weak producers' management capabilities</td>
<td>No</td>
<td>Producer-focused capacity building</td>
<td>Insufficient emphasis on transformation and market access</td>
<td>Design and implement management &amp; marketing training programs; design a training plan supported by a diagnostic of needs (ST)</td>
<td>MICPME with ABEPEC, ABEX, CCI, CNAB, Donors</td>
<td>Short training sessions in management and marketing, in English, run by ABEPEC</td>
<td></td>
<td>H</td>
<td>L</td>
<td>H</td>
</tr>
<tr>
<td>D6</td>
<td>Weak professional organizations</td>
<td>Yes</td>
<td>Ongoing support program; several initiatives (cereals) at ECOWAS level</td>
<td>Program has weak effectiveness and outreach</td>
<td>Assistance to the creation of professional and inter-professional organizations &amp; training of officers; diagnostic study on professional and inter-professional organizations and their management; design a capacity building plan</td>
<td>MICPME with MAEP, Agriculture Chambers and NGOs</td>
<td>Legal status for PO and IPO; Dialogue with each sector</td>
<td></td>
<td>L</td>
<td>H</td>
<td>H</td>
</tr>
<tr>
<td>D7</td>
<td>Deterioration of natural stocks (e.g. shea tree)</td>
<td>No</td>
<td>None</td>
<td>No management of vulnerable resources</td>
<td>Develop tree management areas (shea, etc.): Make an inventory of growing areas by type of tree; Design a development plan (enrich existing planted areas; create new plantations); Designate and enforce protected areas</td>
<td>MICPME with MAEP &amp; Environment Ministry</td>
<td>Sustainable exports of shea butter and its derivatives</td>
<td></td>
<td>L</td>
<td>L</td>
<td>L</td>
</tr>
<tr>
<td>Action code</td>
<td>Identified constraint</td>
<td>In 2005 AM?</td>
<td>Current approach to deal with constraint</td>
<td>Limitations of current approach</td>
<td>Improvement/new action proposed</td>
<td>Responsible agency</td>
<td>Monitoring indicators</td>
<td>Priority level/time frame</td>
<td>Diff. b/ b/</td>
<td>Payoff</td>
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<tr>
<td>D5</td>
<td>Weak producer management capabilities</td>
<td>no</td>
<td>Producer-focused capacity-building programs</td>
<td>Insufficient emphasis on transformation and commercialization</td>
<td>Management/marketing training programs</td>
<td>MICPME with ABEPEC, ABEX, CCI, CNAB, PTF</td>
<td>Short training sessions in management, marketing, and English run by ABEPEC</td>
<td>H L H</td>
<td>5.5.1</td>
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<td></td>
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<tr>
<td>D6</td>
<td>Weakness of professional organizations</td>
<td>yes</td>
<td>Ongoing support program; several initiatives (cereals) at ECOWAS level</td>
<td>Program has weak effectiveness and outreach</td>
<td>Assistance to creation of professional and inter-professional organizations &amp; training of officers</td>
<td>MICPME with MAEP and NGOs</td>
<td>Legal status for PO and IPO; permanent dialogue with each sector</td>
<td>H H H</td>
<td>5.5.2</td>
<td></td>
<td></td>
</tr>
<tr>
<td>D7</td>
<td>Deterioration of natural stocks (e.g. shea butter trees)</td>
<td>no</td>
<td>none</td>
<td>No management of vulnerable resources</td>
<td>Designate and enforce protected areas</td>
<td>MICPME with MAEP and Ministère de l'environnement</td>
<td>Sustainable export of shea butter and derivatives</td>
<td>H L H</td>
<td>5.3.3</td>
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Chapter 1: Eight years on: Selective progress

1.1 Introduction

Benin’s economy is highly dependent on neighboring Nigeria. Nigeria’s GDP is about 33 times that of Benin, and at least 20% of Benin’s GDP is generated in entrepôt trade with its large neighbor. Taxes on transit trade and re-exports are moderate (between 6% and 7% all included).

This dependence, however, is full of opportunities. Trade has always been a creator of wealth, especially for countries which, for any number of reasons, have not established favorable conditions for manufacturing. While dominated by large, well-organized networks of big traders, trade (legal or parallel) also provides a living to small-scale operators, many of whom are women, and generates a host of side activities.

In spite of these potential benefits, Benin’s current situation remains nevertheless vulnerable. The profitability of entrepôt trade is based on price arbitrage which could evaporate if Nigeria abandoned its highly distortionary trade policies. Even without major policy changes, the day-to-day operation of import prohibitions is fraught with arbitrariness and uncertainty, with bans imposed and then revoked regularly for no apparent reason.

Benin needs to put its relationship with Nigeria on a healthy, competitiveness-driven ground. Transforming a rent economy into a competitive transit economy is a first-order priority for Benin to ensure that it remains the region’s gateway for imported goods — whatever the policy environment in Nigeria. This requires a concerted action plan, putting services competitiveness at the heart of the government’s development strategy, and the abandonment of the short-term rent-grabbing tactics that have plagued the country’s economy for years.

1.2 Background: A slow-growing, low-income economy

Benin is a small, low-income economy in West Africa. Relative to its ECOWAS partners, Benin’s economy, with a GDP of US$7 billion and a GDP per capita of US$729 (US$1,654 at PPP), is small and relatively low income. In size, it ranks # 7 out of 15, between Burkina Faso and Niger, and in terms of income, it ranks # 6, between Senegal and Mali (Figure 3).

Figure 3: GDP & GDP per capita in ECOWAS (average 2010-12)

Note: NGA: Nigeria; GHA: Ghana; CIV: Cote d'Ivoire; SEN: Senegal; MLI: Mali; BFA: Burkina Faso; BEN: Benin; NER: Niger; GIN: Guinea; TGO: Togo; SLE: Sierra Leone; CPV: Cabo Verde; LBR: Liberia; GMB: Gambia, The; GNB: Guinea-Bissau.

Source: World Bank, World Development Indicators
Figure 4 shows that, over the long run, Benin has been and remains a slow grower. The decade prior to 2000 was largely lost, with no growth at all. Between 2001 and the onset of the Global Financial Crisis in 2008, Benin’s GDP per capita expressed in dollars grew at a rapid pace, but this growth was almost entirely explained by the rise of the CFA franc (tied to the Euro) vis-à-vis the dollar. In real terms, average GDP growth was between 4% and 5%, i.e. only one% above the very rapid pace of population growth (3.5% a year).

Compared to many of its West African partners, Benin is also poor in natural resources.

### 1.2.1 Macroeconomic management has remained prudent in a turbulent period

Benin has succeeded in maintaining prudent macroeconomic policies. Debt reduction under the Highly Indebted Poor Country (HIPC) and Multilateral Debt Reduction initiatives has enabled the country to reduce its external debt to 18.4% of GDP in 2013 (IMF 2014) and to keep public debt around 30% of GDP. A fiscal stabilization effort since 2010, together with the sale of a telecom license in 2012 (1% of GDP), has allowed the country to keep on track with targets, with the primary fiscal deficit of 3.5% of GDP in 2013 (IMF 2014).

Inflation has been contained in spite of a succession of external shocks. The first shock was the world food price hike of 2008, which hit Benin very hard, as the country is an importer of foodstuffs. The flood of 2010 delivered a second blow, crippling cotton production. Last but not least, in January 2012 Nigeria decided to reduce its fuel subsidies by half. While highly inefficient (fuel subsidies are largely regressive, as fuel consumption rises with income), those subsidies were a boon to Benin, which imports an estimated 85% of its fuel consumption from Nigeria through parallel circuits (IMF 2013). The subsidy cut was partially reversed a few weeks after being put in place, reflecting the vagaries of the neighbor’s political economy. This triggered a 120% rise in fuel prices in Benin, increasing inflation from about 3% to 7.4% by end-March, after which it receded. There were, however, longer-term effects, with fuel prices 50% higher than before and transportation service prices permanently higher.

In addition, some effort is still needed to satisfy WAEMU’s convergence criteria. At 16.3% (IMF 2014), fiscal pressure is slightly below the 17% WAEMU convergence criterion (CC). At about 14.8%, the current-account deficit excluding grants is more of a concern. Current-account deficits can reflect macroeconomic imbalances, rather than structural trade deficits; in the case of Benin, there is evidence of some degree of real exchange overvaluation (Figure 5). But the real causal factor is a structural lack of competitiveness, discussed below in general terms and in more detail in Chapter 2. The ratio of internally-financed investments over fiscal revenue is within the WAEMU CC, as are the variation of arrears (external and internal) and the debt/GDP ratio.
1.2.2 But structural competitiveness remains weak

Benin’s economy lacks competitiveness at both the macro and micro levels. At the macro level, IMF staff analysis suggests that the real effective exchange rate (REER) was in 2012 overvalued by about 15% (Figure 5), resulting in a current-account (CA) deficit estimated at around 8.7% of GDP in the latest IMF analysis (IMF 2013). The CA deficit was financed by a mixture of foreign direct investment (FDI, 2% of GDP), short-term capital flows (1-1.5% of GDP), and other flows, including project loans (IMF 2013).

Benin’s lack of competitiveness is not just a macroeconomic phenomenon: it is also structural. Benin ranks poorly in most business surveys, including the Global Competitiveness Indicator (GCI), Doing Business (DB), the Global Enabling Trade (ETI) index, and Transparency International’s Corruption Perceptions Index (CPI). The GCI, which has a wide respondent base, ranks Benin #119 out of 144 countries, with a score of 3.6 out of 7, with a deteriorating trend in recent years. Overall, the doing-business environment fails to compare favorably on important indicators with neighboring Nigeria (Figure 6), itself hardly a model.

Poor governance is a major issue. Binding constraints on conducting business reported by GCI respondents include corruption (#1), followed by access to financing, tax rates, and the inadequate supply of infrastructure. International evidence suggests that corruption and the aggressive or erratic collection of taxes are significant drivers of the prevalence of informal transactions in the economy. As long as governance does not improve substantially both in facts and perceptions there is little hope of making formal activities more attractive relative to informal ones.

Given the limited skills available in the workforce, Benin’s labor costs are also not particularly competitive. While unit labor costs are not available for most West African countries on a reliable basis, the ILO has data on minimum wages, shown in Figure 7. Except for 2011 where the Nigerian minimum wage stood, according to the ILO, at the equivalent of U.S. $115, Benin had the region’s highest minimum wage.
Public services are also uncompetitive in Benin. Access to electric power, for instance, is substantially lower than in Nigeria. Moreover, coverage is progressing slowly in Benin, while neighboring Ghana races ahead (Figure 8).

Last but not least, limited financial development is a major constraint. Although Cotonou’s location is, by and large, healthy and attractive to banks, firms surveyed by the World Economic Forum’s ETI singled out access to trade finance as the main constraint to exporting, followed by lack of access to information (Figure 9). Bankable risks are limited and bank lending is constrained by institutional factors. These include the difficulty of refinancing mortgage loans, the lack of strong guarantees for loans to SMEs (a Banque Régionale de Solidarité was set up as part of a regional scheme to encourage young entrepreneurs and the unemployed, but it is one of Benin’s two troubled banks and is planned to be restructured and refinanced as part of a regional scheme), lengthy legal proceedings, cumbersome access to foreign exchange, and a lack of information on borrowers. So far, banks have had to rely on various but not always reliable sources, including the Centrale des Bilans, the Centrale des Risques and the planned

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5 Private-sector operators are not allowed to have foreign bank accounts, except in special cases upon authorization of the Minister of Finance, and must convert all their foreign-exchange receipts. In 2010, banks were allowed to keep up to 20% of their foreign-exchange revenue to cover the short-term cash needs of their clients in order to ease bottlenecks.
Centrale des Incidents de Paiements although the latter was never fully operational. However, a law was just passed in Parliament to create a credit bureau and implementation is slated to take place in 2014.

Figure 9: Main obstacles to exporting, Enabling Trade Index 2012-13

Limited financial development in Benin translates into a relative lack of financial inclusiveness. According to the World Bank’s Findex database, 90% of Benin’s adult population does not have access to a bank account, although the figure is substantially less if one counts postal accounts and micro-finance. Lack of access to bank accounts can hamper the ability of small-scale traders, active in Benin’s cross-border trade with Nigeria, to access savings instruments. Even microcredit suffers from governance problems in Benin, with only one third of microcredit schemes operating with a license. The sector was affected by a crisis in 2010, which highlighted its inadequate governance and lack of prudential supervision.

Weak financial inclusiveness and widespread informality are inter-related syndromes. Lack of access to a bank account hampers formalization, but informality (and the lack of accounting transparency that goes with it) also hampers access to bank credit. Anecdotal evidence suggests that the prevalence of cash transactions is widely perceived by small-scale traders as not just tax avoidance, but protection against the fiscal administration’s lack of predictability.
1.2.3 Poverty and vulnerability remain prevalent

As a result of the slow growth of per-capita GDP, poverty has receded only slowly, with the poverty headcount remaining at 36%, according to the national definition (Figure 10). When defined relative to the international poverty line at $1.25/day, the poverty headcount stood in 2011 at 50.9% (61.7% in 2006). Although recent statistics suggest that, by and large, Benin’s limited growth has been pro-poor (INSAE 2014), the rate of income convergence of the bottom two deciles of the income distribution appears too slow to have enabled significant numbers of households to cross the poverty line, leaving the headcount largely unchanged. Moreover, poverty seems to be linked to the high and accelerating rate of population growth (2.8% per year between 1979 and 1992, 3.2% between 1992 and 2002, 3.5% since 2002), as poverty correlates with household size (UNDP 2011).

Low income growth is also related to the economy’s inability to generate a growing surplus out of productive activities, as additions to the labor force contributed 78% of GDP growth (three % points) over 2004-2008, the last period where data is available, whereas capital accumulation contributed only one % point, and negative total factor productivity (TFP) growth cut growth by half a % point (Figure 11). As additions to the labor force were the overwhelming source of GDP growth, very little was left for increases in individual remunerations in any form, leading to income stagnation.

Vulnerability remains significant, with about a fifth of all households temporarily dipping below the poverty line each year and close to one Beninese out of seven suffering from food insecurity (UNDP 2011), two thirds of whom living in rural areas. Weather shocks have been a strong source of vulnerability in rural areas, highlighting the exposure of Benin’s agriculture, where poverty seems, according to government data, to have worsened substantially (INSAE 2014).

Against this background, the DTIS process (DTIS and DTIS Update) proposes a strategy of export-led growth based on the strengthening of existing productive sectors and diversification into new

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sources of job creation, based on a reform strategy aimed at leveraging the country’s comparative advantage. We now turn to an assessment of the state of implementation of the original plan, its integration into the country’s development strategy, and new leads to re-energize the process and better align it with national priorities.

1.3 DTIS implementation: limited progress on an ambitious agenda

1.3.1 Mainstreaming trade in Benin’s development strategy

One of the key objectives of the 2005 DTIS was to mainstream trade in Benin’s national development strategy. Given the small size of the domestic market and the particular role that Benin plays in the region as a gateway for imports and a crossroads between two important regional corridors (Cotonou-Niamey in the North-South dimension and Abidjan-Lagos in the East-West), it was clear to both the Government of Benin and the donor community that the national development strategy had to put the open-economy dimension at its center. Yet Benin lacked the necessary analytical tool to develop this particular axis of its development strategy. The DTIS was to provide that analytical tool and had twin objectives in that respect:

- To highlight specifically trade-related constraints to growth, both cross-cutting and sector-specific;
- To provide a trade-centered analysis on wider areas of Government and donor action such as infrastructure, governance, and the provision of public services.

Moreover, the DTIS was expected to provide a catalogue of practical measures to make progress on the elimination of constraints. Section 1.3.2 below will provide a detailed assessment of the implementation status at the measure level.

In terms of the general objective of mainstreaming trade in the national development strategy, the Ministry of Industry, Commerce and SMEs (MICPME in its French acronym) produced in 2013 a Trade Development Strategic Plan (TDSP) that laid out the Government’s priorities in terms of trade development. The TDSP’s objective was to ensure the coherence of Government interventions in trade-related matters and to the alignment of trade policy with the 2011-2015 Poverty Reduction Growth Strategy adopted in 2011 and its Priority Action Program (PAP).

The TDSP proposes a global vision for the development of the country’s trade sector, articulated around two “specific objectives”:

1. Ensure the supply of high-quality products for the domestic market,
2. Leverage opportunities offered by regional and multilateral trade.

Based on these objectives, the document lists several strategic axes. For objective 1, these are (i) formalizing domestic trade, (ii) promote electronic trade, (iii) protect consumers, and (iv) reinforce the capacities of trade-support institutions. For objective 2, strategic axes are (i) promote exports, (ii) strengthen competitiveness, and (iii) leverage the opportunities created by regional and multilateral trade agreements.

Based on its diagnosis objectives and strategic axes, the TDSP proposes an action matrix composed of 40 actions with progress indicators, an implementation schedule, and designated responsible structures in the government. It also proposes a tentative costing over the 2014-2020 period. The four strategic axes falling into objective 1 add up to a funding demand of $2 million per year, or a total of
$14 million over the seven years of the strategy. The three axes falling into objective 2 add up to a funding demand of $9.2 million per year, or a total of $60 million over seven years, the bulk of which is accounted for by the “strengthening competitiveness” category ($6.2 million per year).

Looking beyond the TDSP, the mainstreaming of trade and competitiveness concerns in Benin’s broader development strategy is reflected in key documents such as the 2012 update of the country’s Growth and Poverty Reduction Strategy Paper (GPRSP), whose Section III (diversification of the economy) includes a discussion of reforms in the “trade-logistics nexus”. The document takes stock of infrastructure improvements in the Port of Cotonou and of measures aimed at facilitating trade, and goes on to list key challenges to be met in order to “energize” the trade logistics nexus. These include:

1. Reinforcement of EIF support to trade assistance
2. Reinforcement of petroleum products storage and distribution
3. Adoption of the Competition Policy bill
4. Support for the enforcement of competition rules on the domestic market
5. Setting up a strategic monitoring for export promotion
6. Reinforcement of the metrology infrastructure
7. Reinforcement of commercial fraud control
8. Creation of a Tribunal of Commerce
9. Reinforcement of the OCBN’s capabilities.

The list of challenges is broadly aligned with the 2005 DTIS priorities (see below for a discussion), although with some important nuances; for instance, the list strongly emphasizes a control approach (enforcement of competition rules, control of commercial fraud, etc.) whereas the DTIS took a more skeptical view of the need to rely on controls in light of a weak state apparatus and discretionary habits of control bodies.

1.3.2 Assessing impact: Broad outcome indicators

This section presents a “prima-facie” assessment of the 2005 DTIS action matrix’s impact by looking for evidence of improvements in broad performance measures, keeping in mind that the causal chain between actions on the ground and broad aggregate indicators is sometimes long and tenuous. The DTIS action matrix singled out five areas for priority action:

1. Improve trade facilitation
2. Consolidate and reinforce export- and investment-support institutions
3. Improve the legal and regulatory framework
4. Reform the cotton sector
5. Energize regional integration and improve relations with Nigeria.

Nine years on, evidence collected during the DTIS Update mission suggests that the priorities identified in 2005 remain relevant, with limited progress in some parts of the agenda and none at all in others, in particular the last three. Consider first broad outcomes: if the priorities were well-selected and followed by concerted action, one would expect to see progress in measurable indicators linked to those priorities. For each priority area, one can select one or a few proxy indicators that can be expected to correlate with the intensity and success of reform.

For trade facilitation, these indicators include, inter alia, Doing Business “trading across borders” scores and Logistics Performance Index (LPI) scores. For export and investment promotion, one can
take very broad proxies like the export-to-GDP ratio, measures of export diversification, and the ratio of FDI to GDP. While the causal chain from limited-scale interventions to such macro indicators is long and tenuous, these outcome indicators are nevertheless indicative of whether there is evidence of a drastic change in the policy environment for the better. For the legal and regulatory framework, appropriate indicators include standard governance and business-climate indices. For cotton-sector reform, the most obvious performance indicator is the volume index of cotton production, although one could look also at quality indicators such as the proportion of grade-A cotton and so on, which are sensitive to the timing and management of harvest, collection and storage. Finally, for regional integration and relations with Nigeria, one can look at the regional share in Benin’s trade as well as the reduction of unrecorded parallel trade with Nigeria. While a detailed examination of trends in these indicators will be the subject of Chapter 2 of this report, we can already take stock of big trends in order to assess whether the picture that emerges is one of committed implementation of reforms.

**Trade facilitation:** In terms of trade facilitation (priority area 1), the picture is one of progress, but a failure to out-pace regional competitors. Figure 12 shows the evolution of standard trade facilitation indicators for Benin against the average of its ECOWAS partners/competitors over years where data is available in the nine-year period since the DTIS. The picture is nuanced. The cost to export as measured by Doing Business indicators has been stable in Benin, while it increased steadily, on average, in ECOWAS. Time to export, a proxy for the efficiency of port operations, has been slowly but regularly decreasing in Benin, on a parallel trend with the ECOWAS average. Finally, Benin’s LPI score, based on a larger sample of respondents than Doing Business, shows early improvement between 2007 and 2010, but none thereafter, while the opposite is true of regional competitors. As we will see later on in this report, this partly reflects unfortunate experimentation with an inspection company.

![Figure 12: LPI scores, Benin vs. ECOWAS partners](image-url)
Figure 12 (continued): Evolution of selected trade-facilitation indicators, Benin and comparators, 2005-2013

(a) Cost to export
(b) Time to export

Source: Mission calculations using WDI

Export and investment promotion: In terms of improved effectiveness of export promotion through the consolidation and reinforcement of export- and investment-promotion agencies (priority area 2), the evolution of broad outcome indicators since 2005 is not particularly favorable, although broad indicators are distinctly difficult to interpret. Figure 13 shows that the ratio of non-commodity exports to GDP fluctuates widely in the case of Benin, being affected by the price and volume of the cotton harvest. The period after the DTIS (2006-2012) was characterized by large fluctuations which make it difficult to identify a clear trend up. Nor did Benin clearly outperform the ECOWAS average.

Figure 13: Ratio of non-commodity exports to GDP

Note: Non-commodity exports include cotton but exclude minerals & oil products (HS chapters 25-27)
Source: Mission calculations using comtrade and WDI

Figure 14: Herfindahl export concentration index

Note: Herfindahl index calculated on SITC rev4, 4-digit classification
Source: Mission calculations using comtrade
Diversification has not made much headway either. Given the potential of non-traditional agricultural exports such as cashews, pineapple or shea butter in Benin, one would expect more effective export promotion to lead to export diversification. Figure 14 shows the evolution of Benin’s Herfindahl index of product concentration over time. The concentration index first rises over 2006-2009 as a result of higher cotton prices, then it drops between 2010 and 2013, but, as we will see in Chapters 2 and 5 of this report, this largely reflects the collapse of the cotton sector rather than growth in non-traditional exports.

Figure 14: Benin’s Herfindahl index of product concentration over time

As we will see in Chapters 2 and 5 of this report, this largely reflects the collapse of the cotton sector rather than growth in non-traditional exports.

Figure 15: Indicators of legal & regulatory quality

(a) CPIA regulatory quality score
(b) DB time to resolve insolvency

Source: Mission calculations using WDI

Thus, at this stage there is no prima-facie evidence that improvements in Benin’s export- and investment-promotion structures have led to a visible improvement in broad, aggregate indicators of export performance and diversification.

**Legal and regulatory framework:** Improvements in the legal and regulatory framework, the fourth priority of the 2005 action matrix, do not seem to have had a large impact on indicators such as the CPIA’s regulatory quality score or the time to resolve insolvency reported in the Doing Business (Figure 15).
Cotton-sector reform: As for cotton sector reform, as will be documented later on in this report, the direction of change has been for the worse, with institutional arrangements in disarray and cotton output oriented downward since 2005 (Figure 16). An analysis of the reasons behind the failure of reform in the cotton sector is provided in Chapter 5.

Parallel trade and relations with Nigeria: Finally, the action matrix’s fifth priority—normalizing relations with Nigeria—has not led to any visible progress; in fact, parallel re-exports to Nigeria, a subject of friction between the two neighbors, seem to have grown exponentially since the last DTIS.

In order to grasp parallel re-exports to Nigeria, Figure 17 compares official imports into Benin (all origins and all products) with “mirrored” imports, i.e. exports to Benin declared by Benin’s trading partners. The gap is extremely large ($5.8 billion in 2010 and close to $8.5 billion in 2011, the last year available) and has been growing rapidly. Where do these imports go? It is unlikely that they are absorbed by Benin’s domestic market, as they represent 116% of the country’s GDP in 2011. It is more likely that a large chunk, if not all, of those “unaccounted-for” imports represent in fact under-valued imports imported under the regular regime for consumption in Benin and re-exported to Nigeria. Indeed, the gross value of entrepôt trade with Nigeria is estimated at over two thirds of Benin’s GDP, and its contribution in terms of value added is estimated at about 20% of GDP (Golub 2012).

All in all, the mapping of broad outcome indicators to priority areas of the 2005 action matrix is not suggestive of a strong, successful drive for implementation and reform. However, the causation chain between actions on the ground and broad outcome indicators is long and tenuous. Many confounding influences may blur the causal link from reform to performance outcomes. Thus, a more direct, output-based assessment of progress on the action matrix is necessary.
1.3.2 Action-matrix implementation

The 2005 DTIS Action Matrix was an extremely comprehensive and ambitious document, extending to 17 pages, nine issue areas, and 70 discrete actions. Implementation on the ground has proved challenging and action-matrix implementation has been highly uneven, with an overall take-up rate of 39%.

Nonetheless, high implementation rates have been observed in the all-important area of trade facilitation. In particular, in the area of port improvement, practically all recommendations have been taken on board (Figure 18). Recommendations for the port included speeding up the port zoning plan, improving port security and the use of information technologies, and improving the port’s overall governance. There is visible progress on all fronts and more is expected in the next few years. Port infrastructure has also improved. The Action Matrix recommended moving oil tanks outside the port, enlarging warehousing capacities, liberalizing the stevedores sector, privatizing the CNCB, and enlarging apron space for trucks. All of those recommendations have been partially or fully implemented, although some tanks are still near the container terminal. In particular, CNCB has been concessioned out. As will be clear throughout this report, the port is very much the country’s spinal cord, and improvements in its governance and infrastructure are critical to its overall competitiveness.

In the related area of customs reform, progress has been more uneven, partly as a result of the unfortunate Pre-Shipment Inspection (PSI) experiment with Benin Control. The Action Matrix recommended a customs audit, which has been undertaken as part of the current DTIS, better use of IT in customs and most importantly in customs-related payments, better targeting of physical inspections, and the operationalization of the Single Window. In other areas such as the use of IT (and, relatedly, the better targeting of physical inspections), progress has been partial. For instance, ASYCUDA’s risk-management module is hardly used although it is a simple “entry” tool into risk management.

In other areas, implementation has either not taken place or circumstances have deteriorated. For instance, the cotton sector is in deep disarray. But in other key sectors such as road infrastructure or trade-support institutions, progress has been slow. Thus, the highest implementation rates have been achieved in areas where donors provided close technical and financial assistance to use technical

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7 By contrast, in Uganda and Sao Tomé & Principe, two countries where similar assessment exercises were recently carried out in the course of DTIS Updates, take-up rates calculated similarly were above 50%.
solutions to tackle technical problems. In areas where constraints were of a soft type and solutions within the reach of the Government, such as governance, the legal framework, the institutional setup of the cotton sector, or the setup of trade-support institutions, progress has been slow, suggesting a lack of ownership of Action Matrix recommendations within Benin’s administration and at high levels of the government.

Several factors have contributed to low ownership. One is the sheer number and extent of the recommendations contained in the Action Matrix, and the difficulty of prioritizing them into short-, medium-, and long-term actions. The issue of sequencing is important for reform, but was left relatively unclear in some parts of the 2005 DTIS Action Matrix. A second reason is the need for capacity building in the area of governance: political will is an important driver of reform and, in its absence, it is difficult for individual actors to make significant changes. Third, and related to the second reason, is the pervasiveness of rent-seeking in Benin, which makes the political economy of reform extremely difficult. Individual actors have no incentive to move from a low-welfare equilibrium to a welfare-superior one in a national sense. High level political impetus is necessary to overcome this problem. At the same time, actions must be designed with political-economy difficulties in mind, and focus on feasible actions with visible gains, suggesting an incremental approach to DTISU recommendations, as opposed to designing “ideal” interventions unlikely to draw sufficient support to ensure implementation.

1.3.3 A new approach aligned with the government’s priorities

As mandated by the Paris Principles, the approach of the DTIS Update’s (DTISU) is strongly aligned with the MICPME’s Trade Development Strategy Plan (see above for a discussion) and draws also from the diagnosis in the Government of Benin’s recent poverty assessment (INSAE 2014) as well as the 2011 update of the GPRSP. It emphasizes the linkages between poverty, jobs, and trade, with two key objectives: (i) reducing poverty through trade-led growth, and (ii) reducing vulnerability.

The DTISU’s approach is also centered around the role of the MICPME, focal point of the EIF process in Benin. Because the DTISU’s Action Matrix spans areas that go beyond the strict competences of a trade ministry, the MICPME is viewed as having a twin role in the process: (i) Action on a core of measures falling directly under its competences; and (ii) Advocacy and Proposal (A&P) for a wider set of actions falling under the competence of other line ministries or requiring higher-level strategic choices. Based on its objectives and approach, the DTISU emphasizes, at a broad level, two key policy priorities:

3. Diversification using the development of competitive logistics services as the entry point,
4. Reform of the cotton sector.

This report will show that Benin faces a large and potentially threatening source of vulnerability due to the fact that a fifth of its economy is linked to the exploitation of price-arbitrage rents through parallel trade with Nigeria, rents which are bound to erode progressively with regional integration. Benin therefore needs to replace this fragile source of enrichment with a competitive advantage grounded in real cost-competitiveness. Establishing modern logistics services (a wide range of activities related to transport and transit) would facilitate job creation in other sectors and reduce vulnerability. The development of formal logistics activities would create the conditions for the

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8 This study is based on information collected during a poverty study in 2011. A new study should be available over the course of 2015.
progressive formalization of the economy, one of the TDSP’s core strategic axes, for a progressive enlargement of the tax base, which would itself contribute to the fulfillment of WAEMU’s convergence criteria, as well as the economy’s ultimate diversification into transformation activities. Thus, the DTISU emphasizes a limited set of priorities but with powerful synergies, represented graphically in Figure 19.

Figure 19: Synergies between the DTIS update’s core priorities and Benin’s development strategy

As for cotton sector reform, as it reaches beyond the traditional competences of a trade ministry, it clearly falls into the A&P category. However, it remains intimately linked to trade strategy because the cotton sector’s performance largely conditions Benin’s growth, poverty, and trade performance. In short, keeping it out of the DTISU’s scope would mean ignoring the single most important determinant of many performance outcomes against which the DTISU’s impact will be judged. Moreover, cotton-sector reform along the lines recommended in Chapter 5 of this report would have, if implemented energetically, the power to substantially reduce the economic vulnerability to which Benin’s poor are exposed. It is thus at the center of the trade-poverty nexus.

The “diversification” box at the center of Figure 1 and Figure 19 falls within the area of competence of the MICPME and should thus be an area for immediate action; while boxes in the figure’s periphery clearly include a mixture of areas for action and A&P. Based on this framework, the DTISU’s diversification strategy (at the core of the MICPME’s action) is based on four building blocks:

Reinforce the export-promotion/SPS management nexus: Diversification into nontraditional products and first transformation requires a joint effort of export promotion and improved quality management, as the two are strongly complementary; this will require coordination between the MICPME and SPS management agencies;

1. Pursue customs reform: Customs’ role as “doorkeeper” of the Benin trade platform must be enhanced through better and more extensive use of ICT as well as complementary organizational reforms aimed at improving client orientation, transparency, and accountability at all levels;

2. Develop “clean channels”: Success in developing the formal economy may be achieved first within a limited, fenced area of transit via the container terminal and using the future rail infrastructure, in partnership with a reputable international operator. This “clean channel” could have a demonstration effect and provide a model to be extended step by step to wider areas of the domestic economy, bringing in the mainstream progressively smaller-scale players;
3. Seek improved relations with Nigeria: Once Benin has regained control of its trade flows through the establishment of clean channels and a credible customs reforms, it should attempt to improve relations with Nigeria through the progressive elimination of rents based on tax evasion that are costly to the Nigerian treasury (currently estimated at US$1 billion a year) using as an entry point the common management of the Sémé-Kraké border post (see Chapter 3).

Alignment of the DTISU’s building blocks with the TDSP is illustrated in Figure 20. The left-hand side of the figure provides a visual representation of the structure of the TDSP, with “specific objectives” in the left-most column, strategies in the second column, and a selection of key actions among the Matrix’ 40 proposed actions in the third column. On the right-hand side of the figure, the boxes summarize the DTISU’s four key building blocks discussed above and show, with red arrows, how they relate to the TDSP’s selected actions.

In sum, the DTISU proposes a practical action plan organized around key building blocks in close alignment with the TDSP’s Action Matrix. Each of those four building blocks is, in itself, an ambitious, complex project which will bear fruit only in the medium term. In this sense, there is no “low-hanging fruit” in the implementation of the TDSP/DTISU strategy. However, implementation should start on the ground, step by step, following the detailed Action Matrix offered in the DTISU as a complement to the TDSP’s own version. The existence of a costed Action Matrix in the TDSP, furthermore, should facilitate implementation and should prove a useful starting point to the dialogue with donors.

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9 For easier reference, the actions are numbered in this document, although they are not numbered in the Action Matrix in the TDSP document.
Chapter 2: Harnessing trade policy for competitiveness

2.1 Introduction

Benin needs to create 100,000 jobs every year in the foreseeable future. Given the country’s current population growth rate, failing to do that would imply inexorably rising unemployment. In order to attain this minimal objective, a sustained increase in the intensity of economic activity will be required in all sectors, those that already provide substantial employment—agriculture and services—in the immediate future and, in the medium run, new industrial transformation activities.

Export markets are critical to providing the business opportunities required to generate such growth. With a GDP of about US$8 billion, Benin has a limited domestic market whose size does not make it a sufficiently powerful driver of growth. Thus, while retaking the home market is a first-level objective for Benin’s firms, there should be no trade-off between import-substituting and export-led growth: the two must go together through improved competitiveness at the firm level.

The analysis of trade data from various sources highlights the sheer size of parallel exports to Nigeria. These flows are partly driven by comparative advantage and congestion at the Lagos port, but they also reflect lost control over import valuations and the collection of border taxes. While contributing powerfully to income generation in Benin, these flows rest on the arbitrage of price gaps that may progressively vanish with regional integration. The fundamental objective of Benin’s development strategy should be to replace rent-driven activities with alternatives based on genuine cost-competitiveness. Given the constraints on Benin’s industrial development (lack of financing, weak infrastructure, regulatory uncertainty, and moral hazard in business transactions), the first-order priority for policy action should be the development of service activities linked to Benin’s location as a gateway to landlocked countries (Niger and Burkina Faso) and to the large Nigerian market. Trade data analysis in this chapter indeed confirms that Benin already plays the role of an import gateway for the region, suggesting that a development strategy taking this as a starting point would leverage already-existing competitive advantage. In turn, better logistics would improve the prospects for diversification into light manufacturing and the first transformation of agricultural products.

In terms of trade policy, the analysis in this chapter shows that the transition to the higher ECOWAS tariff will involve a regressive shock on the price of foodstuffs, with a rise in the cost of living close to 10% for households towards the bottom of the income distribution. Given the creation of this high-tariff band and its implications for the cost of living, Benin should work to improve the conditions of regional trade in order to facilitate the movement of food staples in the region. Evidence during the price hikes of 2008-2011 suggests that there would be substantial gains from better movement of food staples between production regions and coastal markets. Better-functioning regional markets could largely offset the shock of the higher tariff band on the cost of living while generating employment and income creation in the region.

Relatedly, an analysis of customs data reported in this chapter reveals that almost half of Benin’s regional imports still take place on an MFN rather than on a preferential basis. The evidence suggests that the low uptake of regional preferences is likely to reflect the heavy, opaque and discretionary paperwork associated with the eligibility requirements of regional preferences. In the context of increased CET rates, therefore, it is particularly important for countries in the region to ensure that regional trade take place effectively on a preferential basis. After all, the very purpose of a customs union is to encourage regional trade and Benin has a stake in this.
2.2 A trade performance that largely reflects the cotton sector’s crisis

2.2.1 Formal trade

As noted in Chapter 1, Benin is running a persistent current-account deficit amounting to 8% of GDP, which has widened since 2005 as the growth of goods and service exports has trailed that of imports (Figure 21). The trade deficit is around 13% of GDP when measured by balance-of-payments accounts. This external imbalance creates a need for external finance which may run into sustainability problems in the long run.

As will become clear in Chapter 5, Benin’s export growth has been choked not by external factors but by the cotton sector’s internal crisis. Benin’s terms of trade (the ratio of the price of exports to that of imports) improved by 20% between 2000 and 2011, with a slight trend reversal in 2012 (Figure 22). This improvement reflects a trend rise in cotton prices since 2002.

Keeping aside the price hike of 2011 which briefly took Liverpool Index A cotton prices to an unrealistic high of over 200cts/lb, the long-term price trend for cotton has been clearly favorable, rising from 40 cts/lb in 2002 to 90 cts/lb in 2013 (see Chapter 5). However, Benin’s cotton crisis has prevented the country from benefiting from this price increase and particularly from the speculative price hike of 2011, as cotton output was then at its lowest in twenty years. Cotton export volumes largely collapsed between 2008 and 2011, so export revenue was buoyed only by the price rise (Figure 23). Put differently, Benin’s cotton export revenue for 2011 was $155 million (the value given by Comtrade mirror statistics) for an export volume of about 55,000 tons; had export volume been at its 2004 level of 119,000 tons, export revenue would have been $338 million. Thus, the crisis in

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10 The terms of trade index is based on official trade statistics. As much of Benin’s gasoline imports goes unreported, the influence of the price of oil on the terms of trade is underestimated and this may bias the evolution of the terms of trade upward.
Benin’s cotton sector cost the country $184 million in foregone export revenue (about $600 per farm) for 2011 only, and another $95 million ($317 per cotton farm) for 2012.\textsuperscript{11}

While cotton has not proved to be a growth driver in the last few years, non-traditional exports have been slow to rise in volumes. Keeping aside cotton fabric which is a special case (essentially re-exports), growth rates have been moderate. Cashew nut exports grew by 40% over the three-year period (12% a year) and pineapples by 18% (4% a year). In the case of pineapple, the analysis in Chapter 5 will show that slow growth is attributable largely to constraints on marketing and logistics, as well as a lack of support to farmers, rather than a lack of potential competitive advantage.

As a result of the slow growth of alternatives to cotton, Benin’s export structure remains highly concentrated, with cotton accounting for over 50% of exports in 2013 according to Beninese Customs. This data should, nevertheless, be interpreted with caution.

\textsuperscript{11} This comparison is « ceteris paribus »; in fact, weather conditions were not as favorable in 2011 as they were in 2004.
Concentrated export structures are common at low income levels, but Benin stands out in this regard even after controlling for its low level of income. Using Theil’s concentration index, \(^\text{12}\) Benin appears above the regression curve in Figure 25, suggesting that it is over-concentrated compared to comparators at similar levels of income. Its level of concentration has come down substantially since the mid-2000s, but this reflects the collapse of cotton exports more than a rise of non-traditional exports (cashew nuts being the exception).

**Figure 24:** Benin’s export structure, 2013

**Figure 25:** Benin’s export concentration in comparison

![Pie chart showing Benin's export structure](image1)

![scatter plot showing Theil's index](image2)

**Source:** National authorities

**Source:** Mission calculation from Comtrade

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**Figure 26:** Benin’s main import products as reported by its trading partners

**Figure 27:** Benin’s main import products as reported by Benin customs authorities

![Pie chart showing Benin's main import products](image3)

![Pie chart showing Benin's main import products](image4)

**Source:** Comtrade (mirrored data)

**Source:** Mission calculations using Benin customs data

Benin’s imports are much more diversified than its exports (Figure 26). The diversity of Benin’s imports demonstrates two distinct influences. First, it is a reflection of the country’s narrow production base, as demand for consumption goods not produced domestically must rely on imports.

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\(^{12}\) Theil’s concentration index is a widely used alternative to Gini and Herfindahl indices.
Second, it reflects the classification as imports of goods actually re-exported to Nigeria. Indeed, Figure 26 shows that among Benin’s top import products, some of the products that figure prominently fetch high import tariffs in Nigeria (rice, automobiles) or have import prohibitions (some textiles, frozen poultry, conditioned edible oil, second-hand clothing). By contrast, products that are known to be imported in large quantities, such as gasoline, do not figure in mirrored statistics, as Nigeria does not record parallel exports of gasoline to Benin.

Finally, a caveat on the quality and availability of Benin’s trade statistics is necessary. Benin stopped reporting trade data to Comtrade in 2010 in any nomenclature. As a result, no direct trade data is available and only “mirrored” trade data (i.e. flows with Benin reported by Benin’s trading partners) can be used for quantitative analysis. This situation is not conducive to improvements in the capacity of Benin’s own statistics and analysis units (INSAE and ministries), nor to conduct useful policy scenarios and analysis. Nonetheless, the data is available from the Customs administration and Benin’s main import products according to national Customs data are shown in Figure 27.

### 2.2.2 Informal trade

Informal trade in Benin is a very large part of the economy and a source of both employment and wealth creation, though it does not contribute as much to tax revenue and therefore to the provision of public goods as it could. Moreover, and most importantly, it is based on the arbitraging of price differences between Nigeria and Benin, themselves largely due to the presence of distortionary policies in Nigeria — a fragile source of rents. Abrupt (though short-lived) policy changes in Nigeria in the mid-1980s and in 2003 translated into major shocks on the Beninese economy, underscoring its vulnerability (Paquet and Savard 2009).

One can distinguish two main sources of rents due to distortionary policy interventions in Nigeria, which together explain a large part of the informal trade in Benin:

- Energy subsidies, which reduce the price of gasoline and other fuels in Nigeria and encourage the enormous and illegal importation of hydrocarbons in Benin;
- Import bans and high border taxes on major items such as edible oils, rice and textile and clothing, which raise the price of those products in Nigeria (see Treichel et al. 2011 and de Melo and Ugarte 2012) and encourage the equally-large illegal re-exportation of those products through Benin.
The magnitudes are extremely large. On the import side, unofficial estimates for the “implicit subsidy” of fuels in Benin via the incidental extension of the Nigerian subsidies put it at over 3% of Benin’s GDP.\(^{13}\)

On the export side, the regional Central Bank (the BCEAO) and the National Statistics Institute (INSAE) have also independently assessed the possible size of informal re-exports to Nigeria (INSAE 2011). The BCEAO methodology is innovative and relies on tracing the origin of bank notes taken in by the Central Bank’s branch in Benin (each member country issues notes with a different set of trace codes). INSAE, meanwhile, has adopted a more traditional approach, using border surveys to obtain a sample of informal trader behavior. Both initiatives make it possible, with some assumptions, to provide magnitude estimates of the size of the informal trade sector in Benin. According to the BCEAO, Benin’s official export statistics for 2011 might account for less than half (around 44%) of actual exports, after accounting for informal trade and netting out re-exports. The INSAE survey recorded 2.1bn FCFA of informal exports over a 10 day period in 2011, compared with a pro-rata official figure of 4.6bn FCFA, this result suggests that the official figures might account for only 70% of the true level of trade.

Figure 29 revisits the issue by looking at unofficial imports into Benin — the “other side” of re-exports to Nigeria — and suggests much larger orders of magnitude more consistent with those in Raballand and Mjekiqi (2010), who estimate Benin’s informal re-exports to Nigeria to be US$5 billion (10% of Nigeria’s imports). A comparison of Benin’s trade data from various sources reveals a striking discrepancy between, on the one hand, exports to Benin reported by other countries, excluding Nigeria (the red column on the left of Figure 29) and, on the other, imports reported by Benin’s customs authorities to Comtrade (full green column on the right in Figure 29). The discrepancy between the two represents a whopping US$5 billion (the stripped green column labeled “unaccounted for”), very close to Raballand and Mjekiqi’s estimate of parallel re-exports to Nigeria.

The “unaccounted for” imports can be understood as follows. Suppose that a trader imports a shipment of consumption products — for example, cooking oil — through Cotonou, where roughly a quarter of imports are destined for domestic consumption while the rest will be parallel re-exported to Nigeria. Because the re-export is unofficial, all the shipment is registered as consumption in Benin and liable to taxes, including border taxes, VAT and other levies, whose total is close to 45% for products in the 20% CET band.\(^{14}\) By contrast, if the merchandise destined for re-exportation were taxed under the transit regime, the rate would be around 6.7%. Suppose that the trader negotiates with customs an adjusted custom valuation so that 45% applied to that fictitious valuation is equivalent to 4.5% as a quarter of the real imports to Benin and 6.7% to the remaining three quarters destined for Nigeria. The adjusted customs valuation is what appears in Benin’s customs records forwarded to Comtrade and the ratio between the real and declared values would be 0.36 – precisely what is observed:

\[
x = 746 \times \frac{0.45}{0.067} = 5’010.
\]

By this calculation, the true value of imports (official and “unaccounted for”) would be around $5 billion, explaining the unregistered imports in Figure 29. This very rough calculation thus seems fairly close to the mark. The sheer size of these parallel flows, which largely escape taxation and cost

\(^{13}\) Mission interviews.

\(^{14}\) Source: mission interviews
the Nigerian treasury an estimated $1.2 billion in annual tax revenue (von Uexkull 2013), underscores Benin’s vulnerability to policy changes in Nigeria, as fiscal loopholes on that scale are unlikely to last forever.

Figure 29: Comparison of Benin’s trade data from various sources, 2010 (million US$)

2.2.3 Regional trade

Benin is a member of two regional trade blocs: WAEMU, an eight-member customs and currency union, and ECOWAS, a sixteen-member free-trade agreement currently undergoing a transition to a customs union. The ECOWAS Trade Liberalization Scheme (ETLS) was set up to achieve free movement of goods within the area via the elimination of customs tariffs and taxes as well as non-tariff barriers (NTBs). Implementation of the ETLS on the ground, however, has been uneven and marred by arbitrary policy reversals and poor information of traders, as further discussed Section 2.3.2 below.

Regional trade is weak and is not expanding as a share of the region’s total trade. Using mirrored official statistics, the share of WAEMU and ECOWAS in Benin’s exports appears highly volatile, probably as a result of the uncertainties surrounding customs statistics in the region. Indeed, over the last decade, WAEMU seems to have absorbed on average roughly a quarter of Benin’s exports, while ECOWAS absorbed about a third (Figure 30). The high volatility of the series makes it difficult to establish a trend, upward or downward. However, WAEMU’s 2014 surveillance report (WAEMU 2014) notes a downward trend in the share of intra-bloc trade in WAEMU’s total trade.

Comparing regional shares in Benin’s exports and imports (Figure 30 vs. Figure 31) highlights the role of Benin as an entry door for the region’s imports, as the regional share is much higher for exports (Figure 30) than for imports (Figure 31). This highlights a key argument of this DTIS Update—namely, that Benin’s comparative advantage is in activities related to trade itself, e.g. logistics services, and should be developed by appropriate investments.
The weakness of regional trade and the welfare losses that this situation generates were underscored during the 2008 food crisis, when maize prices were two to three times higher in coastal cities than in Burkina Faso’s production regions (Keyser 2013). Similarly in 2010, millet was twice the price in coastal cities compared to production regions in Mali and Burkina Faso. Regional trade is and remains small, dominated by informal trade in beef, sheep and goat (typically on foot) across inland borders. There are also informal exports of food staples like maize by individual traders—often women—who sell to intermediates for informal exports to neighboring countries. The private sector fears that the government may crack down on this informal trade, which is a valuable source of income for rural households and also a source of export diversification, albeit unrecorded. Alleged plans by the Government of Benin to buy staple food production and store it for intervention on the domestic market, if confirmed, would be unlikely to help and should probably be scrapped. This would in all likelihood add a confusion, price instability, mismanagement and arbitrariness to a market environment that is already fragile.
Why has regional trade failed to take off in West Africa? In spite of the potentially substantial preference margins created by the WAEMU CET, Benin’s customs data reveals that the rate of utilization of WAEMU and ECOWAS preferences is low; that is, regional trade still largely takes place on an MFN basis, with intraregional imports paying tariffs as if they were from the rest of the world. For instance, almost half of Benin’s imports from ECOWAS partner countries still enter without claiming any preferential treatment (Figure 32). Only 29% claimed WAEMU preferences and only 6% claimed ECOWAS preferences. As we will see in Section 2.3 below, the low rate of preference uptake in the region is likely to reflect the hassle and difficulty in obtaining certificates of origin and other documentation needed to claim preferential treatment. In the context of the transition to the ECOWAS tariff, this is an issue that should be considered a priority one. The failure of West Africa to generate substantial intra-bloc trade in spite of high CET rates is potentially of serious consequence. While poor households are hit by higher prices, as the analysis in the next section will document, firms do not benefit from an integrated regional market to develop their sales network. This hampers the ability of West African countries to grow a fabric of SMEs capable of exporting a narrower range of products targeted at local consumers and therefore prevents “learning by exporting”.

### 2.3 Trade policy: Update, scenarios and options for the future

#### 2.3.1 A tariff environment in transition

**A complex and regressive array of border taxes**

Compared to other countries in the region, Benin still relies fairly heavily on trade taxes, which represented in 2012 21.4% of total budget revenue and 4% of GDP (Figure 33). This relatively heavy reliance reflects a rising share of border taxes in the total and underscores the need for a fiscal transition toward domestic taxation in order to free trade policy from budget considerations and, conversely, to free the State budget from dependence on the CET.
Benin has applied the WAEMU Common External Tariff (CET) as well as other WAEMU taxes since January 31, 2000. The WAEMU CET has 4 bands: zero for a certain category of necessities, 5% for other necessities, capital equipment and certain intermediates, 10% on other intermediates, and 20% on final goods. In addition, a one-% community levy (Prélèvement Communautaire de Solidarité or PCS) contributes to the financing of community institutions and programs. The WAEMU Customs Union also allows for a contingent protection instrument on agricultural products, the Taxe Conjoncturelle à l’Importation (TCI), which has so far not been used by Benin.

In addition to the CET, Benin applies a “myriad of other taxes and charges” (Report on the Examination of Benin’s Trade Policy, WTO, 2010), most of which are small, including the droit de plombage, taxe fiscale de sortie, taxe spéciale de réexportation, redevance informatique (for exported or re-exported goods, as well as those imported under border-tax exemption regimes), the statistical tax (5% of customs value), and the taxe de circulation on vehicles. Merchandise in transit is also subject to the escorte douanière at the traders’ expense.

A tax on used cars, the Acompte forfaitaire spécial (AFS), is levied on all vehicles that are imported or in transit (except for Burkina Faso and Niger) at a lump-sum rate of FCFA 50,000, deductible from corporate income tax payments.

Other charges are levied, depending on transport mode, including handling charges, port charges, and a 0.18% commission levied by the Conseil National des Chargeurs du Bénin (CNCB) on all exports and imports except those in transit or under full duty exemptions. The CNCB also charges €25 or €100 per shipment in/out of the port of Cotonou for the issuance of a required Bordereau de Suivi des Cargaisons (BSC), with the rate depending on shipment origin/destination (the low rate for Europe and Africa, the high rate on other destinations) and a financial contribution of FCFA 400/ton at import and FCFA 300/at export (FCFA 100/ton for bulk cargo) on commercial vessels using the port.

All told, border taxes add up to a little over 6% on merchandise in transit and up to 45% on final goods (those with a CET at 20%) imported for domestic consumption if one includes the VAT at 18% (with de minimis thresholds of FCFA 40 million for goods sales and 15 million for services). Benin also applies excise taxes on the consumption of cigarettes and tobaccos (10%), spirits and champagnes (30%), wines (15%), beer and cider (10%), non-alcoholic beverages except water (3%), wheat flour (1%), cosmetics (5%), and oils & fats (1%). Some of these rates were raised in 2009 in conformity with the WAEMU directive. Exemptions from duties and charges are granted by the

\[15\] However, products in transit for Niger or Burkina Faso are exempted of all taxes and charges. This is said to give rise to a traffic whereby products are imported in Cotonou, shipped on heavily loaded trucks toward Niger, where they are redirected to Northern Nigeria, paying a 14% export tax upon crossing the Niger-Nigeria border. National authorities in Benin have allegedly been considering a quantity ceiling on transit goods eligible for zero-rating in order to limit this traffic.
Ministry of Finance for priority sectors such as agricultural inputs. Other exemptions generally cover certain capital equipment and inputs.

**Toward the ECOWAS CET: Big bang?**

The transition from the WAEMU common external tariff (CET) to the recently negotiated ECOWAS CET involves a number of duty rate changes, the most important of which is the introduction of a new band with a rate of 35% on 130 items out of 5,899 (2.2%) at HS10.

![Figure 34: ECOWAS and WAEMU CET compared at HS6](image)

(a) Non import weighted (b) Import weighted

Note: Bubble size proportional to number of HS6 lines in panel (a), to 2012 mirrored import values in panel (b).
Source: Mission calculations using data from Government of Benin and Comtrade mirrored import data.

Out of those 130 items, 57 are animal products, 6 are edible oils, 36 are prepared foods and beverages, 11 are chemicals, and 17 are textile & apparel products. At HS 10, the average and standard deviation of the WAEMU CET are respectively 12.06% and 6.87, against 12.25% and 7.47 for the new ECOWAS CET. Thus, the new tariff band generates slightly more dispersion and a slightly higher average. Once aggregated to HS6, the change is plotted in Figure 34 where bubble size is proportional to the number of HS6 lines in panel (a) and to Benin’s import value in panel (b). The 35% band, while accounting for a small number of lines, accounts for a far larger proportion of trade.

Simple average rates by HS section are shown in Table 1, confirming the picture in Figure 34. While simple averages do not vary much, import-weighted averages (based on Benin’s mirrored imports) rise significantly for some categories of products where the 35% band hits, like animal products (including poultry), edible oils, or textile and clothing.
Table 1: Average WAEMU and ECOWAS CET rates by HS section

<table>
<thead>
<tr>
<th>HS section</th>
<th>Simple average</th>
<th>Import-weighted average</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>WAEMU</td>
<td>ECOWAS</td>
</tr>
<tr>
<td>1 Animal products</td>
<td>15.28</td>
<td>16.93</td>
</tr>
<tr>
<td>2 Vegetable products</td>
<td>14.29</td>
<td>14.28</td>
</tr>
<tr>
<td>3 Fats &amp; oils</td>
<td>12.65</td>
<td>14.05</td>
</tr>
<tr>
<td>4 Food, beverages &amp; tobacco</td>
<td>17.10</td>
<td>18.69</td>
</tr>
<tr>
<td>5 Mineral products</td>
<td>5.87</td>
<td>5.84</td>
</tr>
<tr>
<td>6 Chemicals</td>
<td>6.78</td>
<td>6.99</td>
</tr>
<tr>
<td>7 Plastics</td>
<td>10.33</td>
<td>10.38</td>
</tr>
<tr>
<td>8 Leather goods</td>
<td>12.03</td>
<td>11.59</td>
</tr>
<tr>
<td>9 Wood</td>
<td>11.79</td>
<td>12.36</td>
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<tr>
<td>10 Pulp &amp; paper</td>
<td>9.95</td>
<td>9.87</td>
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<tr>
<td>11 Textile and apparel</td>
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<td>16.91</td>
</tr>
<tr>
<td>12 Footwear</td>
<td>17.84</td>
<td>15.92</td>
</tr>
<tr>
<td>13 Cement, stone</td>
<td>17.41</td>
<td>17.31</td>
</tr>
<tr>
<td>14 Precious metals &amp; stones</td>
<td>10.66</td>
<td>10.66</td>
</tr>
<tr>
<td>15 Base metals</td>
<td>12.48</td>
<td>12.42</td>
</tr>
<tr>
<td>16 Machinery</td>
<td>8.44</td>
<td>8.34</td>
</tr>
<tr>
<td>17 Transport equipment</td>
<td>8.73</td>
<td>8.17</td>
</tr>
<tr>
<td>18 Precision instruments &amp; optics</td>
<td>11.42</td>
<td>11.38</td>
</tr>
<tr>
<td>19 Arms &amp; ammunition</td>
<td>16.59</td>
<td>16.82</td>
</tr>
<tr>
<td>20 Miscellaneous manufactured articles</td>
<td>18.76</td>
<td>18.68</td>
</tr>
<tr>
<td>21 Antiques &amp; works of art</td>
<td>20.00</td>
<td>20.00</td>
</tr>
</tbody>
</table>

Source: Mission calculations using data from Government of Benin

These tariff changes are not without consequence for the cost of living in the region. Figure 35 shows how the WAEMU and ECOWAS CETs impact the cost of living along the income distribution, based on an analysis that combines CET rates with household expenditure patterns from Benin’s most recent household survey, EMICOV. Both are mildly regressive, showing a slightly downward-sloping pattern as a function of the level of household income.

Figure 35: CET cost-of-living impact, by household income
(a) WAEMU CET  (b) ECOWAS CET

Source: Gourdon and Maur (2014)
This regressivity reflects (i) the fact that any tariff, even if uniform, penalizes poor households more because the share of household income spent on goods (as opposed to services) goes down with income; (ii) the structure of the CET, whose escalating structure heavily taxes those food and clothing consumption items that represent a substantial share of household expenditure.

The level of taxation under the ECOWAS CET is higher than the WAEMU equivalent across the board, and the slope is slightly more regressive. As a result, the transition has a regressive effect. This can be seen by plotting the difference between the two rates (ECOWAS – WAEMU) instead of the rate in a graph similar to that in Figure 35. This is done in Figure 36, where panel (a) gives the impact on the cost of living while panel (b) gives the impact on welfare, calculated as per the appendix formula.

Figure 36: CET transition, cost-of-living & welfare impact
(a) Impact on cost of living
(b) Impact on household welfare

The impact on the cost of living is positive, suggesting that, when weighing tariff changes by household expenditures (rather than by the more traditional import values), the ECOWAS CET involves higher average rates than WAEMU’s old CET. Moreover, the effect of the transition is strongly regressive, as shown in the negative slope of panel (a) in Figure 36. In panel (b), the curve spans negative figures (welfare decreases) and, again, the decrease is larger for poorer households, confirming the regressive effect of the transition. Specifically, the most regressive CET rate changes affect food products such as meat, bread, and edible oils (Figure 37).
In view of these distributional effects, the Government of Benin might want to consider compensation mechanisms. A simple one would be to differentiate VAT rates for necessity products affected by the higher CET rates; however, opening the door to VAT rate differentiation and the complications that this would entail for tax administration may well not be worth the distributional objective. Other, more efficient compensation mechanisms discussed below involve policies aimed at decreasing the trade costs in order to reduce the wedge between local and international prices, and to facilitate regional trade so as to smooth out price spikes during food crises.

In sum, while the introduction of a fifth band at 35% in the ECOWAS CET affects only 2% of tariff lines, when one takes into account either import patterns or household expenditure patterns, the effect becomes non-negligible and the Government of Benin may want to consider accompanying measures in order to mitigate the transition’s effect on the cost of living for poor households. One possibility is to adjust internal taxation, but this may not be advisable on the ground of tax simplicity and transparency. A better alternative would be to work on price transmission by working with the private sector to reduce distribution costs and margins through better and more competitive intermediation and transportation services.

**EPA negotiations**

As a member of ECOWAS, Benin is part of the Economic Partnership Agreement (EPA) that was finally struck with the EU in February 2014. The logic of the negotiation was to put an end to the asymmetric Cotonou Convention, which was incompatible with GATT Article XXIV and the enabling clause. One of the African negotiators’ main concerns was the loss of tariff revenue associated with the preferential elimination of tariffs on EU imports. In the case of Benin, the start of EPA negotiations in 2007 coincided with a trend reversal in the EU’s share of total imports (Figure 38). Over the long run, one may expect Benin’s import sources to diversify further, reducing the impact of tariff elimination on EU products, all the more so given that the transition period will be very long.
The agreement offers 75% liberalization of West African markets over a 20-year transition period; that is, 5% more than the 70% initially offered by West African countries. The latter have also agreed to grant the EU an extended “most-favored nation” treatment whereby any tariff concessions granted as part of preferential agreements with other countries would extend automatically to the EU, as long as the “other countries” represent more than 1.5% of world trade and are sufficiently industrialized. This clause would not cover preferences granted to other African or ACP countries, but would cover preferences granted to, say, China, India or Brazil. On the divisive issue of agricultural subsidies, the EU has accepted to eliminate export subsidies on farm products sold on West African markets. The non-execution clause, which allows parties to suspend their commitments in cases of human rights or democracy violation, was dropped; finally, the EU allows for some asymmetry in the rules of origin applied to West African countries on account of their low level of development.

In order to improve the ability of LDCs to benefit from EU market access, the EU offers as part of the EPA deal €6.5 billion in development aid over the period 2015-2019 (West African countries initially requested €15 billion). Beyond the issue of WTO consistency, the EU sees EPAs as development tools, nudging partners toward opening up their economies and reaping the efficiency gains of openness. The EPADP (EPA Development Programme) will offer development assistance in five strategic areas; (i) regional trade; (ii) the reinforcement of productive capacities; (iii) infrastructure investment; (iv) assistance to the fiscal transition; (v) ownership and follow-up.

All in all, the simultaneous transition from the WAEMU to the ECOWAS CET and implementation of the EPA can be expected to have (i) a depressing effect on imports due to the higher CET rates, but (ii) a temporary boost to tariff revenue, due to the combination of higher CET rates and a low elasticity of import demand. This is shown in Figure 39, based on the World Bank’s TRIST simulation model. The reason for the transitory character of the tariff-revenue spike is that the added tariff revenue brought about by the CET transition on out-of-bloc imports is progressively compensated by the progressive phase-out of tariffs on EU imports. The smaller% for total border taxes is due to the fact that other taxes levied at the border are largely unchanged. The absolute increases, however, are similar.
Surprisingly, while CET increases can in general be expected to raise intra-bloc trade (a phenomenon well-known to economists called “trade diversion”), the TRIST model forecasts a slight decrease in Benin’s imports from its ECOWAS partners as a result of the transition to the new CET. The reasons for this counterintuitive result is that, as noted, half of regional trade still takes place on an MFN basis because of the hassle associated with the use of West African preferences (WAEMU and ECOWAS). As a result, a higher CET ends up slightly penalizing regional trade instead of encouraging it. The predicted effect is, however, very small (-0.2%). Part of the reason for the small effects is that even trade that claims the MFN regime is covered by some exemptions—some permanent, some ad-hoc—which reduce the “bite” of the tariff.

2.3.2 Non-tariff measures

Benin prohibits the importation of a number of plants and vegetal products for phytosanitary reasons (see WTO 2010). However, the scope of import prohibitions seems to be substantially wider than would be justified by sanitary reasons alone.

Table 2: Temporary import restrictions

<table>
<thead>
<tr>
<th>Importation prohibée</th>
<th>Produits concernés</th>
<th>Texte législatif</th>
</tr>
</thead>
<tbody>
<tr>
<td>Par voie terrestre ou fluviale</td>
<td>Farine de blé</td>
<td>Arrêté n° 30/MICPE/DC/SG/DCCI/DC du 23 mai 2006</td>
</tr>
<tr>
<td></td>
<td>Huile végétale</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Riz</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Sucre</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Poisson congelé</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Viandes et abats congelés</td>
<td></td>
</tr>
<tr>
<td>Par voie terrestre</td>
<td>Poisson réfrigéré</td>
<td>Arrêté n° 640/MFE/DC/SGM/DGDDI/DAR du 26 mai 2005</td>
</tr>
<tr>
<td></td>
<td>Viandes et abats réfrigérés</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Volaille morte réfrigérée ou congelée</td>
<td></td>
</tr>
<tr>
<td>Par voie terrestre</td>
<td>Huiles alimentaires (toutes origines)</td>
<td>Arrêté n° 1115/MDEF/MIC/DC/SG/DGDDI/DGCI/DGCE du 8 novembre 2006</td>
</tr>
</tbody>
</table>

Source: WTO 2010; Table III.4, and ABENOR

In recent years, for instance, the Chamber of Commerce reported import prohibitions on food items such as poultry, meat, refined vegetable oil, wheat flour, spaghetti, and bottled water. The rationale for such prohibitions on health grounds is not clear (USAID 2011). In some cases the products are banned when imported inland while allowed when imported through the port of Cotonou, where controls are supposed to be more effective than at land posts (Table 2). This penalizes regional trade and is in conflict with Benin’s obligations under the ECOWAS ETLS. In the case of wheat flour and rice, the sanitary argument is weaker than for refrigerated meat and fish and the result is, de facto, to
restrict intra-ECOWAS trade. Moreover, the ban on land imports of frozen poultry makes it difficult to import it from Togo or Ghana into Benin and re-export it using parallel circuits to Nigeria — a highly profitable trade. This also allows for a dominant position for those Beninese traders involved in similar trade but using the port of Cotonou as their entry point.

USAID (2011) reported that it is difficult to find publicly-available regulation concerning the ECOWAS Brown Card which is supposed to be recognized as valid proof of insurance throughout the zone. The translation of regional rules concerning periodic technical regulations of commercial vehicles into national regulations is also not freely available and their implementation is highly uncertain. The same applies to ECOWAS’s important road transit vehicle certificate (Convention A/P2/5/82) applying to inter-state transportation, axle load regulations, and a number of other key regulations. Benin has made progress in reducing the number of roadblocks on the Cotonou-Niamey corridor compared to other corridors in West Africa. The number of controls (and the total amount of irregular payments) along the Cotonou-Niamey corridor are among the lowest surveyed by WAEMU (2014), as shown in Figure 40.

However, a less rosy picture is painted by Benin (2013a) and ALCO (2012) for the all-important Abidjan-Lagos coastal corridor, where Benin’s segment is shown to be one of the most difficult both ways (Figure 40 and Figure 41), in terms of border-crossing times (Eastward and Westward) and number of controls. Thus, paradoxically, progress in improving transit facilitation seems slowest on the corridor that is most critical for Benin’s position as a regional transit hub.

As for technical regulations (SPS and TBT), their elaboration is under the authority of the Agence Beninoise de normalisation et de gestion de la qualité (ABENOR), an autonomous agency placed under the authority of the MICPME and operational, if one counts its previous avatar the CEBENOR, since 2000. Benin also separates rule-making from rule enforcement, as verification of compliance is under the authority of other agencies.16

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16 Those are the Centre national pour les essais et les recherches en travaux publics (CNER-TP), the Direction de la nutrition et de l'alimentation appliquée (DANA), the Direction de la promotion de la qualité et du conditionnement, the Direction de l'énergie, and the Direction de la pharmacie et des explorations diagnostiques.
Benin’s regulations are essentially translation in national legislation of international standards. ABENOR runs donor-supported technical-assistance programs to help Benin’s companies meet EU and international quality standards, providing information and technical documentation. A small number of companies have reached ISO certification levels and Benin plans to graduate from corresponding-member status in the ISO organization to full membership.

The administration of technical measures, in particular sanitary & phytosanitary (SPS) regulations, is weak in Benin, in spite of their huge importance for agriculture. This hinders the country’s ability to export agricultural products, due a combination of specific factors. First, Benin’s export products are highly sensitive to the adoption of good agricultural practices. For instance, the attractiveness of pineapple in sold in the supermarket depends on its color; but the quantity of the chemical used for coloring must be carefully measured in order to avoid refusal at the EU border. Similarly, the quality of shea butter depends heavily on its rate of impurity, moisture, and acidity, which themselves are affected by harvesting speed, processing methods and storage. However, Beninese farmers suffer from very low knowledge and capacity levels, with frequent accidents in the handling of chemicals and generally poor agricultural practices due to ignorance. The combination of these two factors would make the provision of an adequate regulatory framework, verification and training particularly crucial.

However, as documented in Chapter 5, in spite of the proliferation of quality control agencies (including, inter alia, the DNPV, DANA, and DPQC), Benin’s SPS management system is gravely deficient in terms of capabilities and resources and cannot play its role, leaving farmers largely on their own. For instance, the DNPV, which delivers phytosanitary certificates for export, has none of the personnel or equipment that would be necessary to carry out its mission, and it therefore performs a largely perfunctory “visual inspection”. Alert systems for the struggle against pests are inadequate, relying on largely outdated stocks of phytosanitary products that cannot be deployed for lack of equipment anyway. Similarly, the DANA is unable to conduct any credible analysis of pineapple for lack of personnel and equipment, while the same observations apply to the DPQC in charge of quality control for raw products such as cotton or cashew.

SPS agencies should be consolidated and endowed with qualified personnel and equipment. The binding constraint to setting up a unique, well-equipped SPS agency is not a question of budget resources, as it could primarily act as a “knowledge hub” — outsourcing verification functions to accredited laboratories in the region and delivering training and capacity-building services to farmers in close collaboration with donors, for whom agricultural support is often a high-priority item. The constraint, rather, is the lack of a coherent strategy on the part of the Government. In this area as in

\[\text{Figure 41: Number of controls per 100 km on the Abidjan-Lagos corridor}\]

Source: Organization du Corridor Abidjan-Lagos

Benin is currently developing a small number of standards; for instance on roofing tiles, in order to encourage local production. It is also preparing a technical regulation on the labeling of bottled water to distinguish mineral (source) water from “table” water. The regulation is favored by SOEBRA, a producer of mineral water, which would then be able to raise the unit value of its product.
others, reform would be a clear signal that the Government takes seriously the role the State has to play in supporting agriculture.

Once Benin has put in place a credible SPS verification system, it should work at the regional level to promote mutual recognition agreements in key areas relevant for agricultural trade. ECOWAS could, for example, adopt a system of “green card” for regional SPS certification similar to that being adopted by COMESA (Keyser 2013).

**Rules of origin**

Rules of origin take a common form in WAEMU and ECOWAS, stipulating that goods for which preferential treatment is claimed while they are not wholly obtained should satisfy one of two conditions:

1. Either a change of tariff classification at the heading level (HS4) compared to the imported inputs used in their production
2. Or a regional value content of at least 30% of the ex-works price (before taxes) of the goods.

However, the definition of the ex-works price differs between the two blocs in the treatment of the wage bill, outsourcing expenses and financial charges which are subject to different ceilings. Thus, harmonization of rules of origin is not complete and in some cases, the outcome of applications differs.

Goods produced under partial or total duty exoneration regimes on imported inputs are not eligible, except when inputs are taxed at a higher rate than the goods themselves. This de facto scenario excludes goods produced in export processing zones, where transformation activities typically take place under duty-exemption schemes. As we will see, this has implications for Benin’s special zone at Sémé-Podji.

Under rules common to both WAEMU and ECOWAS, the verification of eligibility at the border entails a two-step process. Companies wishing to export within one of the zones and claim preferential treatment must have registered with their national authorities. In principle, all WAEMU members apply Regulation 14/2002/CM/COM/WAEMU, which sets up procedures for the issuance of certificates of origin. According to the regulation, no committee should be involved in the review of community registration applications. Benin, however, has set up a committee, comprising representatives of the Direction de l’Intégration Régionale, the Direction Générale du Développement Industriel, the Direction Générale des Douanes et Droits Indirects, the Direction Générale du Commerce Extérieur and the Chamber of Commerce. Committee meetings are subject to a quorum requirement. Notwithstanding its lack of alignment with community rules, this heavy procedure delays the review of applications and, therefore, the registration of companies.

In addition to company registration, each shipment must be accompanied by a certificate of origin delivered by the country of origin’s authorities in a standardized format common to the zone. However, the production of certificates of origin has proved to be a bottleneck in regional trade. Paper certificates of origin are easily falsifiable, and their non-recognition is a recurrent complaint of traders. In order to remove this bottleneck, Benin should work with its WAEMU and ECOWAS partners towards the creation of an electronic repository for certificates of origin which would have

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18 A 2009 revision of WAEMU rules made eligibility possible for firms operating under special regimes provided that import duties were paid on inputs entering the production of the goods for which preferential treatment was claimed. However, this revision does not seem to be applied.
the dual advantage of simplifying procedures and making verification easier and more reliable. Finally, the Government of Benin put in place and then suspended an import-verification program (IVP), discussed in more detail in Chapter 3.

### 2.3.2 Export & investment promotion

**Benin’s Export Processing Zone**

Benin has set up a twenty-year (1997-2017) project of provision of serviced industrial land. Like many countries in the region, it also set up an EPZ in Sémé-Podji in 2002, located near Cotonou and 5 km from the Nigerian border, to offer better conditions to foreign investors. The EPZ is operational since 2010 and offers a standard package of tax exemptions including, *inter alia*:

- A 10/12/15-year tax holiday on the corporate income tax (*impôt sur le benefice industriel et commercial*) depending on the sub-zone, followed by a 5-year period of preferential rate (20%)
- A rebate on the payroll tax (*versement patronal sur les salaires*)
- VAT exemption on inputs and conditioning materials for both investment and production
- Exemption of border taxes (*droits et taxes d’entrée*) on imported capital equipment, inputs and conditioning materials, except imported trucks (*utilitaires*) for which border taxes are reduced by 60%, for eligible production (see below).

In order to benefit from the special economic status, companies must export at least 65% of their production outside of WAEMU or ECOWAS; rebates, exemptions and tax holidays apply typically at the firm level, though duty exemptions or rebates typically apply only to eligible production (see section 2.3.2 above). The private sector resents this exclusion, as much of the activities that could take place in the EPZ would be for export to the sub-region. More generally, in light of the above discussion of the structure of Benin’s trade, where imports are predominantly from outside the region whereas exports are within the region, the exclusion of regional exports from EPZ treatment limits the zone’s potential to attract investment. Indeed, as of 2013 the industrial park was still largely empty, with one French-Lebanese company producing pasta, a battery recycling company and a Chinese investment project that is underway.

SEZs in various forms (export processing zones, offshore assembly zones, *zones franches* etc.) have spread widely, with close to 4,000 worldwide, accounting for one fifth of developing-country exports (Farole 2011). SEZs account for a large share of the exports of many countries, including the Philippines (78%), Bangladesh (75%), Morocco (61%), Nicaragua (79%) or even Madagascar before the crisis (80%), although in the case of Madagascar, political unrest and the end of MFA quotas led to the SEZ’s collapse. However, their record as “growth engines” is unproven. Backward linkages are often weak except in a few cases like Korea’s Masan Free Zone, created in 1970, where local sourcing grew from 3% in 1971 to 45% in 1986 (Farole 2011). Nevertheless, even some of the most successful EPZs, like in Vietnam or Bangladesh, have had very weak backward linkages.

The contribution of SEZs to employment is also limited, except in a few small countries in Central America. Ghana’s Tema SEZ accounts for 3.5% of national employment, Tanzania’s, 2.5%, Nigeria’s Calabar, less than 1%, Kenya’s SEZ, 15%. Even highly successful and labor-intensive ones like Bangladesh and Vietnam account for only 5% and 19% of national employment respectively. Wages in SEZs are typically higher than economy-wide minimum wages, although in cases like Bangladesh’s SEZ, they are still extremely low. Some SEZs come with anti-union legislation, seen as an additional attractor to investors; for instance, until 2005 Kenya prohibited unions and collective
bargaining in SEZs, while Nigeria’s free zone prohibits strikes for ten years after the start of a company’s operations, leaving labor disputes to be settled by the zone’s management. SEZs have also made limited use of local skills, in particular in Africa—except for Tanzania and, to a lesser extent, Senegal—and there seem to be widespread problems in generating job-advancement opportunities, particularly for women. In sum, SEZs worldwide have failed to live up to their hype as silver bullets to generate quality jobs and linkages to the domestic economy.

Most governments, in both developed and developing countries, try to attract Foreign Direct Investment (FDI) by way of tax incentives, either through low statutory tax rates or through special regimes. As one country’s tax cuts reduce the probability of another country being chosen by investors, the result is a worldwide race to the bottom — benefitting the shareholders of multinational companies at the expense of public goods in host countries. Yet, this race to the bottom is largely fruitless, as FDI does not respond significantly to variations in either marginal or average tax rates (Abbas et al., 2012). By contrast, host-country fundamentals such as macroeconomic stability have a significant effect in attracting FDI. In sum, tax incentives should not stand in the way of the need to broaden the tax base and collect sufficient revenue to ensure the adequate provision of public goods.

Against this backdrop, the potential interest of Benin’s EPZ is to focus the attention of national authorities on the need to provide, on a manageable scale, a coherent package of supply-side incentives including reliable energy, water and water treatment, road access, and the minimum level of public utilities needed to attract labor (education, housing, and health services). EPZ promotion is also an opportunity to engage in fruitful dialogue with multinational companies and learn what they need in terms of business environment. Benin should therefore consider re-launching its EPZ through the provision of enhanced infrastructure, a dedicated single window for all administrative procedures, and a status enabling participating companies to export in ECOWAS markets.

Export promotion

The consolidation of various government agencies acting in the broad area of export promotion, including, inter alia, the Centre Béninois du Commerce Extérieur (CBCE) and the Observatoire des Opportunités d’Affaires (OBOPAF), into a single agency was one of the important recommendations of the 2005 Action Matrix. The poorly-coordinated and funded activity of the various existing agencies failed to provide effective promotion services to Benin’s actual and potential export products. Yet international evidence shows that export promotion can be an effective tool to boost export growth. Cross-country evidence in Lederman, Olarreaga and Payton (2009) suggests that Export-promotion Agencies, on average, have a large and significant effect on export growth. Using a similar methodology, Zoratto (2013) finds evidence that they matter also for export diversification.

The need for exporter assistance is particularly crucial in Benin’s nontraditional agricultural exports such as the pineapple and shea butter subsectors, where producers are poorly informed of both business opportunities and the quality and certification requirements needed to break into new markets. Moreover, intermediation is often a bottleneck as capacity (trucks, personnel, storage) is often insufficient for the potential export-oriented output, creating economically-inefficient monopsony positions. Better information could allow producers to bypass inefficient intermediation channels and reach out directly to potential buyers, and vice versa.

Created in 2007, the Agence Beninoise de Promotion des Échanges Commerciaux (ABePec), under the authority of the MICPME, is now in principle the sole agency in charge of export promotion, although its mission to some extents parallels that of the Centre de promotion des Investissements (CPI, under the Ministry of Development), and that of the Conseil Présidentiel des Investisseurs. Its
missions include the dissemination of market information, assistance to producers in the identification of market opportunities, the promotion of Beninese products abroad through participation in foreign fairs, and training. Mission interviews with the private sector suggested that the agency does a competent job given its resources.

Export promotion has a key role to play in facilitating Benin’s diversification out of cotton, provided that it is driven by an adequately-endowed single agency. In the fragile and opaque business environment of Benin, export promotion should involve not just facilitating trips to foreign fairs (the traditional role of export promotion agencies), but close professional coaching of producers in the management of quality. Mission interviews revealed a number of instances of contacts between buyers and Beninese producers that could have led to fruitful long-term relations had it not been for quality mismanagement and opportunistic behavior on both sides. There is a wide gap between the business practices prevalent in the local market and those that prevail in international markets and it is difficult for Benin’s producers to close this gap without a long term effort in training and awareness-raising. Export promotion in Benin should go beyond just match-making and emphasize the management of quality products and quality business relationships.

2.4 Looking ahead

Benin faces formidable challenges but all of these can be tackled by appropriate reforms. All necessary steps go in the same direction: less opportunism, less short-termism, more predictability, and more investment in future opportunities and long-term relations. In order to make the business environment evolve in the right direction, the Government of Benin should consider the following steps in the area of trade policy:

Export and investment promotion

1. Strengthen ABePEC’s resource endowments, making it the sole agency in charge of export and investment promotion, and “deepen” its mission to the upgrading of producer managerial capabilities;
2. Invest in “broad infrastructure” (including the public services needed to attract and stabilize quality manpower) at the Sémé-Podji EPZ and promote it to reputable investors, with limited, transparent and non-renewable tax incentives;

Non-tariff measures

3. Consolidate all agencies in charge of SPS management into a single one, separate the rule-making mission from the verification mission, systematically outsource all testing to credible laboratories and agencies, and focus on training, information and awareness-raising;
4. Pledge the complete and permanent elimination of all temporary import bans and eliminate barriers to regional imports;

Business environment

5. Speed up the adoption of technological solutions to overcome regulatory uncertainty and arbitrariness; in particular, work at the regional level toward the creation of regional electronic repositories of documents in three key areas: SPS certification (“green card”), certificates of origin, and trucking documentation (“brown card”);
6. Work out a deal with large traders in order to phase out the informal negotiation of customs valuation against improvements in the transit infrastructure and the predictability of the business environment;

7. Initiate a dialogue with Nigeria on a long-term solution involving the recovery by Nigeria of some of the tax income lost to smuggling keeping in mind the preservation of some of the most important business opportunities for Beninese traders in selected sectors.
Chapter 3: Trade facilitation

Transport and logistics is a critical enabler for trade: efficient logistics gives a competitive edge to an economy, while poor logistics can put such a burden on an economy that it negates all other possible competitive advantage. In Benin, there is a definite potential for efficient logistics, but at the same time, there are several important problems to fix, and possible threats to address.

From a transport and logistics standpoint, Benin is betting its future on transit to neighboring countries. This approach does not ignore Benin’s trade itself: if the transport and logistics industry is efficient for its neighbors, it will also be for the country’s own needs. To meet those neighbors’ demand, Benin offers good quality facilities: the port has recently been extended, the container facilities are adequate and managed by competent operators, the interface between the port and the trucking services has been improved, while the railway is going to be extended to Niamey and will be managed by a competent operator.

Extension of the port alone, however, is not a sufficient guarantee that Cotonou will attract a large market share for transit to the region’s landlocked countries, particularly considering the other transport and logistics developments that are underway or planned in the neighborhood, and that the promoters of possible competitors to Benin are the very ones involved in Benin. The future of the corridor will therefore largely depend on the regional strategies that global operators pursue.

There is however, an encouraging sign, with the recent decision to extend the railway to Niger, as the large investment will tie the Bolloré group to Benin, probably influencing the choice between the maritime gateways controlled by the group in favor of Cotonou. The only unknown factor in this equation is the actual availability of finance for the large investment.

This chapter proposes a diagnostic and an evidence-based set of recommendations organized around three central recommendations:

1. Structural reforms that need long term efforts, but that can be supported by the donor community. These concern primarily the reform of Customs to simplify procedures, and introduce risk management and better ICT-capability and also the reform of the trucking industry

2. Governance reforms that need political support, and also the acknowledgement that the current environment is detrimental to long term development. These concern a more predictable environment and putting an end to predatory practices

3. Practical reforms that can be engaged in the short term to strengthen the regional position of Benin and preserve the future. This would entail, for instance, the development of ICT for logistics at the port and initiating a constructive dialogue with Nigeria.

3.1 Transport and logistics in Benin

Transport and logistics services are important for Benin and its neighbors: the port of Cotonou is the main gateway for Benin’s external trade and handles significant volumes of the external trade of its neighbors, mainly Niger and Nigeria. However, this position is fragile and can be contested: other ports on the West African coastline are competing to serve as maritime gateways to the landlocked countries of the hinterland — a significant portion of the transit to Niger is actually bound to Nigeria and that portion plus the actual transit to Nigeria exists because of restricting trade policies in Nigeria that are expected to relax with progress towards an effective Customs Union in West Africa.
3.1.1 Regional context

The West Africa region is irrigated by a network of trade and transport corridors structured by the two main East-West routes and the North-South connectors linking them: the Trans-Sahel Corridor from Dakar in Senegal to Niamey in Niger via Bamako (Mali) and Ouagadougou (Burkina Faso), and the Coastal Corridor from Abidjan in Cote d’Ivoire to Lagos in Nigeria, passing through several major cities, economic centers and ports – Takoradi and Tema in Ghana, Lomé in Togo, Cotonou in Benin.

Most coastal ports compete for the international transit traffic to the landlocked hinterland, while also handling, on an opportunity basis, part of the maritime trade of their coastal neighbors — resulting in a fluctuating pattern of trade flows throughout the region. In that network, Cotonou is positioning itself as a major gateway for Niger and Nigeria, but this position is being challenged and is likely to be increasingly challenged in the future.

Transit to the landlocked countries of West Africa is heavily congested around ports and efforts to facilitate it are sometimes exceeding the actual gains. It is considered more in terms of regional status than from a purely economic perspective, most port authorities, for instance, grant positive concessions to the landlocked countries in order to secure traffic: lower handling fees, longer grace period for storage, yard or warehouse space within port limits, etc. Port authorities also maintain permanent liaison offices in the landlocked countries. Conversely, landlocked countries are present in all or most coastal ports through permanent branches of shippers’ councils or through the dedicated warehouses availed by port authorities.

Containerized traffic is particularly disputed. West African liner services on average call at more ports along the coastline than typically occurs in other regions. Some rationalization of the liner services is inevitable, and the ports with the larger volumes are likely to remain mainline ports of call, whereas the ones with smaller volumes are likely to become feeder ports or be relegated to secondary loops with smaller vessels. This translates into higher freight rates for the feeder and secondary ports and longer shipping time compared to mainline ports.

There are several container terminal projects along the coastline that will increase current capacity:

- Second terminal in Abidjan
- Extension of Tema port
- Extension of the container terminal in Lomé plus the creation of the second terminal
- The extension of the container terminal in Cotonou which has just been commissioned
- The planned extension of the container terminal in Lagos
- The plan to develop new ports around Lagos on greenfield projects (one in the West of Lagos, one in the East)
- The plan to build a new port at Sèmè Kpodji (Benin).

It is not easy to determine the adequacy between medium and long term container terminal demand and offer. Indeed, there are a number of projects that are still at the drawing board stage and are subject to speculation on the actual capacity or the time it may take to be operational, while are still under development but with differences between announced and actual capacity, plus capacity reserves for existing terminals. Only one fact is clear, the planned (or announced) container capacity exceeds the demand in the medium term.
For the whole West Africa coastline, a review of container terminal development commissioned by the French Development Agency reviewed the adequacy between current and future demand and offer.

Table 3: Planned container terminal capacity development versus 2011 activity

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Dakar</td>
<td>416,000</td>
<td>600,000</td>
<td>600,000</td>
<td>600,000</td>
<td>600,000</td>
<td>600,000</td>
</tr>
<tr>
<td>Dakar extension</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>500,000</td>
<td>500,000</td>
</tr>
<tr>
<td>Banjul</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Conakry</td>
<td>160,000</td>
<td>200,000</td>
<td>450,000</td>
<td>450,000</td>
<td>650,000</td>
<td>650,000</td>
</tr>
<tr>
<td>Freetown</td>
<td></td>
<td>90,000</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Monrovia</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Abidjan</td>
<td>546,000</td>
<td>900,000</td>
<td>1,100,000</td>
<td>1,100,000</td>
<td>1,100,000</td>
<td>1,100,000</td>
</tr>
<tr>
<td>Abidjan TC2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>500,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>San Pedro</td>
<td>118,000</td>
<td>120,000</td>
<td>120,000</td>
<td>620,000</td>
<td>620,000</td>
<td>620,000</td>
</tr>
<tr>
<td>Tema</td>
<td>756,000</td>
<td>600,000</td>
<td>800,000</td>
<td>800,000</td>
<td>800,000</td>
<td>800,000</td>
</tr>
<tr>
<td>Takoradi</td>
<td>57,000</td>
<td>60,000</td>
<td>60,000</td>
<td>200,000</td>
<td>200,000</td>
<td>200,000</td>
</tr>
<tr>
<td>Lome Quay 3</td>
<td>350,000</td>
<td>350,000</td>
<td>850,000</td>
<td>850,000</td>
<td>850,000</td>
<td>850,000</td>
</tr>
<tr>
<td>Lome LCT</td>
<td>210,000</td>
<td>220,000</td>
<td>400,000</td>
<td>1,000,000</td>
<td>1,000,000</td>
<td>1,000,000</td>
</tr>
<tr>
<td>Cotonou</td>
<td>400,000</td>
<td>400,000</td>
<td>600,000</td>
<td>750,000</td>
<td>750,000</td>
<td></td>
</tr>
<tr>
<td>Seme Kpodji</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Lagos Apapa</td>
<td>600,000</td>
<td>850,000</td>
<td>850,000</td>
<td>850,000</td>
<td>850,000</td>
<td>850,000</td>
</tr>
<tr>
<td>Lagos Tin Can</td>
<td>395,000</td>
<td>450,000</td>
<td>600,000</td>
<td>600,000</td>
<td>600,000</td>
<td>600,000</td>
</tr>
<tr>
<td>Lekki</td>
<td>500,000</td>
<td>1,000,000</td>
<td>2,000,000</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Badagry</td>
<td>750,000</td>
<td>1,500,000</td>
<td>3,000,000</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: CATRAM

As most of the current concessions for container terminals are in the hand of two operators (Bolloré Africa Logistics – BAL, and APM Terminals – APMT, a subsidiary of Maersk shipping lines) either in isolation or in partnership, the actual capacity development which will take place is likely to be decided with the main objective to prevent useless investments, while traffic growth is likely to be directed to ports where the prospects for return on investment are the most attractive. However, the possible entry of new contenders, China Merchant Holding and MSC for instance, for the new container terminal in Lomé, or ICTSI for Lekki, may in the long run change the dynamic and introduce some form of inter-port competition.

3.1.2 Traffic volumes

The role of Benin in the regional hinterland trade flows

The three landlocked countries of West Africa (Mali, Burkina Faso and Niger) enjoy several options to route their overseas trade, with the major maritime gateways to West Africa being Dakar, Abidjan, Tema, Lomé and Cotonou, and to a much lesser extent Conakry and Takoradi:

- Mali relies primarily on Dakar and then Abidjan, a situation which was inverted before the long political crisis in Côte d’Ivoire
- Niger relies almost exclusively on Cotonou, and very marginally on Lomé
- Burkina Faso has a more balanced mix of options
However, the respective use of the corridors varies over time, and the instability in Côte d’Ivoire has been the main driver for the fluctuations in port transit for the past 15 years, as illustrated by the routing of the Burkina Faso overseas trade.

The share of Abidjan was eroded over time, allowing for new players, such as the Ghana ports, and Cotonou, according to the evolution of the political and economic situation in the region.

Compared to the other maritime transit gateways, Cotonou is in a specific situation, with a relatively non-contested hinterland. Considering that it also has the highest share of transit traffic among the regional ports in West Africa, around 50%, the situation is a form of mutual dependency between Niger and Benin.

The landlocked countries are not the only source of transit activity. The fact that their overseas trade is highly disputed among the ports, which all entertain commercial representations, tends to eclipse the large volumes that are also transiting along the coastline between neighboring countries: Lomé for Ghana (notably clinker) and Benin; Cotonou for Lomé and Nigeria.

**Activity at the port of Cotonou**

The port of Cotonou experienced a steady growth over the past two decades, increasing from around one million tons a year to over 8.5 million tons for 2013 (provisional data).

![Figure 43: Evolution of Cotonou port throughput](image)

The only pause in that growth was from 2009 to 2011, when it reached a plateau that at first was linked to the international crisis which saw a worldwide contraction of trade flows, and then was aggravated by the uncertainties linked to the implementation of the import verification program under BENIN CONTROL, which scared traders from the hinterland away from Cotonou, shifting them to neighboring ports. Because of the close proximity in time of the two events, it is difficult to assess the impact of the BENIN CONTROL episode. Other ports in West Africa experienced an earlier return to growth, but the situation in Côte d’Ivoire also contributed to increasing transit volumes through neighboring ports as alternatives to Abidjan. With the end of the BENIN CONTROL contract, the port of Cotonou managed to regain the trust of the traders from the hinterland and traffic growth resumed in the second half of 2012. The contract with BENIN CONTROL was cancelled in May 2012, disrupting partly the traffic patterns, but unlocking the return to the growth path.
The accelerated growth of the port throughput in the early 2000 is linked to the increase of the transit trade, particularly with Niger (according to port statistics): during the period 2000 to 2012 (detailed data per country is available only for the first three quarters of 2013), Benin volumes increased by 82%, whereas Niger volumes increased by 437% and other countries (which includes transshipment activity) increased by 272%. Consequently, the share of transit increased from a quarter to over half of the total port activity.

A large portion of the growth is related to containerized traffic, putting pressure on the capacity of the port, which justified the development of additional container facilities.

Regional transit

The transit is almost exclusively in the import direction, and recorded exports are negligible. The main contributor to transit volumes is Niger, but other coastal countries represent a significant share (Nigeria and Togo). Transit with Burkina Faso, meanwhile, is mostly in petroleum products. A possibly large, but difficult to estimate, portion of the transit is declared as being destined for Niger but may in fact end up in Nigeria, with importation followed by re-exportation in Niger.

The return to the growth path for Cotonou is strikingly illustrated by the fact that the three quarters tonnage for transit in 2013 already exceeds the annual tonnage for 2011 and 2012.

3.1.3 Transport infrastructure and logistics services in Benin

Port

Since the 2005 DTIS, the major evolution that has taken place in the port of Cotonou is the development of the container terminal. In 2006, the US Millenium Challenge Corporation (MCC) funded an extension program for the port of Cotonou for $180 million including, inter alia, the construction of a new two-berth south wharf for the development of a container terminal, the extension of a sand-stopping jetty by 300 meters to reduce port dredging costs (by an estimate of $2.1 million annually), provision of a tugboat, and a number of other improvements.

The Container terminal located at the South Quays was attributed after an international tender to Bollore Africa Logistics in September 2009. The concession is for a 25 years period and included a commitment to pay $200 million in concession fees during the first eight years of operation and invest
$256 million in operating equipment and civil works over the life of the agreement. With the extension funded by MCC, the south quays have a draft of 15m, all overs are limited to 10m. COMAN (subsidiary of APM Terminal) is operating container vessels on the north quays, with the terminal yard located in the western part of the port. Combined with the port extension and the reorganization of the truck movements in the port and the city, the main shortcomings of the port of Cotonou identified in the 2005 DTIS have been addressed, with reserve capacity available to accommodate future growth.

Road network

The total road network in Benin is defined in the Decree n°2001-092, dated February 20th 2001, and comprises 6,076km of National roads -- comprised of Seven Inter-State roads for 2,178km, and 39 national roads for 3,898km -- Urban roads network for 55.6km (in Cotonou and Porto Novo), and 1,075.1km of rural roads. The inter-state network conforms roughly to a north-south and east-west orientation:

- Part of the Abidjan Lagos coastal corridor for the east-west roads
- Serving primarily Niger (from Cotonou to Malanville) and branching to Burkina Faso (from Cotonou to Porga), for the north-south roads

The last status of the road network condition was published by the Ministry responsible for transport is December 31st 2008. Since the 2005 DTIS, the World Bank program for trade and transport facilitation on the Abidjan Lagos corridor contributed to the improvement of the road along the coast line.

Figure 46: Road network condition on the Benin section of the Abidjan Lagos Corridor

Although the road is in poor condition, the characteristics of the truck fleet for Benin and Niger, which the main users of the network are equally poor and from an operational perspective, there would be little to gain in vehicle operating costs in improving the infrastructure. Better roads, from a trade and logistics perspective, are therefore not an immediate priority.

Trucking services

Trucking services in Benin are dominated by small size operators, a vast majority of individual owners and very few trucking companies. The legislation for road transport services requires transport companies to be registered as such. The registry of the companies was obtained from the Ministry of Transport, first a version recording all companies up to 2008, then with an update. In theory, the companies are expected to list their fleet during the registration, but this declaration is not updated to reflect changes in the fleet.

Most of the companies have relatively modest fleets — a handful of trucks at most — and combine transport services with other activities. This pattern is consistent with other observations of the

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19 [http://www.ifc.org/wps/wcm/connect/880b8480498390ea834cd3336b93d75f/SuccessStories_CotonouPortWEB.pdf?MOD=AJPERES]
trucking industry in West Africa, where own account transport represents a significant proportion of the business models.

Table 4: New freight vehicles registered by year in Benin

<table>
<thead>
<tr>
<th>Year</th>
<th>Light truck</th>
<th>Medium truck</th>
<th>Heavy truck</th>
<th>Tractor</th>
<th>Trailers</th>
<th>Others</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>2001</td>
<td>937</td>
<td>1,377</td>
<td>287</td>
<td>1,062</td>
<td>1,088</td>
<td>19</td>
<td>4,770</td>
</tr>
<tr>
<td>2002</td>
<td>963</td>
<td>18</td>
<td>367</td>
<td>1,061</td>
<td>870</td>
<td>27</td>
<td>3,306</td>
</tr>
<tr>
<td>2003</td>
<td>724</td>
<td>23</td>
<td>339</td>
<td>836</td>
<td>842</td>
<td>158</td>
<td>2,922</td>
</tr>
<tr>
<td>2004</td>
<td>907</td>
<td>22</td>
<td>169</td>
<td>862</td>
<td>1,034</td>
<td>646</td>
<td>3,640</td>
</tr>
<tr>
<td>2005</td>
<td>632</td>
<td>12</td>
<td>235</td>
<td>656</td>
<td>741</td>
<td>381</td>
<td>2,657</td>
</tr>
<tr>
<td>2006</td>
<td>408</td>
<td>12</td>
<td>272</td>
<td>765</td>
<td>693</td>
<td>101</td>
<td>2,251</td>
</tr>
<tr>
<td>2007</td>
<td>599</td>
<td>16</td>
<td>255</td>
<td>917</td>
<td>841</td>
<td>44</td>
<td>2,672</td>
</tr>
<tr>
<td>2008</td>
<td>847</td>
<td>14</td>
<td>277</td>
<td>1,123</td>
<td>1,042</td>
<td>22</td>
<td>3,325</td>
</tr>
<tr>
<td>2009</td>
<td>1,053</td>
<td>7</td>
<td>163</td>
<td>1,390</td>
<td>1,134</td>
<td>48</td>
<td>3,795</td>
</tr>
<tr>
<td>2010</td>
<td>1,002</td>
<td>-</td>
<td>69</td>
<td>1,415</td>
<td>1,190</td>
<td>927</td>
<td>4,603</td>
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<tr>
<td>2011</td>
<td>896</td>
<td>1</td>
<td>55</td>
<td>38</td>
<td>984</td>
<td>1,323</td>
<td>3,297</td>
</tr>
<tr>
<td>Total</td>
<td>8,968</td>
<td>1,502</td>
<td>2,488</td>
<td>10,125</td>
<td>10,459</td>
<td>3,696</td>
<td>37,238</td>
</tr>
</tbody>
</table>

Note: light trucks correspond to a payload capacity of 12 tons maximum, medium trucks between 13 tons and 19 tons included, and heavy trucks 20 tons and over. The ‘others’ category comprises all exceptional loads vehicles.

Source: Ministry of Transport Statistical Yearbook 2012 (last published)

In the registry of transport companies, operators self-declared as transport service providers or truck drivers represent less than a quarter of the total number of companies. In comparison, companies with a trading or sales activity represent over 40%. For the 195 companies registered since 2009, the fleet size profile is summarized in the following table.

Table 5: Fleet size for companies declared since 2009

<table>
<thead>
<tr>
<th>Size of fleet</th>
<th>Number of companies</th>
<th>Controlled fleet</th>
<th>% of total fleet</th>
</tr>
</thead>
<tbody>
<tr>
<td>10 trucks and over</td>
<td>9</td>
<td>137</td>
<td>23%</td>
</tr>
<tr>
<td>Less than 10</td>
<td>186</td>
<td>450</td>
<td>77%</td>
</tr>
</tbody>
</table>

Source: extracts from the Ministry of Transport database of transport companies

Tariffs are freely negotiated and the trucking tariffs reference grid issued in 2000 has lost its relevance. For instance, reference rates for Cotonou -Niamey were published at 37,800 FCFA per ton in 2000, whereas current rates are negotiated around 46,000 F CFA per ton. For Cotonou Arlit, the 2000 reference rate was 73,548 F per ton and is currently 85,000 F per ton. The Ministry of Transport...
attempted to revise the grid to take into account evolution of cost factors since 2000, but the proposed increased was cancelled due to its possible impact on consumer prices index.

Current prices are comparable for instance to East Africa: Cotonou Niamey represents a distance of 1,041 kilometers, for a break-bulk rate of 100$ per ton, similar to Mombasa Kampala with a rate of 105$ per ton for a distance of 1,137 kilometers. However, the trucking conditions are different, and trucks are taking longer time to reach destination. Consequently, trucks in Benin are less productive than their equivalent in East Africa and, at the same time, are far older (and therefore the vehicle cost component is lower) and are combined with different activities (with possible cross-subsidization and therefore potentially the requirement for instance to only cover direct voyage costs). The World Bank, through a Trade Facilitation Facility (TFF) grant, has commissioned trucking surveys in Niger and Benin that will be conducted during the second quarter 2014. The results will provide a better picture of the trucking industry in Benin and the characteristics of the operations on the Cotonou Niger corridor and shed light where there is presently very limited factual data.

**Railway**

The railway was opened in 1906 between the port of Cotonou and Ouidah, a distance of about 45km, and then extended towards Niger but to reach only Parakou, 437km from Cotonou, in 1936. The rail gauge is the meter gauge, similar to the other West Africa railways. Although the line is limited to Benin in its extent, the railway company, OCBN (*Office du Chemin de fer Bénin Niger*), is a binational parastatal.

In the last decades, the railway experienced a number of setbacks, with declining traffic, growing debts and the Government of Benin was willing to transfer the management of the railway to the private sector. However, because of the binational status of the company, the approval of Niger was required, which was obtained on May 25th 2010 after a meeting between the two Governments. Negotiations were initiated with Petrolin, a local investor, and a notification signed on July 22 2010 attributed the concession of the railway to the company, but never reached the concession stage. The process was revived through the African Union project for closing the railway loop Abidjan Ouagadougou Niamey Cotonou. A first concrete sign of change was the MoU signed between the Heads of State of Benin and Niger on November 7th 2013 agreeing on the extension of the railway line to Niamey, with Bollore as strategic partner. Construction of the new line was launched in April, in Niger.\(^{20}\) The extension to a 1,050km railway link will cost an estimated €1bn and forms part of a larger project intended to link the two countries with Burkina Faso and Côte d’Ivoire.

Bolloré Group, the strategic partner for the project, is mobilizing funds to ensure the railway is completed within four years. Up to 40% of the construction costs will come from strategic partners, 10% each from the governments of Niger and Benin, and 40% from private sector partners in the two countries.\(^{21}\) The extension of the railway will provide some rationale for the Dosso dry port (140km from Niamey on the road to Benin), which was initiated in May 2009, and until now has only materialized by a fenced area of 100 hectares. The IFC is advising the Government of Niger on the selection of an operator to develop the facility.

\(^{20}\) International Railway Journal Monday, March 24, 2014:  
\(^{21}\) 20% from Petrolin for the Benin share.
Land border crossing

The three main land border crossings are Hilla Condji (between Togo and Benin) and Seme Krake (between Benin and Nigeria), both on the Abidjan Lagos corridor, and Malanville (between Benin and Niger).

Hilla Condji (Togo / Benin):

The operating hours for the border are 7:00 to 12:00 then 14:30 to 17:30 during weekdays, 7:00 to 13:00 on Saturdays, and closed on Sundays. However, for movement of persons, the border is open 24/7. The Customs office is connected to the HQ in Cotonou for Customs declarations.

For goods destined to Benin, the standard practice is border clearance, except for a few products:

- Petroleum products, cleared for home consumption at the specialized office in Cotonou, and subject to escort between the border and there;
- Rice, cleared for home consumption in Cotonou, and also subject to escort.

Irrespective of the destination (Cotonou, Seme / Krake or Malanville) the escort is charged 99,600 F CFA per truck. Escort days are Monday to Saturday. The escort concerns documents: trucks are released, and proceed at their own pace, and a Customs officer is taking the bunch of documents to the destination office. Usually, the trucks which arrived the day before are released for the escort the next day. The Benin Single Window SEGUB is currently rolling out at Hilla Condji, connecting Customs, CNCB, the African Development Bank, and the parking yard (DOMTRACO).

Seme Krake (Benin / Nigeria):

The border is currently being converted into a one stop border post thanks to funding from the EU for physical infrastructure and the World Bank for soft issues. However, the contractor responsible for building the infrastructure was fired due to poor performance in late 2012 and since then, construction work has ceased although efforts are being made to identify a replacement contractor.

The situation at the border is very particular because the major part of the traffic is transshipped from Benin trucks to Nigeria trucks. The reasons are multiple, and all linked to Customs and law enforcement practices in Nigeria, and not for lack of proper agreement between Benin and Nigeria to enable the movement of trucks across the two countries. The transshipment does not concern trucks carrying goods coming from other countries further on the Abidjan Lagos Corridor, only the ones loaded in Benin, with transit goods passing through the port of Cotonou. Reasons for this include the following:

The application by Nigeria Customs of a per-truck lump-sum formula for duties (1.9 million Naira or around US$11,400 per truck) creates a perverse incentive to overload specifically-reinforced, oversized trucks. While the customary combination of three Beninese trucks into a single Nigerian one (a feat, considering that Beninese trucks were already significantly overloaded) is being phased out, it is still common to combine two Beninese trucks into one Nigerian truck. Law enforcement officers in Nigeria tend to assume that Beninese trucks are carrying goods that have been diverted from Lagos to Cotonou and therefore tend to harass Beninese truck drivers more frequently than those from other countries. This may largely be an excuse, but according to truck drivers’ unions, the issue of harassment by law enforcement is considered by most drivers as a sufficient threat to justify avoiding driving in Nigeria. The fact that other drivers’ nationalities (Togo, Ghana and even Côte d’Ivoire) routinely drive through Nigeria would tend to confirm that suspicion of smuggling, or at least suspicion of diversion of traffic from Lagos, is at the root of this behavior.
In addition to the delays caused by the transshipment of the trucks, the frequent unofficial disputes between Benin and Nigeria lead to partial or total closure of the border, preventing trucks from passing. The last such closure happened in September 2013, and trucks were blocked at the border, some for over two months, until the border was reopened. The reason for the closure was unclear, but it seemed to be linked to the size of the trucks in Benin. This example illustrates the large unpredictability of the prevailing conditions for trade. Under the current organization of the logistics of trade, the benefits of a one stop border posts are almost non-existent. Starting a dialogue between Nigeria and Benin on Customs and logistics issues will be necessary to identify a solution that will prevent transshipment, and enable faster and more efficient border crossing procedures. Abandoning the lump sum practice on the Nigeria side is probably the single most important measure that would remove all financial justification to the transshipment.

**Malanville (Benin / Niger):**

Malanville, like Seme Krake, is also being converted into a one stop border post with EU funding, and the physical facilities are complete: they have been officially inaugurated by the two countries in April 2014. However, unlike Seme Krake, the funding for the soft issues depends on an additional EU grant to support the regional facilitation program of the two RECs (WAEMU and ECOWAS), which has not yet been finalized, and may delay the entry into service of the new border post. The current situation is transitory and only two issues need to be flagged: the issue of escorting and the over-reliance on paper instead of ICT (discussed in another section below) and the truck parking yards.

In Malanville, the municipality and a private investor\(^22\) opened a parking yard for the transit trucks, pending their release by Customs. A parking fee, collected at the port of Cotonou, is charged for the trucks, irrespective of the duration of the stay (10,000 F CFA). The actual muscle of the beneficiaries for the Malanville yard may be low, considering that the yard was close in June 2013 following a decision by the head of State, and only reopened in March 2014. In the meantime, an alternative parking yard was opened in town, and closed when the other reopened. On the Niger side, a similar parking yard exists, owned by a local but influent businessman. The fee collected is lower: 4,000 FCFA for most trucks, 2,000 F CFA for sulfur, cement and clinker. Both parking yards generate a steady revenue stream for their respective promoters, against minimal (and largely amortized, if any) investment. In itself the parking fee is not abnormally high, but with the new border post, the rationale for the parking yards will disappear, which may create resistance from the current beneficiaries of the fee.

On the Niger side, most of the declarations are domestic transit to an internal destination in Niger, and only goods for the Gaya area are cleared at the border. Some of the goods destined for the Customs office close to the Nigerian border (Maradi or Zinder, for instance) are imported in Niger and then re-exported to Nigeria. In the absence of information at declaration level for those offices, estimating the actual volumes of transit to Nigeria falsely declared as transit to Niger is difficult.

With a predominance of transit at the border, crossing time should be limited. However, the escort system, which also applies to Niger, create artificial queues and delays that could be suppressed. Until the time there is an ICT connection between Customs in Benin and Customs in Niger, a phased approach to simplified procedures could be adopted, which includes longer office operating hours, and avoids batch transmission of documents from Customs to Customs.

---

\(^22\) Someone who used to be well connected and is also the investor in the Seme transshipment yard.
Crossing delays at the land borders

The Abidjan Lagos Corridor Organization (ALCO) is monitoring border crossing delays as part of the program indicators for the Abidjan Lagos Trade and Transport Facilitation Program (ALTTFP).

Table 6: Breakdown of border crossing time along the Abidjan Lagos Corridor

<table>
<thead>
<tr>
<th>Border post</th>
<th>Sanvee Condji</th>
<th>Hilla Condji</th>
<th>Krake</th>
<th>Seme</th>
</tr>
</thead>
<tbody>
<tr>
<td>Documentation process exit</td>
<td>4:00:00</td>
<td>3:00:00</td>
<td>10:00:00</td>
<td>4:00:00</td>
</tr>
<tr>
<td>Documentation process entry</td>
<td>2:00:00</td>
<td>28:13:00</td>
<td>10:00:00</td>
<td>15:00:00</td>
</tr>
<tr>
<td>Total documentation process</td>
<td>4:00:00</td>
<td>31:00:00</td>
<td>49:00:00</td>
<td>25:00:00</td>
</tr>
<tr>
<td>Total crossing time</td>
<td>11:00:00</td>
<td>52:00:00</td>
<td>65:00:00</td>
<td>48:00:00</td>
</tr>
</tbody>
</table>

Source: ALCO

Table 7: T8 time at the borders at the end of 2013

<table>
<thead>
<tr>
<th>Border</th>
<th>Customs regime</th>
<th>Total</th>
<th>Crossing time</th>
<th>Standard deviation</th>
<th>Min</th>
<th>Mac</th>
<th>Median</th>
<th>First quartile</th>
<th>Last quartile</th>
</tr>
</thead>
<tbody>
<tr>
<td>SANVEE CONDJI</td>
<td>All</td>
<td>182</td>
<td>4H</td>
<td>3H40</td>
<td>2H15</td>
<td>52H32</td>
<td>3H37</td>
<td>3H21</td>
<td>2H15</td>
</tr>
<tr>
<td></td>
<td>Transit</td>
<td>131</td>
<td>4H</td>
<td>54H32</td>
<td>2H15</td>
<td>3H40</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Clearance</td>
<td>53</td>
<td>3H30</td>
<td>4H26</td>
<td>2H15</td>
<td>28nm</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>All</td>
<td>215</td>
<td>31H</td>
<td>28H</td>
<td>3H23</td>
<td>156H</td>
<td>15H</td>
<td>11H</td>
<td>48H</td>
</tr>
<tr>
<td>HILLACONDJI</td>
<td>Transit</td>
<td>152</td>
<td>33H</td>
<td>156H</td>
<td>4H</td>
<td>29H</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Clearance</td>
<td>63</td>
<td>24H</td>
<td>10H1</td>
<td>3H23</td>
<td>20H27</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>All</td>
<td>231</td>
<td>49H</td>
<td>22H15</td>
<td>9H15</td>
<td>104H</td>
<td>33H43</td>
<td>33H</td>
<td>80H30</td>
</tr>
<tr>
<td>KRAKE</td>
<td>Transit</td>
<td>198</td>
<td>48H42</td>
<td>104H</td>
<td>9H15</td>
<td>22H15</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Clearance</td>
<td>33</td>
<td>46H23</td>
<td>104H</td>
<td>9H15</td>
<td>21H19</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>All</td>
<td>235</td>
<td>25H</td>
<td>22H</td>
<td>3H</td>
<td>103H</td>
<td>25H</td>
<td>3H</td>
<td>29H</td>
</tr>
<tr>
<td>SEME</td>
<td>Transit</td>
<td>3</td>
<td>14H</td>
<td>27H</td>
<td>8H</td>
<td>9H</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td></td>
<td>Clearance</td>
<td>232</td>
<td>24H</td>
<td>103H</td>
<td>3H</td>
<td>22H</td>
<td>-</td>
<td>-</td>
<td>-</td>
</tr>
</tbody>
</table>

Source: ALCO

Not all borders are comparable. For instance, at Hilla Condji, the standard procedure is border clearance, which implies valuation and verification of the declared value of the goods by the Customs officers, and payment of the duties. At other borders, domestic transit regime only require verification of the integrity of the seals and regular document check, before releasing the trucks for the rest of the journey.

Traffic counts at the land borders

The busiest land border is Malanville, with an excess of 6,000 trucks crossing per month towards Niger. The traffic in the opposite direction is negligible. The two other land borders at Seme Krake and Hilla Condji are less active.
Table 8: Traffic counts at the main land borders

<table>
<thead>
<tr>
<th></th>
<th>Malanville</th>
<th>Seme Krake</th>
<th>Hilla condji</th>
</tr>
</thead>
<tbody>
<tr>
<td>Out of Benin</td>
<td>6,000</td>
<td>1,375</td>
<td>310</td>
</tr>
<tr>
<td>Into Benin</td>
<td>Negligible</td>
<td>375</td>
<td>1070</td>
</tr>
</tbody>
</table>

Note: Estimates for Seme Krake and Hilla Condji, based in traffic counts three months 2014 for Malanville

Additional breakdown of the border counts at Hilla Condji are available, based on monthly averages for the first six months of 2012.

3.1.4 Transport costs and prices

Transport costs affect the price of goods imported by traders on two levels: (i) the financial cost of logistics services (from gateway to final clearance) and (ii) the economic cost of delays and uncertainties on delivery date (cost of excess inventory). Maritime gateway financial costs typically include documentation fees paid to shipping agents and trade institutions (shipper’s councils, etc.), handling, Customs declaration and freight forwarder’s fee. Land transport is typically trucking, or rail/road intermodal combinations. It also includes documentation fees for crossing the inland border. Inland destination financial costs include final clearance at destination and handling.

It is customary to include inventory costs in transport costs. However, in unpredictable environments such as the one prevailing in West Africa, inventory costs do not take into consideration the impact of uncertainties. The SSATP conducted an analysis of the total logistics costs (TLC) for selected corridors in West and Central Africa in 2012. The sum of the two components is the total logistics cost that were analyzed for typical goods traded in West and Central Africa. The tables below compare the TLC for a 40’ container of household appliances without stripping in the port for the first table, and for a shipment of bags of rice for the second. The land transport distances are similar across the three corridors.
Table 9: TLC for a 40’ container

<table>
<thead>
<tr>
<th>40’ container</th>
<th>Abidjan - Ouagadougou</th>
<th>Abidjan - Bamako</th>
<th>Cotonou - Niamey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gateway costs</td>
<td>1,245,368</td>
<td>1,317,886</td>
<td>879,622</td>
</tr>
<tr>
<td>Road transport</td>
<td>1,650,000</td>
<td>1,700,000</td>
<td>1,500,000</td>
</tr>
<tr>
<td>Border crossing</td>
<td>76,000</td>
<td>71,000</td>
<td>43,000</td>
</tr>
<tr>
<td>Terminal clearance</td>
<td>562,820</td>
<td>359,020</td>
<td>225,000</td>
</tr>
<tr>
<td>Total transport cost</td>
<td>3,534,188</td>
<td>3,447,906</td>
<td>2,647,622</td>
</tr>
<tr>
<td>Inventory cost</td>
<td>465,649</td>
<td>550,269</td>
<td>801,294</td>
</tr>
<tr>
<td>Uncertainties cost</td>
<td>368,737</td>
<td>368,973</td>
<td>425,466</td>
</tr>
<tr>
<td>Time related costs</td>
<td>834,386</td>
<td>919,242</td>
<td>1,226,760</td>
</tr>
<tr>
<td>Total logistics costs</td>
<td>4,368,574</td>
<td>4,367,148</td>
<td>3,874,382</td>
</tr>
<tr>
<td>Services (%)</td>
<td>81%</td>
<td>79%</td>
<td>68%</td>
</tr>
<tr>
<td>Time (%)</td>
<td>19%</td>
<td>21%</td>
<td>32%</td>
</tr>
<tr>
<td>Value goods (%)</td>
<td>13%</td>
<td>13%</td>
<td>11%</td>
</tr>
</tbody>
</table>

Source: Study on total logistics costs (Nathan Associates), SSATP 2013

Table 10: TLC for 44 tons of rice in bags

<table>
<thead>
<tr>
<th>44 tons of rice in bags</th>
<th>Abidjan - Ouagadougou</th>
<th>Abidjan - Bamako</th>
<th>Cotonou - Niamey</th>
</tr>
</thead>
<tbody>
<tr>
<td>Gateway costs</td>
<td>829,288</td>
<td>863,288</td>
<td>950,584</td>
</tr>
<tr>
<td>Road transport</td>
<td>1,760,000</td>
<td>1,760,000</td>
<td>1,500,000</td>
</tr>
<tr>
<td>Border crossing</td>
<td>76,000</td>
<td>71,000</td>
<td>81,600</td>
</tr>
<tr>
<td>Terminal clearance</td>
<td>244,365</td>
<td>206,565</td>
<td>120,000</td>
</tr>
<tr>
<td>Total transport cost</td>
<td>2,969,653</td>
<td>2,900,853</td>
<td>2,652,184</td>
</tr>
<tr>
<td>Inventory cost</td>
<td>118,563</td>
<td>138,872</td>
<td>343,412</td>
</tr>
<tr>
<td>Uncertainties cost</td>
<td>99,275</td>
<td>98,765</td>
<td>182,342</td>
</tr>
<tr>
<td>Time related costs</td>
<td>217,838</td>
<td>237,637</td>
<td>525,754</td>
</tr>
<tr>
<td>Total logistics costs</td>
<td>3,127,491</td>
<td>3,138,490</td>
<td>3,177,938</td>
</tr>
<tr>
<td>Services (%)</td>
<td>93%</td>
<td>92%</td>
<td>83%</td>
</tr>
<tr>
<td>Time (%)</td>
<td>7%</td>
<td>8%</td>
<td>17%</td>
</tr>
<tr>
<td>Value goods (%)</td>
<td>38%</td>
<td>38%</td>
<td>38%</td>
</tr>
</tbody>
</table>

Source: Study on total logistics costs (Nathan Associates), SSATP 2013

The Cotonou Niamey corridor is slightly lower than the Abidjan corridors, in terms of both gateway prices and trucking prices. The time related component (inventory and impact of uncertainties) of the TLC is higher, but this is because the survey for Cotonou was during transition out of PVI by Benin Control, so delays were abnormally high compared to the other corridor. The current performance would result in values for the time related component equivalent to the Abidjan corridors.
3.2 Modernizing customs to strengthen Benin’s regional competitiveness

3.2.1 The importance of customs modernization in Benin

Although customs modernization is essential for trade integration, it represents a considerable challenge for Sub-Saharan African (SSA) countries such as Benin. More than in other regions, the adoption of the modern customs framework in Africa is hampered by factors such as insufficient capacity and resources, poor infrastructure, frequent non-compliance with rules and pervasiveness of informal trade, and serious governance issues. Moreover, trade taxes and other taxes collected by customs (e.g. VAT) still represent a high share of revenue in most African countries. In Benin, they accounted for around 53% of the Government’s total tax revenue in 2012, 83% of which was collected at the Port de Cotonou (PAC) (WCO 2013). This figure has remained stable in recent years, placing Benin among the most dependent SSA countries for revenue collected by customs (Figure 50). As a result of this dependency on trade taxes, customs administrations’ priorities are often more influenced by political pressure to reach short-term revenue collection targets than by the objective to modernize and facilitate trade. Reform efforts since the 1990s in SSA have yielded positive results in some areas, although progress has been rather slow overall, especially concerning the most advanced dimensions of customs modernization.

Benin occupies a central position in regional trade and transit. It is estimated that over 80% of all goods entering the port of Cotonou are destined for final delivery outside of Benin, mainly for transit and re-export to Nigeria and (to a lesser extent) to landlocked Niger and Burkina Faso. Trade with Nigeria alone, informal or otherwise, is thought to represent around 20% of Benin’s GDP (MacWilliam 2013). As highlighted in this DTIS Update, Cotonou’s place as a regional hub has to a large extent been the consequence of the restrictiveness of Nigeria’s trade policy. High tariffs, import bans and other barriers to trade in the region’s largest market have over the years encouraged massive smuggling in this country of products imported through Benin but declared for home consumption or transit to the hinterland. Benin has largely benefited from this activity in the form of income, employment and fiscal revenue.

Source: WCO, Annual Report 2012-2013 (African countries with available data)
Planned changes to the status quo in the near future may affect Benin’s situation, making the customs modernization agenda all the more critical. Although observers have long highlighted the artificial and vulnerable nature of Benin’s position as a platform for trade with Nigeria, the adoption of the ECOWAS Common External Tariff (CET) in October 2013 adds greater urgency to this warning. Indeed, the implementation of the CET after 2015 implies that the rents derived from transit to Nigeria could dramatically decrease in the near future, as arbitraging opportunities decrease. This would result in a sharp drop in government revenue collected through customs, with adverse macroeconomic consequences. In order to maintain its status as a regional trade hub, Benin will thus need to enhance its real competitiveness as a trade and logistics platform. The strategic objective should be at the same time to improve the transparency of exchanges between Benin and its neighbors, while maintaining/developing trade volumes. Given the central place of customs in the logistics chain, this necessity undeniably reinforces the relevance of the customs modernization agenda. As argued in this chapter, it will notably require (i) moving forward with customs modernization, to the benefit of all traders and of the Government, (ii) introducing measures to facilitate trade and strengthen the attractiveness of Cotonou as a regional trade hub, such as an Authorized Economic Operator (AEO) scheme, and (iii) facilitating and encouraging transit trade.

### 3.2.2 Current performances of customs in Benin

The available data shows a decrease of average cargo release time at the port of Cotonou since 2012, including for customs clearance. The gradual improvement in performance is largely due to changes in port procedures and operations. As a result, average container dwell time decreased from 28 days in early 2012 to around 12 at the end of 2013, although it appears to have stagnated at this level since the last quarter of 2012. Data from the port single window for container imports shows that most of the improvement was achieved thanks to decreases in the average time taken by the two lengthiest steps of the cargo release process, namely customs clearance and cargo loading/port exit (Figure 51). 23 The main developments regarding port procedures and logistics have included:

---

23 Unfortunately ASYCUDA, the automated customs management system used in Benin, does not allow computing average dwell time because it does not register the exit date and time of goods. This information is recorded in the data collected by the single window operator (SEGUB) used here, which however defines the customs clearance process as the time between unloading and clearing of goods by customs. This is partly inaccurate, because declaration can be submitted prior to physical arrival of cargo, which has contributed to streamlining the clearance process. Monitoring average customs clearance time would be made easier if data were systematically exchanged between customs and SEGUB, which is presently not the case.
Maritime cargo manifest: since July 2011, the manifest can be electronically submitted through the Port Single Window, allowing advance declaration (this is not applied for air cargo and petroleum manifest). It is shared among port operators and public agencies, ensuring streamlined inspections and release, and positively impacting storage and movement at the port.

Customs declaration in advance: advance customs declaration is now mandatory for perishables goods, allowing customs to make an early decision on the need to inspect the goods. The majority of such shipments does not undergo inspection and is released immediately. Advance declaration however has still affected a small minority of shipments in recent years, accounting for around 2% of imported containers in 2012.

Payment of duties and taxes: the consolidation of the charges due in a single electronic invoice through the Single Window and automatic notification of payment by the bank to Customs has expedited this step of the process for import declarations at the port.

Port access and parking: trucks can now only enter the port when they are called to pick up/drop containers from a well-organized parking lot outside the port. This system reduces access time and congestion in the port area. More than the clearance procedure itself, delays for imports at the port seem to be caused by the time taken for customs declarations to be registered after cargo arrival. Based on a sample of around 45,000 containers imported at the port of Cotonou between mid-2011 and end-2012 for which customs and SEGUB data could be matched, the average customs clearance time was around one day.²⁴

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²⁴ Clearance time measured as the number of days between declaration registration and BAED.
However, a majority of declarations are only registered several days after cargo arrival at the port. A significant number of declarations are only registered several weeks after arrival (with four imported containers taking as long as 335 days to be declared to customs), delaying by as much the exit of goods from the port. This could be explained by delays to obtain the necessary documents, or practices by clearing and forwarding agents. The reasons for these delays should be further investigated and incentives to reduce them should be introduced, which could significantly reduce dwell time at the port.

Put in a regional perspective, the available indicators suggest that the overall performances of Beninese customs are not particularly poor, but that there is room for improvement. Several public sources of data on the environment for trade and customs can be used to benchmark Benin against other West African countries, including the World Bank’s Doing Business and Logistics Performance Indicator (LPI), as well as the World Economic Forum’s Global Competitiveness Index (GCI). The country’s ranking on these different indices show that its performances are intermediate to good compared to other West African coastal countries with which it competes for the role of regional trade hub, but are in all cases low on a global scale (Table 11).

---

25 Based on a sample of around 45,000 containers imported between August 2011 and December 2012, and for which customs and SEGUB data could be matched. In advance declaration calculated as the time difference in days between declaration registration date (customs) and actual time of arrival (SEGUB).

26 Discrepancies in rankings on various indices may reflect differences in data sources, collection period and aggregation methodologies. For more details, please refer to each index’s website.
In terms of Doing Business, Benin appears to be in an intermediate position compared to other coastal West African countries regarding the time, cost and number of documents required to export and import goods (Table 12). While not all these transaction costs can be attributed to customs, this gives a useful indication of Benin’s competitiveness in the region. In particular, Senegal (the best regional performer) and Ghana do significantly better than Benin on most indicators. However, data for previous years show that the time and number of documents required to trade in Benin have decreased since 2005, though the cost to do so increased (Figure 53).

Table 11: Trade environment and customs performances rankings

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Benin</td>
<td>119</td>
<td>73</td>
<td>138</td>
</tr>
<tr>
<td>Côte d’Ivoire</td>
<td>165</td>
<td>120</td>
<td>110</td>
</tr>
<tr>
<td>Gambia</td>
<td>99</td>
<td>143</td>
<td>40</td>
</tr>
<tr>
<td>Ghana</td>
<td>109</td>
<td>130</td>
<td>109</td>
</tr>
<tr>
<td>Guinea</td>
<td>136</td>
<td>119</td>
<td>114</td>
</tr>
<tr>
<td>Guinea-Bissau</td>
<td>125</td>
<td>101</td>
<td>..</td>
</tr>
<tr>
<td>Liberia</td>
<td>142</td>
<td>83</td>
<td>79</td>
</tr>
<tr>
<td>Nigeria</td>
<td>158</td>
<td>117</td>
<td>129</td>
</tr>
<tr>
<td>Senegal</td>
<td>80</td>
<td>76</td>
<td>38</td>
</tr>
<tr>
<td>Sierra Leone</td>
<td>140</td>
<td>..</td>
<td>126</td>
</tr>
<tr>
<td>Togo</td>
<td>110</td>
<td>139</td>
<td>..</td>
</tr>
<tr>
<td>Regional ranking</td>
<td>5/11</td>
<td>1/10</td>
<td>9/9</td>
</tr>
</tbody>
</table>


Table 12: Trading Across Borders in West Africa

<table>
<thead>
<tr>
<th></th>
<th>Benin</th>
<th>Côte d’Ivoire</th>
<th>Ghana</th>
<th>Liberia</th>
<th>Nigeria</th>
<th>Senegal</th>
<th>Togo</th>
</tr>
</thead>
<tbody>
<tr>
<td>Export</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Number of documents</td>
<td>6</td>
<td>9</td>
<td>6</td>
<td>10</td>
<td>9</td>
<td>6</td>
<td>6</td>
</tr>
<tr>
<td>Time (days), of which:</td>
<td>26</td>
<td>25</td>
<td>19</td>
<td>15</td>
<td>22</td>
<td>12</td>
<td>24</td>
</tr>
<tr>
<td>Documents preparation</td>
<td>14</td>
<td>15</td>
<td>10</td>
<td>8</td>
<td>12</td>
<td>5</td>
<td>17</td>
</tr>
<tr>
<td>Customs clearance and technical control</td>
<td>3</td>
<td>5</td>
<td>4</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>1</td>
</tr>
<tr>
<td>Ports and terminal handling</td>
<td>5</td>
<td>3</td>
<td>3</td>
<td>2</td>
<td>4</td>
<td>3</td>
<td>4</td>
</tr>
<tr>
<td>Inland transportation and handling</td>
<td>4</td>
<td>2</td>
<td>2</td>
<td>3</td>
<td>2</td>
<td>2</td>
<td>2</td>
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</table>

Source: World Bank (Doing Business 2014)

For details on how Doing Business measures the performances of trade procedures, refer to: http://www.doingbusiness.org/methodology/trading-across-borders
LPI: Based on a survey of logistics operators, Benin is the top-ranked West African country for the 2014 LPI customs sub-index, which assesses the efficiency of the clearance process (i.e. speed, simplicity and predictability of formalities) by border control agencies, including customs. Benin ranks 73rd globally on this metric — still far behind the best African performer (South Africa, 42nd). Benin’s score on the customs index nonetheless significantly increased between the 2007 and 2014 editions of the LPI, progressing from lowest to best performer among the main West African coastal countries (Figure 54). In 2014, Benin fell three places in the global ranking despite a slight improvement of its score, highlighting the need to maintain the pace of customs modernization reforms to stay competitive.

GCI: results from the WEF’s Executive Opinion Survey qualifies the LPI ranking and suggests that Benin is more unfavorably-positioned compared to other West African countries regarding business executives’ view of customs’ efficiency (Figure 55). While this perception had improved between 2007 and 2011, it has worsened since then. It is worth noting that the GCI is elaborated each year using a weighted average of survey data collected in the two previous years, so Benin’s low score on the customs effectiveness indicator in recent years may partly be explained by the issues related to the import verification program implemented during the second half of 2011 and first half of 2012.
3.2.3 Main strengths and weaknesses of Beninese customs

An in-depth assessment of customs was recently undertaken in Benin, providing detailed insights into the administration’s strengths and weaknesses. The Direction Générale des Douanes et des Droits Indirects (DGDDI) employed a staff of 963 in 2012 and the administration operates 32 customs posts, the largest being PAC’s (WCO 2013, WTO 2010). At the request of the Government, the World Bank collected in mid-2013 comprehensive data on the processes and performances of the DGDDI, following the Customs Assessment Trade Toolkit (CATT) methodology. This marked the first time this tool, which was developed in Latin America, was applied in an African country. In Benin, a team of local customs stakeholders and international experts worked together to collect and verify data for 120 high-level indicators, corresponding to as many good practices in a wide range of areas. In each case, supporting evidence (e.g. regulatory document, activity statistics) was also collected to ensure the objectivity of results. Evaluation sites covered by the project included the port and airport in Cotonou, as well as Kraké at the border with Nigeria.

The results of this evaluation show that Beninese customs must be strengthened in several key areas to get closer to best practices. While the scores are relatively low in most of the dimensions measured by the CATT, this is especially the case for some critical dimensions, such as control (ability to enforce compliance with customs law and assess risk through improved methods of control) and strategic thinking (capacity to develop a vision for the modernization of operations and define core improvement strategies). The evaluating team noted some strengths (e.g. good control over the primary customs area at the port and airport; dedicated and trained personnel; introduction of pre-arrival declaration at the port), but it also identified serious weaknesses, including:

- Excessive decentralization and autonomy of regional offices and of the customs brigade, which hampers the flow of information and central use of intelligence;
- Limited monitoring of the efficiency of surveillance and control activities and deficient consolidation of data at the central level, limiting the capacity to establish and update risk profiles;
- Irregular and incomplete exchanges of data between customs and the port single window;
- General under-utilization of ASYCUDA (recording of activities, but not of outcomes);
- Inadequate use of ASYCUDA’s selectivity module on the ground;
- Absence of a dedicated zone for inspection with surveillance equipment such as cameras at the airport and land border;
- Limited control of cargo crossing land borders (e.g. Kraké);
- Need for training on specific functions (e.g. audit);
- Limited options for, and monitoring of, administrative and judiciary processes;
- Insufficient internal and external publication of information about rules and procedures.

CATT assessments gather objectively-verifiable data on customs processes and performances, and benchmark them against internationally-recognized good practices promoted by organizations such as the WCO, the WTO, the World Bank and the International Chamber of Commerce. This exercise provides a summary of a customs administration’s strengths and weaknesses along seven key dimensions (process orientation, strategic thinking, control, efficiency, effectiveness, facilitation, transparency), which are aggregated in two indices measuring the administration’s (i) practices and (ii) performances. One distinctive feature of the methodology is that it allows for comparability across countries (irrespective of the size of the administration) and over time (for more information, see: http://www.customscatt.org). The publication of a CATT’s detailed results is subject to approval by the authorities of the country and only a summary of the outcome is presented here.
In addition to its operational performances, the customs administration should increase its data collection and monitoring capacity. For instance, one issue repeatedly encountered during the CATT evaluation was the impossibility to assign a score to several indicators, due to the absence of documentary evidence or monitoring of the related practice by the administration. This is an issue in itself, as it is a sign of the administration’s limited capacity to get a comprehensive view of its activities and performances. Serious gaps also persist in customs data collection, despite the automation of operations (for instance, data obtained for the DTIS update showed no transit transaction to Nigeria in 2012). As explained above, a large share of goods re-exported to Nigeria are declared for home consumption in Benin. Clearly, the issue here is not just technical, and political commitment is needed to improve the transparency of Benin’s trade through more accurate recording of trade transactions.

Beside formal rules and procedures, the governance environment around customs remains problematic in Benin. In the absence of sufficient incentives to comply and limited risk of sanctions, fraud by declarants and corruption within customs are rife. Undervaluation and/or misdeclaration of the import regime (e.g. home consumption vs. transit) by large scale actors, often with the complicity of customs officials, are still frequently used to avoid full payment of duties and taxes due and facilitate smuggling to Nigeria. This has justified the resorting to pre-shipment inspection, with limited results (see below). There are also indications that bans or restrictions on imports from neighboring Togo are used to preserve monopoly positions for Beninese actors involved in smuggling to Nigeria. Finally, the operation of non-qualified agents as customs brokers has been reported. Although not directly under the control of the administration, this phenomenon negatively affect customs performance and should be tackled. In addition to better procedures and trade facilitation measures, finally customs modernization will thus also require measures to increase compliance, curb corruption and improve professionalism.

3.2.4 Benin’s Customs modernization efforts

The Government of Benin is committed to the objective of port and customs modernization. Following the global trend towards customs modernization since the 1990s, most countries in SSA have attempted to reform their customs administration. Benin has been part of this movement with support from development partners, and participates in the international customs framework. The objective to improve the administrative and regulatory environment for traders is mentioned in recent strategic documents adopted by the Government (Growth Strategies for Poverty Reduction 2007-2009 and 2011-2015, Strategic Development Orientations 2006-2011, etc.). Trade facilitation was identified as a priority area in the first DTIS, which formulated recommendations endorsed by the Government in 2006. The main challenges affecting customs and port operations identified in the DTIS included:

29 The Fiscal Affairs Department (FAD) of the IMF has carried out 7 TA missions on customs in Benin since 2000. The World Bank and cooperation agencies from Canada, France and the United States also carried out several customs assistance projects in Benin in the 2000s (Montagnat Rentier and Parent (2012).

30 Benin is a member of both the WTO and WCO and a contracting party to the HS Convention. Moreover, Benin applies the WTO’s Agreement on Customs Valuation since 2003, signed the Revised Arusha Declaration, and declared its intention to implement the provisions of the WCO’s SAFE Framework. However, Benin has so far not signed the Revised Kyoto Convention.
Costs/delays and quality of services at the PAC: limited competition in cargo handling, unnecessarily complex rules and procedures, limited automation of operations, high and numerous official and unofficial fees, etc.;

Customs performances: complex procedures, incomplete automation and modernization of data entry and payment methods, deficient application of transactional valuation, absence of a single window in practice, high frequency of controls and lack of risk management practices, low integrity and opacity of operations, impunity for large smuggling networks, etc.

Transit and re-export trade: redundant controls and costly escort procedure;

Dependence on trade taxes and prevalence of duty exemptions.

Some reforms have effectively been carried out over the last decade, with noticeable progress in the port of Cotonou. A revision of the 1966 Customs Code was launched in 2008 and the new code is expected to be adopted by the Parliament in mid-2014. The DGDDI established a first strategic plan for the period 2008-2010, but implementation was hampered by the lack of formal action plan to strengthen customs essential functions. Positive operational measures were nevertheless taken, notably to (i) improve clearance procedures through better use of ASYCUDA++, (ii) create a basic risk analysis function for control selectivity, and (iii) centralize customs unit on a single server. In 2010, Benin implemented an electronic document (EDI) system, which improved customs clearance time. The following year, an electronic single window was launched at the Port of Cotonou (Box 1). While the above represents welcome progress and has helped improve customs performances, these measures often remain incomplete. Some functionalities of ASYCUDA++ (e.g. monitoring of transit cargo) are not used. Likewise, recent technical assistance missions have shown that certain important functions are at a very preliminary stage (e.g. post-clearance audits) or inadequately implemented. For instance, there is insufficient capacity to update the criteria and weighing used for control selectivity, based on rigorous risk analysis.

Box 1: The electronic single window at the port of Cotonou and its link with customs

The introduction of a single window at the port represented an important step forward for trade facilitation in Benin. With strong backing from the Government, the port single window (PSW) was developed by the inspection company BIVAC (subsidiary of Bureau Veritas) in partnership with SOGET, a firm specialized in port community systems. It was rolled out in 2011 and is managed by a public-private concession company, SEGUB (Société d’Exploitation du Guichet Unique du Benin), with around 20 staff members. The online system is designed to connect on a centralized platform all stakeholders involved in trade operations, both private (importers, exporters, customs brokers, freight forwarders, transporters, banks, etc.) and public (customs, port authority, ministries and government agencies, etc.). These actors can use the single window to provide and access the required information and documents, make decisions and pay all duties/fees, expediting, securing and improving the transparency of trade-related processes. Along with other procedural changes, the PSW is deemed to have contributed to a significant decrease of dwell time in the port. In May 2013, the International Association of Ports and Harbors (IAPH) awarded Benin a prize for having facilitated trade through the single window.

The single window has implications for customs and it is important to guarantee full compatibility between the two systems. The interface for data exchange between the PSW and customs’ ASYCUDA is still limited. Audit missions noted that the fact that some functionalities were not supported by the single window or worked differently than in ASYCUDA has had a negative impact on certain customs procedures. This can hamper customs performances and will have to be addressed.

Source: SEGUB (http://www.segub.bi), Bureau Veritas (2013), audit reports
The most recent reform initiatives have been less successful and delayed needed structural reforms. In March 2011, the Government contracted the local firm for a “new generation” PSI program, which aimed at improving revenue collection, intensifying the fight against illegal trade, and facilitating customs clearance. This program, which was not well accepted by the customs administration, included several components in addition to traditional PSI services (e.g. valuation of imported goods and certification of weight; scanning of cargo; GPS tracking of goods in transit; support for automated management of warehouses, clearance areas and container terminals). However, its implementation had major difficulties in practice. In particular, in the absence of a solid risk management system, scanning of all containers at the port led to high fees for importers and severe disruption of traffic. This undermined the competitiveness of the PAC vis-à-vis other ports in the region and resulted in decreasing imports and revenue for the State, as well as social discontent due to increased prices for imported consumption goods (IMF 2013). The program was thus discontinued in May 2012. Coupled with improvements in port procedures (MacWilliam 2013), this triggered a marked decrease in port dwell time, as well as a recovery of import volume and revenue collection.

Major challenges still face Beninese customs, and modernization will require a comprehensive approach to reforms. So far, reforms in Benin have concerned the implementation of useful operational tools, but they have hardly addressed the improvement of essential customs functions, most of which remain deficient. As discussed above, key weaknesses include: (i) limited capacity for operational functions of modern customs (e.g. valuation, risk analysis and control, post-control audit); (ii) lack of central control over customs offices, and diverging performances of office at the port and at land borders; (iii) limited capacity to monitor activities and use consolidated information; (iv) lack of transparency and poor internal and external dissemination of information; (v) serious governance issues within and outside customs. Reform efforts to date were undertaken on a discrete basis rather than as part of a comprehensive and long-term modernization program, aiming at the structural transformation of the way customs work. Moreover, reforms need to tackle not only challenges internal to customs, but also issues in the broader customs environment, including non-compliance and lack of skills by private partners of custom. Such a comprehensive strategy is required to sustainably improve the performances of the customs and port administrations in Benin and to enable the country to play its role as a regional trade hub.

3.2.5 Moving forward with customs modernization

More efforts are required to fully integrate customs as an element of Benin’s regional competitiveness. As argued in this chapter, Beninese customs are operating relatively efficiently compared to regional standards, making Benin’s claim to the status of regional logistics hub credible. However, the competition is high along the coast, as other countries’ modernize their customs administration (e.g. Single Windows, AEO, geo-tracking of transit cargo piloted in Ghana, Cote d’Ivoire). Moreover, the efficiency of Beninese customs and capacity to perform customs essential functions while facilitating legitimate trade is still undermined by serious inefficiencies. The authorities are aware of these challenges and committed to reform. This section thus outlines some considerations that should guide the implementation of the authorities’ reform program. The Action Matrix featured in this report also contains recommendations for policy actions related to customs, based on the conclusions of this chapter.

Beninese customs must maintain their reform momentum. Initial progress on several important aspects of customs operations, such as automation and risk analysis, represent a welcome step and
should continue. The improvement of clearance performances after the cancellation of the “new PSI” program in 2011-2012 is a positive development and the administration can capitalize on the existence of a dedicated staff to continue this trend. Finally, the introduction of the single window at the port of Cotonou paves the way for a better exchange of data with customs, which would facilitate trade. Further efforts are now required to upgrade to a modern customs system and improve the trade environment in Benin. The Government, which considered at a time a second PSI program with another contractor, decided in July 2013 to adopt a new reform strategy for the period 2013-2016 (IMF 2013). A key feature of this ambitious strategy is the strengthening of customs capacity to perform its essential functions (Box 2).

Box 2: The Beninese customs reform strategy (2013-2016)

The Government’s new reform strategy focuses on customs capacity building. The experience in Benin and elsewhere has shown that excessive reliance on private operators to compensate for the limited capacity of customs administration has not been a durable strategy to improve customs performances and revenue collection. The new strategy therefore aims at developing the customs administration’s own capacity, with a view to facilitating trade while guaranteeing revenue collection levels.

The strategy covers the essential dimensions of customs performances. As presented by the Government, the new strategy has a threefold objective: (i) reinforcing the capacities of customs administration to fulfill its key functions; (ii) enhancing customs efficiency by equipping the administration with modern and effective-performance tools, including through capacity-building assistance from private operators for a limited period of time, and (iii) improving the mobilization of customs revenue. Capacity building efforts will be centered on five key customs functions, namely risk management, customs valuation, pre-clearance inspection, post-clearance inspection and customs regime control (e.g. customs exemptions, transit).

Most components included in the previous program considered by the authorities will be maintained in the new strategy. This notably includes the use of scanners, verification of weight and GPS tracking system for transit goods. Regarding valuation, the PSI approach is intended to be replaced by a customs valuation certification program (Programme de Certification des Valeurs - PCV), which will include a temporary contract to assist the administration in certifying value for a list of products representing the majority of imports released for local consumption in the short term. In the medium term, it will aim at building the customs administration’s capacity to perform customs valuation itself. Finally, the strategy seeks to ensure optimal linkage of customs with the port single window. The first measures to be taken include the preparation of contracts for the scanning and valuation components, as well as the establishment of a risk analysis system and monitoring of inspection results. A convention with UNCTAD is also being prepared to introduce ASYCUDA World.

Source: IMF (2013)

The authorities’ customs reform program is broad and will have to be supported by adequate technical support to succeed. The Beninese customs administration has recently benefited from several national and regional technical assistance initiatives by development partners, including the World Bank, the IMF and the EU. In the context of the DTIS Update and at the request of the authorities, a mission was organized in Cotonou in January 2014 to take stock of the remaining needs and identify assistance priorities to implement the different aspects of the reform program and action plan in the short and medium terms (Camaraire 2014). Based on this work, the authorities will have to establish priority

31 Certain basic products (e.g. textile, vegetable oil, rice) destined for local consumption would still be submitted to a special regime for valuation, based on predetermined and periodically adjusted reference prices.
actions and request support from the most appropriate international and national institutions. Ongoing technical assistance and remaining needs for the different activities identified by the administration so far notably include:

- **Acquisition of technical tools**, including scanners, weighbridges and a geo-tracking system. Technical assistance is provided by the WCO, and the Government recently requested the preparation of a call for tender to select a private company for the acquisition and exploitation of scanners at the port and airport of Cotonou.\(^{32}\) The National Directorate of Public Procurement Control (DNCMP) should provide training on the preparation of call for tender documents and on procurement procedures;

- **Optimization of ICT**, including improving ASYCUDA use and preparing the migration to the World version, developing the interconnection with the single window, and establishing a functioning intranet. UNCTAD could provide support to develop certain important functions which are currently underused (e.g. transit module, unpaid customs declarations, uncleared manifests, management of warehouses and clearing areas). The medium term objective should be to move towards paperless customs procedures.

- **Risk management**, e.g. improve risk management, strengthen the collection and use of intelligence, and introduce a central database on infractions. Capacity building is provided by a private company since the end of 2013 in the context of the World Bank’s Abidjan-Lagos Trade and Transport Facilitation Project and by the IMF’s West AFRITAC. The WCO could provide further training to implement its tools.

- **Pre-clearance inspection**, including training in reading and interpreting X-ray images to be included in the call for tender document for the scanners, while the Ministry of Transport can provide assistance for weighbridges. Improved risk management should also facilitate the segmentation of traders and introduction of a formal Authorized Economic Operator (AEO), a key to improve the attractiveness of Cotonou as a regional logistic hub. As in Cameroon, AEO status could be used as an incentive for compliance and linked to performance contracts signed with economic operators.

- **Post-clearance audit (PCA)**, including the elaboration of a procedure manual for desk and on-site audits and to improve agents’ capacity to carry out on-site audits.

- **Customs regime control**, to ensure that exemption and special regimes are used transparently and for their intended purposes, and thus do not unduly erode Benin’s duty and tax base. Technical assistance will be necessary to improve the management of these regimes through ASYCUDA (e.g. transit module).

- **Monitoring of activity and performance targets**, including the adoption of objective result indicators and timely collection of related data to evaluate the impact of reforms.\(^{33}\) An initiative aimed at strengthening internal reporting at customs has been prepared under the Abidjan-Lagos corridor project, and a technical assistance protocol was signed at the end of 2013 with the Cameroonian customs administration, considered a leader in Africa for performance measurement.

- **Transparency and access to information**: The World Bank is providing support to develop regional trade information web-ports (TIWs) in the context of the WAEMU’s Regional Trade Facilitation Program.

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\(^{33}\) In this regard, conducting a second CATT at the end of the reform program period, and using the first assessment as a baseline, could give the administration a sense of the progress achieved.
Implementation of the modernization program: The modernization program underway will require simultaneous actions on several fronts, with appropriate sequencing and coordination. Customs has requested TA from the World Bank. One important condition will be to ensure that staff involved in the management of the reform are not reassigned to other positions before completion.

Finally, it will be important to insert customs reform in the broader context of (i) border management modernization, and (ii) regional trade and transit instruments. Beside customs, many ministries and agencies are involved in border management (e.g. immigration, transport, sanitary and phytosanitary, standards, police). Full automation and the use of risk management by customs matter little if manual treatment of paperwork and systematic physical inspection are still imposed by other agencies. These actors should be included in modernization program, possibly building on the Port Single Window. More generally, modernizing Customs should be carried out in conjunction with Benin’s compliance with its various commitments under the WTO Agreement on Trade Facilitation in Bali in December 2013 (including availability of information, coordination of border agencies, transparency, freedom of transit, etc.). This assumes in particular that the WTO will be notified on Benin’s categorization of measures (measures that can be implemented immediately, that require a delay and those that require technical assistance).

As a member of ECOWAS and WAEMU, Benin must also comply with regulations regarding procedures. Diagnostics have revealed major implementation gaps. Important issues remain in valuation and the imposition of arbitrary “transit fees” on cargo crossing the country on the Abidjan-Lagos corridor, amounting to several thousands of dollars per truck.  

3.2.6 Looking ahead

Benin has clear potential for efficient logistics, but several problems need fixing. From a transport and logistics standpoint, Benin is betting its future on transit to neighboring countries. There are clearly two different types of neighboring countries:

- Nigeria, with activity that thrives for all the wrong reasons and is not sustainable in the long term. The relationship with Nigeria has to be managed to plan for the future. The management of the common Sémé-Kraké could be an entry point for this dialogue involving Customs, law enforcement and trucking operators from both countries to define more effective border crossing procedures.
- Niger, even if a large portion of the transit to Niger is actually disguised transit to Northern Nigeria, imported by Niger but then re-exported. Putting aside policy-induced distortions, there could be sound logistics justification to adopt this route to serve northern Nigeria.

To serve these neighbors’ needs, Benin benefits from good quality facilities: the port has recently been extended, the container facilities are adequate and managed by competent operators, the interface between the port and the trucking services has been improved, the railway is going to be

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34 The imposition of such fees likely runs afoul of GATT Article 5 on Freedom of Transit, which states that traffic in transit should be exempt from duties and charges not “commensurate with administrative expenses entailed by transit or with the cost of services rendered”. It is also incompatible with Article 45 of the ECOWAS Treaty, according to which “transit shall not be subject to any discrimination, quantitative restrictions, duties or other charges”, except “charges usually made for carriage and for any services which may be rendered, provided such charges are not discriminatory and are in conformity with international transit regulations.”

35 See Treichel (2010), notably Chapter 6.
extended to Niamey and managed by a competent operator. However, the extension of the port alone is not a sufficient guarantee that Cotonou will attract a large market share for the transit to the landlocked countries, considering the other capacity development already underway or planned in the neighborhood and that the promoters of the possible competitors to Benin are the very ones involved in Benin. The future of the corridor will largely depend on the regional strategies that global operators will pursue.

In order to position itself as a credible logistics hub, Benin should:

1. **Reform Customs procedures.** As highlighted above, the documentation process needs to be reviewed to reduce the reliance on paper and take full advantage of ICT. Better support to selected traders must be developed, starting with the introduction of risk management, the development of ‘green channels’ for compliant operators to establish an authorized economic operator (AEO) type of scheme.

2. **Fix the trucking industry.** In its present condition, the trucking industry in Benin is more of a handicap that a facilitator, but reforming the industry to transform it into a professional one is a long process. The model currently being implemented for a similar reform for Côte d’Ivoire and Burkina Faso, under the World Bank-supported regional program to develop a transit corridor between Abidjan and Ouagadougou, will provide the blueprint for Benin. The ongoing survey will provide additional information on the exact status of the industry and can constitute the starting point to define an action plan for the reform. An important factor will be the extension of the railway to Niamey, which is likely to shake up operators and force them to adapt, providing the necessary incentive for the reform.

3. **Improve the policy environment’s predictability.** Many recent decisions were made without sufficient preparation or consultations (e.g. Benin Controle, the railway concession, truck traffic management at the port). Investors and operators dislike uncertainty and dialogue and clarity need to be established.

4. **End predatory practices.** Several abnormal practices in Benin are of a predatory nature, including the ad valorem levy on transit goods, which is contrary to WTO rules, the escort requirement (which should be addressed as part of the Customs reform) and the itching but not vital issue of roadblocks (decisions were made to limit the number but not yet implemented).
Chapter 4: Diversification through services

4.1 The role of services and services trade in the Benin economy

4.1.1 Services value added

Services contribute to 54% of Benin’s GDP (Figure 56). While this contribution is slightly above the average for low-income countries (49%) and for the region, it remains well below the world average (70%) and levels reached in high-income countries (74%). Thus, the services sector still has major growth potential for Benin.

With an average 4% annual growth between 2004 and 2010, Benin appears as an underperformer and does not fully tap into its services sector’s growth potential. In the region, only Guinea systematically performed worse than Benin over the period. With a growth rate of 3.2% in 2010, the services sector grew half as fast in Benin as in countries like Sierra Leone, Mozambique, Nepal or Bangladesh. On average, the same year, the services sector grew by 6.8% in low-income countries and 5.2% in Africa.

4.1.2 Services trade performance

In 2010, trade in services represented only 13.6% of GDP in Benin (Figure 58). While this performance reflects the average for low-income countries (14.7%), it remains well below the best performers in the region. These numbers suggest that services in Benin are mainly provided by domestic suppliers for the domestic market.
Over the past decade, the Benin deficit in services trade increased steadily to reach a record US$ 284 million in 2009, before falling back to US$ 259 million in 2012. This is more than three times the deficit observed at the beginning of the period (US$ 81 million in 2003), and is largely due to a surge in imports (mainly in transport, which mirrors the value of trade in goods) that increased three-fold over the period compared to only two-fold for exports (Figure 59).

Source: WTO services trade statistics, 2014

Source: World Bank, World Development Indicators, 2014

Figure 58. Trade in services as % of GDP, 2010

Figure 59. Trade in commercial services, Benin, 2003-12

Figure 60. Share of services exports & imports by sector, Benin, 2010

Source: WTO statistics database, 2014
On the exports side, travel and transportation represent 72% of all of Benin’s services exports. Business and communication services represent 15 and 10% of the country’s exports respectively (Figure 60). The picture is quite similar on the imports side, where transportation and travel represent 71% of total services imports and business and communication services account for 11 and 6% of total services imports respectively. It should be noted, however, that the share of transportation services is twice as important on the import side as on the export side, and that the sectoral concentration of exports is much higher than for imports. Four sectors represent 97% of total services exports in the country. In other words, there is still a need for diversification of Benin services exports.

The overall net trade deficit of Benin in the service sector is due to the country’s large deficit in transportation services. In 2010, the services trade deficit of Benin reached US$ 155, with a US$ 210 million deficit in transportation services trade. Insurance and computer services, the second and third largest deficits, represented only US$ 19 and 13 million, respectively. The country has had a significant trade surplus in only one sector: travel (US$ 92 million). In all other sectors, trade remained balanced. While trade in educational services remains marginal, it is an interesting case of intra-regional trade.

**Untapped opportunities for travel and tourism in Benin**

Benin has made GATS commitments in the travel and tourism sector that is largely open to competition. A number of projects are currently underway in the country, including the ambitious “route des pêches”, and the cultural scene is vibrant. As such, the sector is one of opportunity for Benin if the conditions for sustainable development are met.

About 500,000 passengers transit through Cotonou airport each year. The air travel sector is largely open to competition with 20 companies operating in the country, only one of which is Beninese. Foreign companies benefit from tax exemptions that facilitate their operations. The destinations and origins of the flights from and to Cotonou suggest that Benin plays the role of a hub for the region: Europe represents only 26% of the flights, compared to 39% for Central Africa and 24% for West Africa (Figure 62). France remains the main destination, followed by Congo-Brazzaville, Gabon, and Cameroon. This importance of passenger traffic contrasts with the poor development of freight traffic. The state-owned airport is being upgraded, although some facilities remain in poor condition. Some regulatory issues are still outstanding and the Beninese aviation code should be revised, among others to include relevant regional regulations and directives. Security rules and controls could also be improved.
In 2011, Benin welcomed over 200,000 international visitors, with US$ 187 million in international tourism receipts. Nigeria (12.2%), France (7.5%), and Togo (6.2%) are its top-three source markets. However, most of the visitors came for business (78%) or to visit relatives and friends (14%): tourists represented only 8% of the arrivals. Benin largely remains an undiscovered destination and its tourism sector is in the initiation stage. The sector continues to underperform relative to its potential and neighboring countries: Benin is the fifth tourist destination in West Africa, well behind Senegal, Burkina Faso, Ghana and Nigeria. Its tourism arrivals and revenues have stagnated over the past decade with an average annual visitor growth of only 2% compared to an average 15% growth for its neighbors; the total contribution of tourism to the GDP stagnates at 6.5%, lagging 1.5 percentage points behind its neighbors and 7.5 points behind global averages and the sector contributes 5.6% of total employment, which is 1.4 points less than its neighbors and 8.3 points below the global average. In other words, unrealized annual GDP gains range between US$ 113 and US$ 567 million and unrealized employment between 28,000 and 165,000 jobs.

The Government of Benin has recognized this potential and tourism has become one of the country’s top-five priority sectors. It could indeed potentially become an important source of services exports, as it is already the second largest sector in the country in terms of formal companies, the third largest employer, and the second largest source of foreign exchange earnings. The most ambitious project that was launched this year is the development of the “route des pêches” that should include several zones along the coast (35 kilometers between Cotonou and Ouidah) dedicated to beach tourism, ecotourism, and cultural tourism; the road would give access to beaches, sport and cultural infrastructure, hotels (5,000 rooms) and commercial centers. This project could also have significant spillover effects for the local economy: for instance, ADEOTI (a local engineering and construction services firm) has been selected to do the first kilometers of road; a total 20,000 jobs should be created: local communities (fishermen, villages) should be implicated in the project. Total investment is planned to reach CFA 300 billion. The project also includes a plan for electrification and reinforcement of security, in addition to the road infrastructure. There are also a number of concerns that have been raised with regard the project, and wider consultation should take place to ensure sustainability and transparency, as well as properly leverage its potential effects on the environment and poverty alleviation.

Benin has a number of tourist and cultural attractions. Recently, the Zinsou Foundation opened the first contemporary art museum in Sub-Saharan Africa that adds to the historical landmarks of Ouidah, including the slave route and historical museums. Additional cultural projects in the city include centers for the study of Voodoo and slave trade. Benin also has important national parks with wildlife in the North of country, however access is difficult. The city of Abomey and the village of Ganvié represent more landmarks. The country is yet to capitalize on the growing Nigerian market (with an estimated middle-class of 40-50 million people), in particular in areas with the greatest potential: meetings, conventions, incentives and events (MICE); business trip leisure add-ons and retreats; and weekend middle class family leisure, shopping, and culture.

Figure 62. Air traffic in Benin by destination/origin, 2012

Source: Air France, 2013
A number of obstacles remain. The bad quality of infrastructure, in particular, affects the country’s immediate prospects for tourism development: the absence of domestic flights and the poor quality of roads make access to tourist sites difficult; hotels remain of insufficient quality; access to water, electricity and telecommunications is unsatisfactory. Skills development and marketing are the most critical areas required for upgrading. Some other regulatory constraints remain, such as the high level of taxes, the absence of visa procedures at the border, or cumbersome procedures for border crossing and cross-border car permits. The question of environmental sustainability also remains open. With a great potential for tourism, Benin will need to find the right balance between ambitious developments and respect for its environment and communities. According to the World Bank, destination-level investments in i) infrastructure, utilities and basic services, ii) sites/attraction upgrades, and iii: local economic development to increase value chain linkages could be geographically clustered, building upon Benin’s unique, endogenous natural and cultural assets along the 2-3 tourism growth hubs of Ouidah, Natitingou and coastal areas.

**Trade in educational services**

Benin runs a small trade deficit in educational services (US$ 2.7 million in 2010). About 5% of Beninese students study abroad. These statistics do not fully cover trade in educational services, however. A number of initiatives have led to the establishment of Beninese institutions abroad. Trade in educational services is vibrant in the West Africa region, and plays an important role beyond economics by contributing to the movement of young people and intercultural exchanges. It also helps increase the supply and quality of educational services in Benin. The trade potential of educational services trade should therefore not be neglected.

For example, the Groupe CERCO (created in 1998) is offering technical training not only in Benin, but also in Mali, Côte d’Ivoire, Burkina Faso and France. ISM Adonai is present in four cities in Benin and two cities in Togo, offering training in management, audit, accounting and finance. HERCI (Haute Ecole Régionale de Commerce International created in 2005) is focused on international trade studies and received active support from among others the WTO, UNCTAD and ICC: it also has a regional vocation. The Ecole Régionale Supérieure de la Magistrature (ERSUMA), located in Porto Novo, is an official body of the Office d’Harmonisation en Afrique du Droit des Affaires (OHADA), supported among others by the European Union, whose objective is to train African judges in business law and promote research in this field.

Statistics on foreign direct investment (FDI) reveal the lack of attractiveness of Benin for foreign investors. In the services sector, FDI helps measure trade under Mode 3 (establishment abroad). In 2007, FDI net inflows reached a record US$ 140 million (Figure 64), although this represented a mere
2.5% of Benin’s GDP. This level of investment is extremely low compared to other low-income countries, including in the region (Figure 65). Over the same period, Benin also experienced a few years of disinvestment with negative net FDI inflows in 2005, 2006 and 2009. Available information is not detailed enough to determine the share of services in these investment flows.

Figure 64. Foreign direct investment, net inflows, Benin, US$ million, 2004-11

Figure 65. Foreign direct investment, net inflows as a % of GDP, 2011

Source: World Bank, World Development Indicators, 2014

With regard to trade under Mode 4 of the GATS (temporary movement of service providers across borders), the low level of personal remittances in Benin suggests that services exports under this mode remain limited (Figure 66). As a percentage of GDP, remittances are four times more important in countries like Nigeria or Senegal.

Figure 66. Personal remittances received as % of GDP, 2011

Source: World Bank, World Development Indicators, 2014
4.2 The state of services trade integration in Benin

4.2.1 Openness and multilateral commitments

Benin has made limited commitments to the GATS that cover only four sectors: Business services (conference centers only); financial services (banking only); tourism and travel-related services (hotels and catering only); and transport services (maritime only). Thus, important sectors of the economy, such as telecommunications or most business and transport services are not covered by multilateral disciplines.

This low level of multilateral commitment is common in many countries with a comparable level of development, including in the region. In addition, Benin’s commitments are most often liberal, though with notable remaining exceptions to market access and national treatment, such as state monopolies in key transportation services (Figure 67).

The absence of GATS commitments does not mean that the country is not open to trade – nor do GATS commitments necessarily reflect applied regimes and the effective level of openness of the country.

An overview of applied regimes in selected services sectors of importance to the Beninese economy suggests that most services sectors are still heavily and/or poorly regulated and subject to monopolistic rights. Examples include professional services – nationality requirements (extended to ECOWAS citizens in the texts, though not always in practice); postal services – monopoly (though express carriers operate); telecommunication services – monopoly for key segments of the market (such as international communications and Internet traffic, ban of VoIP); and transport – nationality requirements for road transports (sometimes extended to ECOWAS citizens). Some sectors have been more widely open to competition, such as financial services, air and maritime transport services (with remaining quotas that the country cannot fill), and the tourism sector. Openness did not remedy legal insecurity, however, and the implementation of rights remains problematic.

The above suggests that there is a strong correlation between international commitments and openness in Benin. It is even more important, furthermore, to make international commitments in a country like Benin where legal insecurity prevails. The objective is to increase the security and predictability of transactions and to encourage both trade and investment to take place. Benin should therefore continue to actively participate in multilateral and regional trade negotiations to promote and lock in reforms necessary to improve the availability and quality of services provided in the country. Benin is not covered by the World Bank Services Trade Restrictions Database. There is a need for a more comprehensive regulatory diagnostic of the services sectors in Benin that would
increase understanding of applied regimes and boost the level of openness of services sectors to both domestic and foreign competition. This is the first step for Benin to be able to actively participate to multilateral (or regional) trade negotiations and define its offensive and defensive interests in the services sector.

The Government of Benin had established a Working Group on Services with representatives of different ministries and agencies in charge of selected services sectors. This group used to meet once a year and discuss the principal orientations of the country’s services trade strategy, in particular in the context of the EPA negotiations. Studies were produced on the services export potential of Benin and the optimization of its participation in the GATS and EPA negotiations. Due to budgetary constraints, however, the group stopped meeting in 2013 and the work remains in progress. Benin could benefit from technical assistance to remedy this situation, for instance along the lines of the work done by ILEAP in Guinea, (with GIZ financial support) focusing on three aspects:

- A regulatory diagnostic that would assess the adequacy of the regulatory framework in place (including the institutional framework), as well as the country’s openness to foreign investment;
- A competition diagnostic that would assess the level of competition reached on the domestic market and Benin’s performance with regard to the objectives of widening access and quality/availability of backbone services and other services inputs necessary to the smooth functioning of the economy;
- A negotiation strategy that would include the definition of offensive and defensive interests on the basis of the country’s strengths and weaknesses, as well as global or regional markets opportunities and risks.

Saez (2010) provides examples of regulatory audits and related technical assistance, as well as techniques for the formulation of requests and offers in trade negotiations. In the case of Benin, the difficulty resides in the lack of regulatory transparency or, rather, the gap between de jure and de facto regimes. Application decrees are sometime missing, and the status of implementation of some laws is often unclear. Practice can differ from legal texts and change regularly, affecting the security and predictability of transactions. A supplementary competition diagnostic is therefore necessary to assess the reality of business operation and test the contestability of the markets.

4.2.2 North-South integration

There is no data available on the respective shares of Benin’s major trading partners in the services sector. However, considering that services trade in Benin is largely related to trade in goods (see above, share of transportation services in total services trade), and that most services trade nowadays takes place through the provision of intermediary services (i.e. services that are often embedded in manufactured goods), the destination and origin of traded goods could provide a good insight into Benin’s major trading partners in services trade. It should also be noted that the prevalence of Nigeria is probably underestimated, considering that two-thirds of total trade in Benin is informal and largely dependent on traffic with Nigeria. Again, no data exists on informal trade in the services sector, but it is likely to mirror existing informal trade in the goods sector.

Based on this information and available data on travel that represents 43% of exports and 11% of imports (air transport traffic by geographical destination and origin, with Europe representing 26% of total traffic and West and Central Africa 63%), one could estimate that the numbers in Table 13 below slightly underestimate the share of the European Union and West and Central Africa and
overestimate the share of the BRICs in both Benin services exports and imports. In other words, Benin remains largely dependent on Europe for its services imports (probably half of the country’s total imports originate from Europe), but West and Central Africa remain the main destination for its services exports (probably around 60%). This imbalance might explain the dynamics of regional trade negotiations with the European Union and the feeling that Benin has mainly defensive interests and therefore limited incentives in negotiating an Economic Partnership Agreement (EPA).

Table 13. Benin major trading partners in services, 2012

<table>
<thead>
<tr>
<th>Share of Benin total exports, by destination</th>
<th>Share of Benin total imports, by origin</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Nigeria</td>
<td>1. European Union (27)</td>
</tr>
<tr>
<td>2. China</td>
<td>2. China</td>
</tr>
<tr>
<td>3. European Union (27)</td>
<td>3. Togo</td>
</tr>
<tr>
<td>4. India</td>
<td>4. Malaysia</td>
</tr>
<tr>
<td>5. Chad</td>
<td>5. Nigeria</td>
</tr>
</tbody>
</table>

Source: WTO Statistics Database, 2014

Since the signature of the Cotonou Agreement in 2000, Benin has been engaged, along with its ECOWAS partners and Mauritania, in the negotiations of an EPA with the European Union. So far, no regional agreement has been reached, and Côte d’Ivoire and Ghana separately signed bilateral interim agreements that should be superseded by the EPA once concluded.

As part of the GATS negotiations (European Commission, 2002), the EU suggested that Benin undertake or improve its commitments in the following sectors:

- Business services – the EU suggested that Benin take full commitments in Modes 1, 2 and 3 for computer and related services (CPC 84), management consulting services (CPC 865) and services related to management consulting (CPC 866);
- Telecommunication services – the EU suggested opening a number of sub-sectors to full competition, particularly data-transmission related services which provide the key infrastructure that benefits the rest of the economy; to allow competition for voice services, and mobile services in particular; to commit to the reference paper of basic telecommunications negotiations;
- Transport services – the EU suggested a further opening of maritime services to competition, as well as storage and warehouse services (CPC 742), freight transport agency/freight forwarding services (CPC 748), and pre-shipment inspection (CPC 749); it also suggested the removal of the MFN exemption related to measures for various aspects of maritime transport that Benin had included in its GATS schedule on the basis of bilateral and multilateral agreements.

Under the umbrella of Mode 4, the EU also sought commitments from Benin in relation to intra-corporate transferees and business visitors, to remove all quantitative restrictions or measures with a similar effect affecting those two groups of Mode 4 suppliers.

While made under the GATS, these requests offer an insight into the likely offensive interests of the EU in the EPA negotiations. At this stage of development, the best prospects for services exports from Benin probably remain in West Africa, but it was observed that Benin lacked diversification of its services exports and improved access to the EU market could help. In addition, the main contribution of an EPA to the development of services in Benin would probably reside in the regulatory convergence process or, more modestly, in the improvement of legal security in selected sectors. Increased openness in some sectors where inefficient state monopolies or incumbent domestic providers remain would also contribute to widening access to more efficient and better quality services and, in turn, increase the competitiveness of the Beninese economy as a whole.
4.2.3 South-South integration

As discussed above, while the EU still represents the main source of services imports to Benin, West Africa is the main destination of services exports from Benin. Thus, from a trade expansion perspective, the further opening of regional markets has a crucial role to play. This could be explained by the importance of standards and reputation in services trade that facilitate trade among countries with similar levels of development and cultural and/or geographical acquaintances. Regional trade is also essential to the development of backbone services (transportation, finance, telecommunications, electricity, water) and regulatory and institutional frameworks that will, in turn, strengthen infrastructure linkages among countries participating in the regional integration scheme, enhance competitiveness of production, and facilitate the flow of goods and services (African Union, 2010).

Since 1975, Benin has participated in the Economic Community of West African States (ECOWAS), which made trade integration the primary objective of its 15 member states. It is also a member of the West African Economic and Monetary Union (WAEMU), which is a sub-group of ECOWAS comprising eight countries that distinguish themselves by being a monetary and customs union with a common currency, the CFA franc.

Box 3. ECOWAS provisions relevant to services trade

According to Article 3.2(d) of the ECOWAS Treaty, the Community aims “to establish a Common Market through (…) (iii) the removal, between Member States, of obstacles to the free movement of persons, goods, service and capital, and to the right of residence and establishment”. The objective of services trade integration in ECOWAS is far from being achieved, however.

Progress has been made towards the free movement of persons in the region, including through the adoption and implementation of the 1979 Protocol (A/P.1/5/79) relating to the Free Movement of Persons, Residence and Establishment. Phase I provided for the elimination of the need for visas for stays of up to 90 days with ECOWAS territories by Community citizens in possession of valid travel documents and international health certificate. Additional measures such as the issuance of ECOWAS passports (1985) and the mutual recognition of diplomas (1983) also facilitated the movement of persons in the region. Phase II, from 1986 onwards, purported to extend residency, including the right to seek and carry out income-earning employment, to Community citizens in host ECOWAS states, provided they had obtained an ECOWAS residence card or permit; it also obliged member states to provide migrant workers equal treatment with nationals in a number of areas. Phase III, from 1990 onwards, focused on the facilitation of business through the right of Community citizens to establish enterprises (have access to, carry out and manage economic activities) in member states other than their states of origin. While Phase I was fully implemented within five years, the implementation of Phases II and II has been slower. Phase III of the Protocol (right of establishment, 1990 Supplementary Protocol A/SP.2/5/90 on the Implementation of the Third Phase) “has not yet been meaningfully implemented in the region.”

Source: Adepoju et al., 2007.

With regard to Mode 4, further trade liberalization could also take place through the establishment of a single ECOVISA that would allow foreign visitors (including business visitors) to freely travel within ECOWAS once admitted to the region.

Beyond the opening of markets, ECOWAS has contributed to the harmonization of policies and regulatory frameworks in key infrastructure services. Progress has been achieved in particular in the sectors of transport (Article 32), telecommunications (Article 33) and energy (Article 28), which are essential to the country’s competitiveness.
Article 32 of the Revised ECOWAS Treaty introduced the objective of common transport and communications policies, laws and regulations, and the development of an extensive transport network within the Community. Conventions (A/P.2/5/82, A/P.4/5/82, A/SP.1/90) regulate inter-state road transportation and transit of goods, and established a dedicated Community guarantee mechanism. Article 33 introduced the objective of harmonization of national telecommunications policies at the regional level, the establishment of regional telecommunications infrastructure, and the establishment of a single liberalized telecommunications market within the Community. In 2007, the member states adopted a Supplementary Act A/SA.1/01/07 which detailed implementation guidelines. Article 28 called for the co-ordination and harmonization of member states’ policies and programs in the field of energy. In 2003, member states adopted an Energy Protocol (A/P4/1/03) with a legal framework promoting long-term cooperation; the West African Power Pool (WAPP created by Decision A/DEC.5/12/99 and reinforced in 2006) was created to promote the power supply in the region and to integrate the operations of national power systems.

Both ECOWAS and WAEMU have already played an important role in promoting trade integration and openness in the services sectors or modes of supply covered by the agreements. This also contributed to the improvement of the regulatory framework of a number of key services sectors, such as financial services. However, there is still a significant gap between the level of ambition of the treaties and their implementation, which should be reduced.

**Regional integration in banking services**

In the banking sector, Benin has made some commitments in the GATS. Regional integration has also helped improve regulation in the sector with the adoption of common WAEMU rules. Benin’s banking sector, which includes 12 banks as of 2013, is now governed at the community level. Foreign banks are present in Benin, but concentration remains high with the four largest banks accounting for 70% of assets. West African banks are well represented, with the three largest Nigerian banks holding approximately 20% of assets.

The performance and asset quality of commercial banks has improved in recent years, although one bank has been placed under provisional administration due to severe capital deficiencies and was eventually forced to close in 2012 and was liquidated. Bank loan portfolios have been adversely affected by government payment delays in early 2009; the ratio of non-performing loans to total loans decreased to 8.1% in 2009, down from 9.2% in the preceding year, but deteriorated in the following years to reach 18.6% in 2012, while the capital adequacy ratio of the commercial banks was 10.5% (at the end of 2011) above the 8% regulatory threshold. In 2013, problems with payments in the cotton sector resulted in an FCFA 50 billion payment gap that represented 30-40% of the banks’ reserve funds and threatened their viability. Legal and regulatory frameworks regarding licensing, bank activities, organizational and capital requirements, inspections and sanctions is in place and underwent significant reforms since 1999. Access to financial services overall has increased in the past years, with private credit by deposit money banks and other financial institutions passing from 14% of GDP in 2004 to 22% in 2010. However, interest rates offered by Beninese banks on loans to companies and households remain the highest in the WAEMU. 70% of the Beninese firms have identified access to finance as a major constraint.

Benin has developed a very active microfinance sector, which accounts for approximately 9.5% of the total loans offered by the financial sector in the country and authorities have attached a high degree of importance to the use of microfinance as a tool to alleviate poverty. The microfinance sector is also subject to supervision through the Central Bank, as well as the responsible Ministry for
Microfinance and Employment of Youth and Women. However, a significant increase in the number of unlicensed microfinance institutions in recent years, with a number of them offering unrealistic deposit rates, represent risks of "ponzi-types" schemes and threaten to increase vulnerability in the sector as a whole. While still relatively underdeveloped, regional capital markets have been expanding in recent years. Payment and settlement systems were reformed in 2004 and Benin participates in the regional stock exchange located in Abidjan.

**Cooperation in the energy sector**

The energy sector provides a good example of tentative cooperation at the regional level, with a greater focus on infrastructure. It also reveals the limits of such cooperation, as the the “last lap” has yet to be run and both the domestic infrastructure and regulatory framework do not allow for a better harnessing of the benefits of cross-border connections and cooperation.

![Figure 68. Cost to get electricity as % of income per capita, 2012](source: IFC, Doing Business, 2014)

Benin relies heavily on trade to meet its growing demand for electricity (+7% a year) and sustain its development: in 2007, imports represented 60% of total electricity consumption in Benin. Benin is actively participating in the West African Power Pool (WAPP) and has connections with all its neighboring countries. Benin will also host the WAPP Information and Coordination Center. However, in 2009, only 24.8% of the Beninese population had access to electricity, with wide disparities among regions (53% in urban areas versus 2% in rural areas): 6.7 million inhabitants still did not have access to electricity (World Development Indicators, 2014). Domestic regulatory and infrastructure issues have affected the reliability and efficiency of electricity distribution in the country, against the objective of universal access. The cost to obtain electricity (i.e. the initial cost of connection to the grid) in Benin remains the highest in the region and about 14 times the cost observed in Ghana, for example (Figure 68). The Société Beninoise d’Energie Electrique (SBEE) is still fully publically-owned, with low financial and technical capacity.

The Government and donors have launched a number of projects to improve electricity access, including the improvement of the Northern Togo – Northern Benin transmission lines. A new Electricity Code was adopted in 2007 and a national regulatory agency was established in 2009. The Government established the legal and regulatory framework necessary for private sector participation in the sector, but did not actively pursue a privatization agenda, given the lack of private-sector interest and unsuccessful attempts at power-utility privatization in the region, including in Guinea, Togo, Senegal, and Mali.
Implementation gaps

USAID (2011) funded an ECOWAS-wide gap analysis of the ECOWAS Trade Liberalization Scheme (ETLS) to identify which aspects of the ETLS protocols were being implemented in individual Member States and which aspects were not, both from the perspective of the Government and the private sector. Results for Benin show a significant gap between ECOWAS protocols and domestic laws and practice. The report noted that two cross-cutting issues prevented the full operation of ETLS protocols in Benin and directly impacted all aspects of intra-regional trade. There is a gap between legislation and implementation — USAID pointed to the difficulty of finding updated legislation, regulation or procedures that address many of the ETLS protocols and to the lack of enforcement and consistency in the application of national or regional laws at the border, including unofficial NTBs imposed at the border.

There is also a low private-sector awareness of ETLS – the private sector indicated it had limited detailed information on ETLS protocols, their rights, where to find information and documents needed for transit across borders, and processing fees (USAID, 2011).

Finally, the report concluded with a list of action items to improve implementation for each issue, including transport and movement of people, which are of the most relevance to services trade, covering the areas of transport (e.g. NTBs, ISRT bon guarantee system and logbook) and the free movement of people (including e.g. visas and residence cards).

4.3 Looking ahead: Promoting services activities in Benin

4.3.1 Cross-cutting constraints

Services value-added and trade remain limited in Benin despite major assets, such as its geographical location (a gateway for landlocked countries and a neighbor to the largest African market) and the availability of skilled workers. This could be explained by the combination of several factors, including: the small size of the market; the prevalence of the informal sector; and the existing constraints on public procurement.

Market size

With just above 10 million inhabitants and a GDP per capita of US$ 752 (in 2012, according to the World Bank), Benin is a small market. As a consequence, domestic services firms have some difficulty reaching critical mass and becoming internationally competitive. It is also harder for the country to attract global services providers that contribute to capacity building and further integration of major trade flows: today, about 75% of services trade is in intermediate services (i.e. services which are used as intermediate inputs in the production of other goods or services), and the ratio of FDI to services trade is significantly higher than for merchandise trade, about 250% compared to
In other words, Benin’s small market size hampers its ability to attract investment from global services firms and, in turn, leaves it at the margin of major services trade flows. For example, in the food retail sector, main players like Carrefour need a critical mass of 20 to 25 million inhabitants to consider establishment. In the insurance sector, while foreign companies are present, the small size of the market (exacerbated by the lack of adequate regulatory environment, such as no mandatory insurances and price control) results in a very weak growth of business (Box 4).

Box 4. Insurance services in Benin

Insurance services have been excluded from Benin’s GATS commitments in the financial sector. Nonetheless, the sector is open to foreign competition with the presence of West African and European insurance companies on the market. Seven companies offer life insurance and the same number offer other types of coverage (casualty and property); the country also counts 13 insurance brokers. The two largest insurance companies control almost two thirds of the entire market, reflecting a high degree of concentration. The sector grows very slowly (+0.5% in 2013, compared to +5% in Ghana) and remains very small (FCFA 25 billion, compared to 140 billion in Ghana). As such it is not very attractive to foreign companies. Insurance premiums represent only 1.2% of the GDP, with 76.5% for accident and property insurance and 23.5% for life insurance. Total average spending per inhabitant is only FCFA 3,285, the equivalent of US$8.

The small size of the market is due to several factors (population size, lack of investment, prevalence of the informal sector) that are aggravated by the poor regulation of the sector. Insurance coverage is not mandatory in most instances and when an obligation does exist, it is not always implemented (for example, the insurance of vehicles). Low premiums have resulted in insufficient quality of the services offered and a poor competitiveness of foreign companies. In 2013, the Government introduced a minimum level for health insurance premiums to ensure the financial viability of companies offering such services. It appears that a number of Beninese citizens contract health insurance from abroad in order to secure better coverage and health care. Insurance supervision is carried out through the Direction du Contrôle des Assurances, reporting to Benin’s Ministry of Finance and the Commission Régionale de Contrôle des Assurances. Companies must be incorporated in Benin.

Source: Authors based on mfw4a.org and WTO (2010)

On the other hand, the small size of the market is an incentive for export. Indeed, some of the lead services exporters in the world (e.g. Dubai) or in the region (e.g. Gambia) are geographically small countries. Benin could become a platform for exports if the right incentives and business environment were in place. This tension is observable, for example, in the ICT sector: in order to scale up, a company like COMTEL needed to export to Togo, Niger and Gabon – exports made the company sustainable; a smaller company like MA Info has been trying to export for the past few years, but has faced difficulties linked to its size and limited financial capacities. The lack of regulatory harmonization and transparency at the regional level is considered by SMEs to be a major obstacle to trade (e.g. difficulty in bidding for public contracts in other countries without local presence). A greater emphasis should also be put on promoting exports and providing information to services firms on regional and global trade opportunities.

The prevalence of informality

The lesser attractiveness of the Beninese market is exacerbated by the large prevalence of the informal sector that reduces trade opportunities for services companies in the formal sector. For example, Total closed its gas stations and left the country due to the unfair competition of informal gas distribution channels smuggled from Nigeria. In the banking sector, major international banks cannot work with
the informal sector and therefore have limited scope for operation. In the automobile distribution sector, only 800 to 900 new vehicles are formally sold each year, while an estimated 300,000 used cars that are imported to Benin each year, most of which are then re-exported to Nigeria (about 280,000). The decree regulating the automobile dealership profession is apparently not enforced and taxation levels are too high (20% tariffs + 30% various taxes + 18% VAT), creating incentives for informality and used car imports; no new trucks are formally sold in the country. In the food retail sector, meanwhile, only one supermarket with a foreign affiliation is currently operating (Erevan/Super U) and must compete with informal retailers in the country; here again, the high level of taxes encourages parallel, informal distribution channels (e.g. excise taxes of 45% on alcohol, or 7% on other drinks, in addition to the tariffs and VAT). According to the Government, 98% of enterprises are micro-enterprises (individuals), 93% of which are informal and mainly in the agricultural and services sectors. An “entreprenant” status was created that should incite those individuals to join the formal sector.

In countries with small domestic markets, some services sectors heavily rely on public procurement. This is the case, for example, in segments of the engineering and construction services sectors. Procurement opportunities in Benin have, however, been limited in recent years due to budgetary constraints. Public procurement rules also need improvement: for example, there is an average 336 days between the call for proposals and the actual contract; there are also suspicions of corruption and a certain inefficiency of the judicial process (length and enforcement of the decisions). As a result of this decline in significant public infrastructure projects, some major companies like Colas (engineering and construction) have substantially reduced their operations in Benin and relocated their personnel to other countries in the region.

**Legal insecurity and governance**

Other factors that explain the limited development of services trade in Benin include the prevalent legal insecurity and the “predatory” role of the State. This is reflected in the relevant Doing Business indicators: Benin ranks 179 out of 189 for “Paying taxes” and 181 out of 189 for “Enforcing contracts” (IFC, 2014).

<table>
<thead>
<tr>
<th>Indicator</th>
<th>Benin</th>
<th>Sub-Saharan Africa</th>
<th>OECD</th>
</tr>
</thead>
<tbody>
<tr>
<td>Time (days)</td>
<td>795</td>
<td>652</td>
<td>529</td>
</tr>
<tr>
<td>Cost (% of claim)</td>
<td>64.7</td>
<td>51.1</td>
<td>21</td>
</tr>
<tr>
<td>Procedures (number)</td>
<td>42</td>
<td>39</td>
<td>31</td>
</tr>
</tbody>
</table>

Source: IFC, 2014

Benin is one of the worst performers in the world in terms of contract enforcement: procedures are too complex, too long and too costly (Table 14). In addition, private actors feel the security/stability of contracts is guaranteed and that the State unilaterally changes conditions previously negotiated with private companies. For example, in the telecommunication sector, new taxes have been levied that were not in the original license agreements. The banking sector faced the non-reimbursement of debts contracted in the cotton sector, threatening their solvability and level of reserves. A ten-year dispute in the distribution of medicines and pharmaceutical products concluded that procurement rules had been infringed. Some foreign services companies established in Benin consider the rule of law to be under threat in the country.

Taxes represent a severe burden for service providers in the formal sector, not only in terms of amounts, but also in terms of administrative costs and time needed to deal with tax authorities. Due
to the prevalence of the informal sector in the country, furthermore, the tax base is very small while those declaring their activities and income feel “harassed” by the tax authorities with unjustifiably-frequent tax audits that affect the normal operation of their business. Indeed, some large services companies have dedicated staff that deal exclusively with public authorities. This becomes a vicious circle, since the high level of taxes and fiscal harassment (to compensate for the low tax base) create an important comparative advantage for businesses in the informal sector and additional incentives for firms to join the informal sector. Part of the solution to services trade development will therefore be linked to tax administration reforms (see IMF 2013 for an overview of tax administration reforms undertaken in West Africa over the past few years).

There is a widespread feeling among private firms that the State, far from playing an incubator role, plays a predatory role: services sectors that manage to emerge in spite of the poor business environment become targets for further taxation. This is the case, for example, in the telecommunications sector: Benin should instead follow the example of Senegal and become a major exporter of ICT-enabled services (offshoring of all kinds of services, from business process outsourcing to knowledge process outsourcing), which would create thousands of skilled jobs. So far, however, the policies needed to develop these activities have failed to be implemented, and the sector has not taken off. The availability and quality of telecommunication services themselves are not satisfactory, playing against the objective of universal access set by the Government in its sectoral strategy.

4.3.2 Sector-specific issues

Telecommunications services in Benin

Telecommunications are an essential component of a country’s competitiveness and connectivity to the rest of the world. Aware of this importance, the Government of Benin adopted an ambitious Strategy for the sector in 2008 (Document de Politique et de Stratégie du Secteur des Télécommunications, des TIC et de la Poste, 2008), which included a political vision, priority actions, and a repartition of the roles among the different actors of the sector. It updated a sectoral policy that dated back from 1994 and that was supplemented by a number of texts, including a 2002 Ordinance on the fundamental principles of the telecommunications regime in Benin and a 2007 Decree creating the Autorité Transitoire de Régulation des Postes et Télécommunications.

Benin has no GATS commitments in the telecommunications sector, but is largely open to international competition, with 5 operators in the mobile sector from South Africa (MTN – 34% of
the market in June 2013), UAE (Moov – 33% of the market), Nigeria (Glo – 17% of the market), BBCom (Canada – 13% of the market), and Libercom\(^{36}\) (Benin – 3% of the market).

Nonetheless, several segments of the telecommunications sector are still subject to monopolistic rights. This is the case for landlines that remains a monopoly of Benin Télécoms. The penetration rate is very low (1.66% in June 2013) with wide disparities among regions within Benin. On 13 May 2014, the Beninese Parliament adopted a *Loi sur les Communications Electroniques et la Poste* that includes chapters on telecommunications, the information society, and postal services. While a number of provisions are still archaic, the law recognizes the fundamental principle of open access to infrastructure, which is essential to the development of the sector. Procedures to attribute licenses will ultimately determine the level of effective competition. On the basis of this law, the eBenin project supports the finalization of a number of laws pertaining to cybercrime, cryptology, e-commerce, and the certification of intermediaries.

This progress in the regulation of the telecommunications sector has not been translated, however, into new positions in the WTO negotiations – although conformity with the WAEMU telecommunications framework was a clear motivation of the new law. An analysis of the market potential for the Beninese ICT sector in the region is also lacking (e.g. SWOT analysis), that would help define the interests of the country in trade negotiations.

**Figure 70.** Telephone lines per 100 people, 2012

**Figure 71.** Mobile cellular subscriptions per 100 people, 2012

![Graph showing telephone lines and mobile cellular subscriptions per 100 people](source)


Mobile telephony has contributed to significantly improving teledensity in the country, with 8.7 million mobile phone subscriptions in the country and a teledensity that reached 92% in June 2013 (Figure 71). Prepaid cards still represented 99.57% of the market in June 2013.

The main taxes imposed by the Government are: a FCFA 8 tax per minute for incoming international calls (down from FCFA 15 in 2012) and a FCFA 2 tax per minute on all other calls; in addition, the Government collects a 3% tax on telecom revenues to feed a universal access service fund; VAT is at 18%. Benin Télécoms still benefits from some privileges and does not, for instance, pay

\(^{36}\) The capital of Libercom, the mobile subsidiary of the national company Benin Télécoms, should soon be opened to private equity.
interconnection rights. 3G licenses are sold at FCFA 50 billion, compared to FCFA 170 billion in Nigeria for a market that is one 15th of the size.

In spite of this progress, the functioning of the telecoms market remains unsatisfactory, including in terms of tariffs and quality of service (WTO, 2010). The government strategy pointed at an incomplete legal and regulatory framework, including for operations (interconnection, frequency management, dispute settlement). Benin Télécoms’ monopolistic rights on some key segments of the market (e.g. international land connections) constrain the development of new technologies. VOIP is not allowed. Finally, the implementation of regional rules (ECOWAS and WAEMU) is lagging. All these reforms were considered priority actions in the 2008 strategy.

With regard to Internet access, Benin Télécoms’ monopolistic rights on land connections (in spite of existing laws opening the market) have slowed down the development of broader Internet access. In June 2013, only about 42,000 persons in Benin had a fixed Internet connection (6% of total Internet subscriptions), compared to 700,000 mobile Internet connections (94% of the market). Demand for Internet services has grown quickly, with an increase in mobile subscriptions by 69% over the first half of 2013. Benin is still lagging behind its competitors at three levels: infrastructure (Figure 72), technology (Figure 73), and use. These results and the absence of a comprehensive regulatory framework for the promotion of the telecommunications and IT-enabled services, including the gap in the implementation of ECOWAS and WAEMU rules, are in sharp contrast to the Government’s ambitions, as expressed in the 2008 strategy.

Figure 72. Secure Internet servers per 1 million people, 2012

Figure 73. International Internet bandwidth (Mbps), 2011

Source: World Bank, World Development Indicators, 2014

Source: World Bank, Africa Development Indicators, 2014
In the 2008 Document de Politique et de Stratégie du Secteur des Télécommunications, des TIC et de la Poste, the Beninese government recognized the strategic importance of the sector and envisaged to make Benin an ICT hub for Africa by 2025 (“Faire du Benin le Quartier Numérique de l’Afrique”). Its ambition, backed by a strong political will, was to attract foreign investment and develop ICT-enabled services in the country. The strategy rested on the development of both e-government and e-business, as well as five strategic axes:

1. A new regulatory and institutional framework that would facilitate the development of the sector and fill in the legal vacuum that existed in the ICT sector;
2. New infrastructure of world class and competitive standard;
3. Development of adequate qualifications in human resources;
4. Development of content adapted to market needs (education, health, agriculture, tourism, trade);
5. A competitive business environment supporting ICT services as a driver of growth and a source of FDI.

A number of priority actions were planned under each of the strategic axes, but fell short of implementation, including the privatization of Benin Télécoms SA, which is still pending. By contrast, telecom privatization has been a success regional neighbors, Senegal and Côte d’Ivoire. Other examples include the implementation of ECOWAS-WAEMU rules or the liberalization of market segments subject to monopolistic rights. Two on-going World Bank projects aim to enhance international connectivity (submarine cable ACE to land in December 2014) in an open access environment and to develop telecommunication and Internet usage through eGov and supporting the IT/ITES service industry growth. After the adoption of the May 2014 law that allowed for more competition and open access, the Government is now planning to build a national backbone with a view to bring high speed Internet in the interior of the country. A second landing station for the cable is also planned that will break the Benin Télécoms monopoly on high speed Internet and allow for a better development of the ICT sector.

**ICT-enabled services**

ICT-enabled services are one of the fastest growing sectors in the world, with significant opportunities in developing countries, including through the business or knowledge process outsourcing (BPO and KPO) and the phenomenon of services offshoring at large. In Africa, a number of countries have joined the race for services offshoring, including in West Africa region (e.g. Senegal, Ghana, Nigeria). ICT-enabled services trade offers a wide range of job creation opportunities, in particular for young and skilled workers (e.g. in call centers). According to the 2011 AT Kearney Global Services Location Index, Ghana and Senegal ranked among the top-30 most
attractive countries in the world for offshoring and were ahead of India and China in the financial attractiveness component of the Index; Ghana also raked ahead of both India and China for the business environment component. Nigeria has also hugely invested in the sector, with thousands of employees in the BPO sector. In 2009, Ghana exported US$ 45 million in the BPO sector, with plans to double or triple this figure and create 40,000 jobs over five years. Senegal also created 40,000 jobs in call centers (68 call centers in 2012 compared to 1 in 2001) dedicated to the francophone market.

Cotonoushore, a technopole project, could be based in the free industrial zone and benefit from its special conditions. The potential for Benin is large, and the country has significant comparative advantages, including skilled workers and a mild accent in French language, which significantly helps the call center business. The quality of education is probably Benin’s best asset to develop the BPO business (as well as the weak point of its main competitors in the region). However, the quality of infrastructure is a problem: while prices have declined, the quality of the Internet is unsatisfactory and high speed Internet is available generally only in Cotonou and Porto Nove. The Government created tax incentives as early as 2009, but the level of charges remains too high and the labor law is not adapted to the sector’s needs. A decree (currently being revised) imposed a FCFA 300 million deposit for new companies operating in the sector. With initially 4 call centers, Benin is left with a single one (Mediapart) that is now exporting its services and is present in several countries of the region. There is also no incentive mechanism to accompany companies starting their ICT operations in Benin (e.g. through subventions).
Chapter 5: Agriculture

5.1 Why agriculture matters for Benin

Benin has considerable unexploited agricultural potential: Only 20% of arable land is cultivated and crop yields have considerable margins for increase. Despite this, in 2012 the agricultural sector contributed 32% to GDP, from 75 to 90% of export earnings, 15% to government revenue and employed about 70% of the active population (APRM 2013). The agricultural sector still remains an engine of economic growth in Benin. It directly contributed to 2.2% of total growth in 2012 and, in addition, contributed to the growth of secondary industries by providing the raw material for the agri-food and tertiary industry, particularly the transport sector and banking sector.

Nevertheless, the agricultural trade balance is heavily in deficit. In 2008-2012, agricultural exports represented only 44% of food imports (APRM, 2013). Development of the agricultural export sector is a priority for Benin, which aims to increase by 50% the volume of agricultural exports by 2015 (PSRSA / NIPA). Within the agricultural sector, cotton plays a dominant role. In the early 2010s, cotton accounted for 40% of export earnings, 12-13% of GDP, about 60% of the industrial fabric, and provided an income for more than one third of the population (PRSP, 2011). The Beninese economy remains highly dependent on cotton, which is currently experiencing a new crisis that is not linked to the international market but whose origins are internal. The decline of agricultural GDP growth in the 2008-2010 period reflects the fall in cotton production. It rebounded in 2011-12 with the resumption of cotton production.

The Government has initiated a policy of diversification of agricultural exports to reduce dependency on cotton. This strategy is based on the promotion of new export sectors including the cashew nut sector and the pineapple industry. The Beninese agriculture policy is set out in the Strategic Plan for Agricultural Sector Recovery (PSRPA 2011). It is part of the regional agricultural policy, the ECOWAP (Economic Community of West Africa States Agricultural Policy) which is itself the regional embodiment of the Comprehensive Program for the Development of African Agriculture (CAADP) (New Partnership for Africa's Development). The share of public expenditure in agriculture is on average 6.7% over the 2008-2011 period, well below the 10% target established in 2003 in Maputo by the Heads of State and Government of the African Union within the framework of the implementation of the NEPAD. However, private investment in the sector rose by 7.9% on average over the same period, but represented a constant 14% share of total private investment over the 2008-2012 period.

Exports of cashew nuts constitute the second largest source of agricultural export earnings in Benin. These exports have been growing since the second half of the 2000s, reaching over 12% of export earnings in Benin in 2012. Behind cotton and cashew nuts, other agricultural crops (shea nuts and pineapple) are marginal, representing less than 1% of total exports37. These three sectors have in common the fact that they have important potential for development of the local processing industry and focusing on international markets (and / or regional for the pineapple sector). Exports of high value Beninese agro-food (shea by-products, cashew kernel) are beginning to break into markets as demanding as those of the USA, EU and Japan. This movement to diversify from agricultural exports of cotton towards processed products with higher added value should be encouraged and supported

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37 These data should be treated with caution (see below).
by the Government. The development of sectors also contributes to balanced regional development and the fight against poverty and inequality, still significant in rural Benin. Rural poverty has been increasing in recent years, from 38.4% in 2010 to 39.7% in 2011 with growing inequality between men and women in rural areas (APRM 2013, World Bank, 2014).

5.2 Cotton

In 2011, cotton constituted 17% of exports from Benin. It is estimated that the cotton sector sustains 300,000 small producers directly and, indirectly, 3 million people through its drag effects on the input, transport, industrial processing, banking and port sectors (transit, handling and warehousing companies, etc.). It is also a culture that contributes to the maintenance of a regional economic balance. Part of cotton production is located in the northern region, where poverty is concentrated and where there are few possibilities for diversification (Gergely, 2009).

Production of seed cotton expanded dramatically between 1980 and 1995 (Figure 75), from less than 20,000 tons to about 350,000 tons. It then levelled out between 1995 and 2004, before collapsing between 2004 (428,000 tons) and 2010 (140,000 tons). It should be noted that the expansion of production is partly the result of increased yields (0.78 tons / ha in the period 1961-1980 and 1.13 t / ha between 1982 and 2009), but mainly due to higher acreage, which multiplied tenfold between 1980 and 1995.

Figure 75: Cotton output

(a) Production of seed cotton (tons)  
(b) Cotton yield (tons/ha)

These developments show a strong commitment to the cultivation of cotton in the mid-80s, which was given a further boost in the 90s. Benin is now the largest producer of cotton in West Africa. The system collapsed after 2005 and lost ground to Burkina Faso and Mali in the ranking of cotton producers. In 2012/2013, the production of seed cotton from Burkina Faso was 440,000 tons and that of Mali 330,000 tons (FAO data) against 240,000 tons in Benin.

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38 Information used in this section, as well as in the rest of the chapter, were collected in November 2013. According to information provided by SONAPRA, the harvest for the 2013-2014 season rose to 307,355 tons and then again to 393,000 tons for the 2014-2015 season.
5.2.1 Developments since the DTIS

While other countries have sought to open up the cotton sector to private competition while maintaining vertical integration, Benin has introduced competition at each stage of the supply chain, privatizing it "by function". These reforms have resulted in an institutional landscape and a particularly complex organizational mode that favor opportunistic behavior in a country characterized by a weak state apparatus. The Beninese model remains unique in West Africa.

Figure 76: Cotton production and prices
(a) Production of seed cotton (tons)  
(b) International price of cotton (A Index, Liverpool) US$ / lb

Cotton production, which collapsed in 2005/06 (from 428 000 tons to 191,000 tons), recovered in 2006/07, causing the Government to intervene directly in the sector through a series of orders from 2006 up to the present day (December 2013). In June 2010, a presidential decree shut down the Conseil National des Producteurs de Coton and strengthened the powers of the main ginner (ICA Group and SODECO), replacing the CNPC with the Comité Consultatif National Transitoire des Producteurs de Coton (CCNPC), whose members were co-opted by the AIC.

The privatization process of the Société Nationale pour la Promotion Agricole (SONAPRA), repeatedly postponed, was concluded in September 2008 and led to the creation of the Société de Développement du Coton (SODECO), which took over SONAPRA’s industrial infrastructure. This process is described here for a better understanding of the current situation. In August 2008, an international tender was launched for the takeover of SONAPRA’s industrial infrastructure. The SCP (Joint Stock Company), a subsidiary of the Talon group, won the competition. The agreement creating the SODECO, a mixed economy company, was signed in Cotonou on 10 October 2008. The director of the SCP, Patrice Talon, then became the chairman of the board of directors of SODECO.

The agreement between the State and SODECO provides that after a year of operation, the State will sell 17.5% of capital to a domestic or international target39. If this clause is not respected, the 17.5% will return to SODECO, which will sell those shares on the stock market (still with the same problem of the 20%). After 5 years of activity, the State must withdraw completely by giving SODECO 15.5% of bearer shares and transferring its remaining shares to it. For the assignment to be effective, SODECO must produce 5 certified balance sheets. The 5-year term expired on the 1st of October

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39 Note that the exercise of this clause is a priori impossible because the IPO of a company involves the transfer of at least 20% of capital. But the State, aware of this impossibility, seeks to obtain a derogation.
2013, but the 5th cotton season ended in June 2014. SODECO therefore had to wait until June 2014 to produce the 5 balances required for the State to completely withdraw from SODECO.

The institutional developments mentioned above, where one of the main objectives was to introduce competition in the ginning industry and the distribution of inputs, have in fact led to a high concentration of the sector in the hands of one private operator: the Talon Group. At the end of the process of privatizing SONAPRA, the Talon Group, majority shareholder of SODECO, controlled 82% of the ginning industry (25.3% directly through the SCP, and 56.6% through SODECO). It should also be noted that in 2013 the total ginning capacity in Benin was above 550,000 tons for seed cotton, up from 174,000 tons in 2011/12. Ginning capacity is therefore 3 times higher than production. In the end, the privatization process will not be concluded, as the Government reinvested in the area before the end of the fifth cotton season.

5.2.2 The "transitional" season of 2012/2013

2007/08 saw a poor season, and production of seed cotton continued to fall to 137,000 tons in 2010/11. The State thus decided to intervene in the 2012/13 season: the framework agreement was suspended and the State ordered contract ginning. Institutions managing the sector (including AIC) were eliminated, and a wave of audits was launched covering all ginners. SONAPRA, which was not liquidated, is responsible for the installation of inputs and the coordination of SODECO warehouses.

The State signs contracts with ginners in which ginning remuneration is, according to private operators, set at a level lower than the retail price. In addition, the State is accumulating arrears so that, by the end of 2013, ginners had not yet recovered the full amount owed. At the end of 2013, the State's debt vis-à-vis SODECO amounted to 1.245 billion FCFA, and the resulting financial loss was 3.251 billion (i.e. above 4.5 billion in total). For the ginning industry overall, direct government debt amounted to 3 billion plus 7 billion of losses induced. Note that VAT receivables uncollected total 3.104 billion.

Crushers, the main two of which are Fludor Benin SA and the Société des Huileries du Bénin (SHB-Bohicon), are also in upheaval. In 2012/2013, a seed purchase price was imposed on them that was well below their profitability threshold although it is one of the lowest in the sub-region according to SONAPRA. In addition, the seeds delivered to them are of poor quality, further worsening the profitability of mills. Finally, a Decree of 18 November 2013 suspended the agreement that created SODECO. Besides the fact that the State unilaterally terminated the agreement creating SODECO, another problem arose related to the fact that the 17.5% held in portage for the public, which was never transferred to the SCP, was pledged by the latter. All in all, this created huge political and legal turmoil, the consequences of which have been disastrous for the entire chain: producers, ginners, mills, haulers, commercial banks, etc.

For the second consecutive year, ginners were ordered to carry out contract ginning in 2013/14 and SODECO plants were requisitioned in January 2014. The co-dependent relationship between the State and the cotton companies is paralyzing the sector. Planting was delayed, inputs (seeds, fertilizers and pesticides) were not implemented on time and did not meet quality standards. The ginning season was also delayed by almost two months. In February 2014, the bulk of the crop was still in villages, exposed to early rains. Added to this in early 2013 was the lack of vehicles for the transport of seed cotton to the port of Cotonou, causing the head of State to seek the assistance of Nigerian carriers to
transport Beninese cotton to the port of Cotonou. The army and young people were also mobilized to build hangars and assist in the collecting, storing and unloading of cotton in plants (AFCOT). Haulers were asked to offer their services to transport cotton from the field to primary and self-managed markets, factories and then the Port of Cotonou.

Meanwhile, there was a showdown with crushers who refused to pay all sums owed to SONAPRA for the 2012/2013 season and demanded a renegotiation of the price of seeds. Failing an agreement, the cotton crisis could affect the livestock sector (including poultry) if SONAPRA decides to export cotton seeds to Nigeria instead of processing them locally. The entire sector is also threatened by a financial crisis. Since the 2012/2013 season, the State has accumulated debt vis-à-vis the ginning industry, jeopardizing the financial survival of the crushing industry and the commercial banks that finance the cotton seasons. Producers are also affected by late payments. The financial crisis may worsen in 2013/2014 if the delay in the season has a negative impact on the quality of cotton and export discounts.

5.2.3 Looking ahead

The many inefficiencies of the Beninese cotton model have led donors, including the World Bank and private investors, to come up with stimuli for the sector since 2008, involving institutional reforms. These plans favor a restructuring of the industry around a single operator within one or more areas of production.

Moral hazard and contract farming

In Benin, as in the majority of comparator countries, agricultural input markets are deficient (seeds, fertilizers and pesticides), which has led the public sector to supplant the private sector in the supply of inputs to cotton farmers. Market failures occur, notably because of the inability of the farmer to distinguish good products from bad products leads to the disappearance of good quality inputs and market collapse (bad products drive out the good). In this context, off-market transaction methods, within an organization (vertical integration model) or through hybrid institutional arrangements can help overcome market failures.

For instance, production contracts allow farmers access to credit, quality inputs and agricultural advice. Farmers also undertake to implement, with the advice of the cotton company, effective production techniques in terms of yield and quality, and agree to sell their output to the company providing credit and inputs. Through this contractual obligation, the cotton company secures supplies for its factories of products, whose production process and quality control it has ensured itself. In turn, it is in the interest of the cotton company to supply its producers with quality inputs, because the quality of the cotton fiber depends on this.

However, this type of transactions between farmers and cotton companies can develop only if contracts are respected. This assumes an effective legal framework, which is rarely the case in developing countries. Otherwise, farmers are encouraged to sell their output to the highest bidder, that is to say, a competitor of the company that supplied the credit and inputs. Cotton companies, seeking to exploit the industrial infrastructure to its fullest, fail to punish opportunistic behavior, and sometimes even encourage it by buying products from farmers who are not under contract.

40 http://www.gouv bj/
42 The market is said to be deficient when the free market leads to an inefficient allocation of resources
Competition and ginning overcapacity worsen this moral hazard problem. Thus, in the absence of contract enforcement, contract farming can only develop in a non-competitive environment, although monopoly also entails allocative inefficiencies that result in low prices for cotton producers.

Two options considered by Beninese private investors and the World Bank are outlined below. The first is that of a mixed economy company holding a national monopoly. The second is that of regional monopolies within specific areas. These two options are intended to preserve the integrated nature of the industry, within the framework of a public-private partnership.

Option 1: A mixed-economy company with a countrywide monopoly

In this option a single cotton company holds a legal monopoly over the whole territory for the primary marketing of seed cotton. Compared to the historical model where a monopoly was held by a public company, here capital is open to private ownership, farmers and the public. In this option, the State is a minority shareholder. The cotton company works with producer groups under contract to which it provides inputs (seeds, fertilizers, pesticides), credit, and agricultural advice. It is remunerated on purchase of the product via a deduction on the purchase price. It acquires the entire harvest of seed cotton. It gins and sells fiber and by-products on the local and international market and repays farming loans taken out with the banking system. Management of the sector is defined in a framework agreement between the State, the cotton company and professional organizations in the sector (cotton growers, ginners, crushers, etc.). The agreement defines the relationship between the State and operators in the sector and the missions of each of them (pricing, conditions of acquisition of the product, etc.).

Besides the smooth running of transactions upstream of ginning, this option has several advantages. Firstly, it enables exploitation of economies of scale in the ginning industry, primary marketing and distribution of inputs. Above all, it allows farmers, through their shareholding in the company, to access information on the conditions of sale of the fiber, the costs of the company, etc. and to exert a degree of control. The State, also a shareholder, may also exercise this form of control of the company. In other words, it is expected that the presence of farmers and the State allows for a reduction of income from the monopoly and encourages the company to apply prices close to market prices. Finally, this solution has the additional advantage of minimizing State intervention in the sector. The practical implementation of this solution in the current context of Benin assumes that each of the five ginners contributes its plants and equipment to the new cotton company and becomes a shareholder of the new company. The State and farmers are shareholders of the new company through SODECO. The participation of the State can be reduced by sale of part of its shares.

Option 2: A zoning system

In this option, adopted by Burkina Faso until 2004 and by Côte d’Ivoire between 1998 and 2002, Beninese cotton basins are divided into two or three areas. Each zone is subject to a franchise contract for the benefit of a private operator or a mixed economy operator. Each operator has a monopoly on the primary marketing of cotton in its zone. Within each zone, specifications define the tasks of the operator: methods for setting producer prices, terms of sale of inputs, management of critical functions, duration of the franchise, conditions for its renewal, etc.

While zoning also entails local monopoly, zoning allows “indirect competition” in the form of benchmarking, as each company must align itself with best practices in one or the other areas (in terms of the price paid to producers). While it does not eliminate moral hazard (side selling) around “frontier” areas, it does reduce it substantially. The zoning system is compatible with a minority State
stake in one of the cotton companies. It involves the establishment of a regulatory authority responsible for defining and enforcing the specifications. This regulatory authority is intended to be a tripartite body that includes the State, representatives of producers and ginners, and indeed other professions in the sector (crushers, spinners, etc.). To be effective, a zoning system requires a stronger institutional and regulatory framework than a countrywide monopoly. It is necessary for the representative bodies of the various professions within the regulatory authority to be well-structured and effective. It is especially important that zoning is observed, meaning the regulatory authority must have the necessary coercive resources.

The implementation of this solution in Benin involves defining areas with equivalent production potential and creating, as in the previous case, 2 or 3 new cotton companies, "consolidating assets" of existing companies. Scenarios established in 2008 forecast cotton production of 600,000 tons, divided into two zones of 300,000 tons or three zones of 200,000 tons. With production over the last three seasons barely exceeding 200,000 tons, however, it seems difficult to go beyond two zones. Another difficulty is related to the geographical location of the plants, far to the south and away from production areas. Under these conditions, respect for collection areas will be difficult to guarantee. The solution to this problem would be to move the plants, which is possible but obviously expensive.

5.3 Non-traditional sectors

5.3.1 Cashew

The cashew industry is one of the 13 priority sectors identified by the Beninese Government (PSRSA, 2011). Cashew is now the second agricultural export after cotton, accounting for 12.5% of total exports in Benin in 2011. Benin exports mainly raw cashews. It is also an exporter of cashew kernels, although to a much lesser extent. The Government's aim is to develop local production and processing, an important source of female employment. Cashew plantations also contribute to the fight against erosion and deforestation.

As in other countries in West Africa (Burkina Faso, Cote d'Ivoire, Ghana etc.), cashew production has been growing in Benin since the late 90s, driven by global demand. Global exports of cashew have soared since 2002 (Figure 5) and Benin was inundated with cashew plantations in fifteen years. According to estimates provided by the African Cashew Alliance (ACA), the areas planted with cashew trees multiplied twentyfold since the late 90s, from 10,000 ha to 200,000 ha in 2012 (ACI, 2012). Today, 8 of the 12 departments of the country produce cashew.43

However, the sector is poorly understood and the information available for various areas differs, including the size of orchards and quantities produced. The reason for these differences is that this new sector is totally ignored by agricultural statistics. The Ministry of Agriculture (APRM) does not provide production statistics because there are not, to date, any well-established methods for evaluating yields. Agricultural statistics nevertheless give a production of 140,135 tons in 2011, which contrasts with data from the ACA which gives production of 90,000 tons in 2011 and 80,000 tons in 2012. 44 The FAO gives even higher production of 163,000 tons in 2011 and 170,000 tons in 2012. According to the Conseil National des Exportateurs de Cajou du Bénin (CONEC), Benin produced over 155,000 tons in 2012 compared to 163,000 tons in 2011. Finally, the Fédération

43 http://levenementprecis.com/?p=23338
44 http://www.africancashewalliance.com/fr/benin
Nationale des Producteurs d’Anacarde du Bénin (FENAPAB) estimates production at 120,000 tons of raw nuts.

Table 16: Beninese cashew nut exports

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<th>Year</th>
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</tr>
<tr>
<td>2003</td>
<td>27,408</td>
<td>261</td>
<td>107</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2004</td>
<td>36,561</td>
<td>240</td>
<td>159</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2005</td>
<td>42,872</td>
<td>245</td>
<td>211</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>40,789</td>
<td>211</td>
<td>203</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2007</td>
<td>56,463</td>
<td>215</td>
<td>215</td>
<td></td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>2008</td>
<td>57,220</td>
<td>233</td>
<td>233</td>
<td></td>
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<td></td>
<td></td>
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<td></td>
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<tr>
<td>2009</td>
<td>59,841</td>
<td>205</td>
<td>205</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2010</td>
<td>51,265</td>
<td>345</td>
<td>345</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>51,265</td>
<td>345</td>
<td>345</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
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<td></td>
</tr>
</tbody>
</table>

Source: INSAE according to customs statistics

Export data is also imprecise. According to data from the INSAE based on customs statistics, exports increased from 36,000 tons in 2006 to around 51,000 tons in 2011. However the ACA gives 146,332 tons of raw nuts exports in 2011 and the FAO 121,500 tons. It is therefore extremely difficult to make a diagnosis of the performance of this sector. In 2011, according to FAO data, Benin was the fourth largest exporter of cashew nuts behind three other West African countries: Côte d'Ivoire, Ghana and Guinea Bissau (Table 17).

Table 17: Main importers and exporters of cashews in 2011.

<table>
<thead>
<tr>
<th>Exporters</th>
<th>Cashew kernels</th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tons</td>
<td>%</td>
<td>Tons</td>
<td>%</td>
<td>Tons</td>
<td>%</td>
<td>Tons</td>
<td>%</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Vietnam</td>
<td>178,500</td>
<td>42.9</td>
<td>USA</td>
<td>104,774</td>
<td>31.0</td>
<td>Côte d'Ivoire</td>
<td>278,320</td>
<td>27.85</td>
<td>India</td>
<td>798,281</td>
</tr>
<tr>
<td>India</td>
<td>133,400</td>
<td>32.1</td>
<td>Netherlands</td>
<td>41,602</td>
<td>12.3</td>
<td>Ghana</td>
<td>145,013</td>
<td>14.51</td>
<td>Brazil</td>
<td>43,698</td>
</tr>
<tr>
<td>Netherlands</td>
<td>29,478</td>
<td>7.1</td>
<td>Arab Em.</td>
<td>28,589</td>
<td>8.5</td>
<td>Guinea-Bissau</td>
<td>139,723</td>
<td>13.98</td>
<td>Ghana</td>
<td>4,500</td>
</tr>
<tr>
<td>Brazil</td>
<td>26,302</td>
<td>6.3</td>
<td>Germany</td>
<td>24,084</td>
<td>7.1</td>
<td>Benin</td>
<td>121,497</td>
<td>12.16</td>
<td>Arab Emir.</td>
<td>4,324</td>
</tr>
<tr>
<td>Tanzania</td>
<td>17,158</td>
<td>4.1</td>
<td>Australia</td>
<td>13,113</td>
<td>3.9</td>
<td>Tanzania</td>
<td>99,425</td>
<td>9.95</td>
<td>Indonesia</td>
<td>3,798</td>
</tr>
<tr>
<td>Indonesia</td>
<td>4,054</td>
<td>1.0</td>
<td>United Kingdom</td>
<td>11,806</td>
<td>3.5</td>
<td>Burkina Faso</td>
<td>81,274</td>
<td>8.13</td>
<td>France</td>
<td>2,317</td>
</tr>
<tr>
<td>Germany</td>
<td>3,928</td>
<td>0.9</td>
<td>China</td>
<td>9,353</td>
<td>2.8</td>
<td>Indonesia</td>
<td>41,973</td>
<td>4.20</td>
<td>Sri Lanka</td>
<td>1,205</td>
</tr>
<tr>
<td>Mozambique</td>
<td>3,464</td>
<td>0.8</td>
<td>Canada</td>
<td>8,387</td>
<td>2.5</td>
<td>Mozambique</td>
<td>35,802</td>
<td>3.58</td>
<td>USA</td>
<td>1,134</td>
</tr>
<tr>
<td>United Kingdom</td>
<td>3,185</td>
<td>0.8</td>
<td>Russia</td>
<td>8,358</td>
<td>2.5</td>
<td>Guinea</td>
<td>21,884</td>
<td>2.19</td>
<td>Saudi Arabia</td>
<td>1,125</td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>2,797</td>
<td>0.7</td>
<td>Japan</td>
<td>6,190</td>
<td>1.8</td>
<td>Nigeria</td>
<td>14,077</td>
<td>1.41</td>
<td>China</td>
<td>943</td>
</tr>
</tbody>
</table>

Source: FAOSTAT
Like its neighbors in West Africa, Benin is above all an exporter of raw products (nuts). Nuts are exported by ship and processed mainly in India and Vietnam. India is a major player in the international cashew market, having been specialized in the processing of cashew nuts for several decades. It is the largest importer of nuts and the second largest exporter of kernels (Table 5). Vietnam, the leading cashew kernel exporter, has a large processing capacity and imports large quantities of raw nuts in the event of poor harvests. In 2013, Vietnam’s imports of raw nuts reached 333,000 tons. The United States is the largest importer of cashew kernels (Table 17).

Only a small part of Beninese production is processed locally and exported as kernels to European countries and North America. According to data from the ACA, cashew kernels represent less than 2% of total exports of Beninese cashews. It should be noted that in the kernel market, the only African countries that appear in the top 10 global exporters are: Tanzania, Mozambique and Burkina Faso. This reflects the poor competitiveness of West African countries in agro-industrial processing. Kernels machined in West Africa struggle to compete in the U.S. market against those machined in India, having been imported raw from West Africa, and then re-exported to the USA (Figure 77).

![Figure 77: Global Cashew nut exports and production](image)

(a) Global cashew nut exports (tons)  
(b) Main nut producers in 2012 (tons)

Source: FAO

There is no organized market for nuts or cashew kernels. In general, the international market is very volatile, based on the state of supply in major producing countries (India, Vietnam and Brazil). The price of kernels and nuts soared in 2011 and remained high in 2012. They returned to a slightly lower level in 2013 because of the good Indian harvest.

In terms of quality and export price, the quality of Beninese cashew ranks below nuts from Guinea Bissau, which are of excellent quality, but above those from Ghana or Côte d’Ivoire (see below). The high quality of Beninese nuts compared to neighboring countries is behind the phenomenon of significant informal imports from Nigeria, Togo and Burkina Faso. These informal imports explain the gap between production data (90,000 tons in 2011) and export data (120,000 to 140,000 tons). They represent 25% to 35% of exports in Benin. These lower quality nuts are accused of lowering the average quality of exports Benin. This information is impossible to verify.

45 Another area of uncertainty, we have no reliable information on the destination of exports of cashew nuts and kernels.
The low profitability of plantations in Benin

Almost all cashew nut production comes from small plantations, whose surface varies from 1 to 1.5 ha. Yields are low, to the order of 300 to 500 kg of raw nuts per hectare (ICA 2009) — leaving farms barely breaking even. However, orchards in Benin are young. Most plantations were established in the late 90s and today are less than 15 years old (ACA). Reasons for the low productivity of farms include the use of low yield varieties and the absence of inputs. The introduction of chemical inputs is controversial, however, as it could create difficulty accessing developed country markets. Poor farming practices (overly-high tree density, irregular maintenance, poor harvesting and post-harvest practices) also contribute. One advantage of cashew is that it can be grown in association with annual crops (soybeans, corn, etc.), but this assumes that plantations are properly cleaned and technical schedules met, which is rarely the case. Finally, the impossibility of accessing financing is a major obstacle, in particular in view of the high cost of equipment (graders, scales etc.), transport equipment like tricycles, and packaging (jute bags), all of which are imported. In sum, one of the key challenges for the sustainability of the cashew sector in Benin is to increase farm productivity while preserving the sanitary quality of products.

After the production stage, the industry is divided into two: the vast majority of the product (98%) is exported in raw form directly, while the rest is processed locally before export. Stakeholders in these two sub-sectors are different and obey conflicting logics: seeking immediate profit without investment upstream in the sector for nut exporters; long-term investment in infrastructure, tools and cooperative relations with organizations of small farmers in the agro-industrial sector.

Raw nut export: an unregulated industry

70% of Beninese nuts are exported to India and the rest to Vietnam and other Asian countries. Exports are mainly made by Indian exporters, who are relatively few in number but present in all the countries of the sub-region. They are accused of behaving as a cartel, i.e. agreeing not to compete with each other and instead putting pressure on producers. Raw nut exporting companies in Benin are mostly of Indian origin or are subsidiaries of Indian multinationals, with some recycling CFA Francs from imports of textile and other manufactured products. Other exporters, also from Asian countries, operate in the informal sector, with practices sometimes deemed "non-professional". More recently, Beninese companies have also started exporting cashew (Tandjiekpon, 2012).

Regulation of campaigns

Since 2000, the State through the Ministry of Commerce, has set a floor price for producers (200 F CFA for the 2012/2013 season) and the timing of the season. According to the legislation in force, only approved collectors are allowed to buy the product from growers. This regulation is intended to protect small producers from the malpractices of some exporters eager to buy at low prices before maturity in order to meet international demand. However, neither price nor regulations are respected. Exporters continue to circumvent the rules and buy directly from producers or through unauthorized collectors. Even before the official opening of the season, exporters from Asia had moved into hotels and inns near production sites to negotiate the purchase of nuts directly with producers or groups of producers (Tandjiekpon 2012). During the season, a myriad of non-professional collectors (tailors, hairdressers, etc.) invade the sector to buy nuts from planters and sell to "pirate" exporters.

Formation of the producer price

The official floor price is indicative only. The effective field gate price is actually determined by exporters in terms of the quality of the nuts and the international market. The price paid to the
producer is very volatile within the season. Generally the purchase price is lowest early in the season (officially March) and higher at the end of the season (May). Exporters of raw nuts are keen to buy the product before maturity (before the opening date of the season) from indebted farmers in a hurry to sell. The price is then below the floor price. The price then rises gradually as the season progresses, in line with the scarcity of the product. But the price cycle is irregular, depending above all on demand. Thus, in March 2011, at the beginning of the season, the price paid to producers was in some areas of the order of 400 FCFA/kg, twice the official price (Tandjiekpon, 2012).

From the point of view of producers, who do not know the international market and have no bargaining power vis-à-vis exporters, the compensation system appears opaque and unfair. This feeling is reinforced by the absence of a harmonized measurement system. The official price is expressed in FCFA per kilo, but the measures used to evaluate the quantity of the product vary according to the region or the buyer (weights, scales, bags bowls, cans, etc.). Unit prices are difficult to compare and farmers are often victims of fraud concerning quantities. Faced with these informational asymmetries between buyers and small producers, cooperatives require assistance to equip themselves with scales from 500 to 1000 kg.

The average price paid to producers in 2013 (Table 18) represents a small percentage (46%) of the CAF export price of nuts. By way of comparison, Côte d’Ivoire imposed a minimum price on its cashew producers equal to 60% of the CIF price for the 2013/14 season. Products are collected before being unloaded from 5 to 10 ton trucks. Transport costs are high because of the dispersion of plantations and the small volumes (of the order of 300-400 kg per farm). Finally, a road tax of 0.8% of the customs value is paid on export.

**The quality of exported products**

The price paid to the producer depends primarily on the quality of the nut, which is determined by the shelling yield, KOR (Kernel Outcome Result)\(^{47}\) and the number of nuts per kilo. The average KOR in Benin is around 48 lbs. The characteristics and quality of nuts in Benin vary from one region to another and remain largely unknown.

On average, Benine\(^{se}\)se nuts are better than its neighbors, which allows them to be placed on the international market at a relatively high price (Table 18). The farm gate price is also one of the highest in West Africa. We note that the best quality is obtained in Guinea Bissau (but also Senegal and Gambia). Nut quality is an asset for Benin that is important to preserve. Indeed, it seems that the average quality deteriorates as a result of the importation of lower quality nuts from neighboring countries (including Nigeria), as well as the bad practices of some traders who blend qualities. Product quality also depends on harvesting practices. The nut quality is worse if the fruit is harvested before maturity. The quality is better if the farmer waits for the fruit to fall to the ground before collecting the nuts, rather than picking the fruit from the tree. However, fruit picking is a fairly common practice because of the scale of theft and the monetary needs of farmers early in the season. Indeed, the cashew season, which coincides with the lean period, is a significant source of income for farmers in this difficult time of year.

To reduce the cost of packaging, Beninese cashew exporters use recycled jute bags imported from various countries, including Ghana. The use of used bags that keep their original markings, is detrimental to Beninese products. On the other hand, if contained in bags with no information on the

\(^{47}\) KOR (shelling yield) and the amount of kernels obtained after husking 80 kg of nuts. KOR is expressed in British pounds for 80 kg.
origin of the product Beninese cashew nuts are then presumed to be re-exports of Ghanaian products. Beninese cashew products are generally not differentiated from those from other African countries that are of lower quality, making the traceability and promotion of Beninese products impossible.

Table 18: Quality and CIF price of cashew from West Africa. Averages for the 2013 season

<table>
<thead>
<tr>
<th>Country</th>
<th>KOR (lb)</th>
<th>CIF price</th>
<th>Farm gate</th>
<th>% CIF price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guinea-Bissau</td>
<td>50 - 51</td>
<td>1000 – 1050 US$/t</td>
<td>200 – 250</td>
<td>44</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(500 – 525 FCFA/kg)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Benin</td>
<td>47 - 48</td>
<td>900 – 950 US$/t</td>
<td>225</td>
<td>46</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(475 – 500 FCFA/kg)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Côte d’Ivoire</td>
<td>46 – 47</td>
<td>800 – 850 US$/t</td>
<td>210 - 220</td>
<td>62</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(400 – 425 FCFA/kg)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ghana</td>
<td>46 - 47</td>
<td>850 – 900 US$/t</td>
<td>200 - 225</td>
<td>46</td>
</tr>
<tr>
<td></td>
<td></td>
<td>(450 – 475 FCFA/kg)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Burkina Faso</td>
<td>45</td>
<td></td>
<td>100 – 150</td>
<td></td>
</tr>
<tr>
<td>Nigeria</td>
<td>46</td>
<td>860 US$/t</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Grade W320 cashew kernel (FOB): 3.35 – 3.50 US$/lbs
(3,685 – 3,850 FCFA/kg)

Source ARECA. Note that the KOR for Indian nuts is 51-52lb, like that of Guinea Bissau.

Local cashew processing: an embryonic sector

The share of processed production is low and difficult to measure precisely. As in most other West African countries, the local processing industry is struggling to grow because it is not very competitive. Shelling nuts is a very profitable business compared to the trade in raw nuts. Companies are struggling to keep above water in this sector where turnover is high.

The atrophy of the processing sector is explained by the size of input and processing costs and the lack of use of by-products of cashew. Processing capabilities have recently grown to 6,500 tons, or nearly 5% of domestic production, with the recent addition of four modern processing plants which were awarded the ACA quality and sustainability label. The Fédération Nationale des Producteurs d’Anacarde du Bénin (FENAPAB) has 5 plants and 5 small processing units with a total capacity of 12,500 tons.

48 For a total production of 140,000 tons.
49 In this area also, data must be treated with great caution. According to the ACA total processing capacity of Benin is 13,000 tons.
In spite of tax concessions, investment costs remain high in Benin and compound with the weakness of basic public services, for example the unsustainability of industrial sites. The inadequacy of road infrastructure and facilities is striking. Connection of factories to the road network is difficult due to the remoteness of plants, poor road conditions and lack of infrastructure (bridges in particular). Connection to the national electricity grid is usually impossible in rural areas or too expensive. The electricity supply is irregular, with frequent interruptions and factories are often forced to work with their own generators. The workforce is unskilled, poorly trained in company working conditions, and absenteeism is very high (field work, religious holidays, etc.). To reduce absenteeism and motivate their employees, some factories have decided to offer a range of services to their staff - canteen, crèche, first aid, preschool, and transportation services that they cannot find outside the company.

Financing difficulties are clearly a major constraint in the development of the cashew processing sector. Funding requirements are particularly important in this area because of the concentration of the harvest in a short period of the year. Processors must have the cash to buy the harvest and store large amounts of nuts to be processed during the following months. Most processing units do not have the working capital to enable them to optimally exploit the industrial infrastructure. In general, bank financing is not adapted to the needs of agriculture and agro-industry. Involving banks in the agro-industrial sector remains a challenge. There is therefore a significant demand for insurance that is rarely satisfied or that comes at a very high cost.

There is no place for international trading of cashew kernels and price information is fragmentary. According to UNCTAD, the average price of WW320 grade kernels (standard gauge corresponding to whole white kernels) between 1981 and 2004 was approximately $2.49/pound. In March 2013, the price of grade WW320 varied between 3.3 to 3.45 US$/Lb FOB or 3610-3770 FCFA/kg 51 or almost 10 times more than the price of the raw nuts.

The operators interviewed exported to the USA and Japan. Product quality is controlled by the Directorate of Quality Promotion and Packaging (DPCQ) under the Ministry of Agriculture and Fisheries (MAEP) (see below). Samples are sent to the DPCQ, which analyzes them and issues the necessary certificate authorizing shipment of the products. Until recently, operators preferred to use a private company, SGS, for the inspection certificate required by the importing country, SGS being considered more appropriate for determining quality standards, including KOR. This should change with the creation of the Central Laboratory of Food Safety Control, LCSSA (see below). Excluding rare exceptions, processors have so far not encountered any problems related to the food quality of exported products. But the prospect of the spread of chemical inputs among farmers is a real concern for the future.

The lack of information among Beninese operators on foreign markets (price, tariff and non-tariff regulations, quality control, etc.) is seen as a major obstacle to the development of their business. Operators are also poorly informed about tax regulations and the benefits they could receive in tax concessions (VAT, tariff exemptions, etc.). In addition, the lack of operator training in business management and marketing is striking. It should also be noted that there is a Benin-Nigeria agreement

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50 The import, production or sale of agricultural machinery and equipment, small processing units, storage of agricultural products and agricultural inputs, tools and plant equipment are subject to exemption from import duties and taxes and VAT. 2007 Finance Act
51 http://www.areca-ci.com/journal/?p=164
on a list of agricultural products and agro-industry that can be exchanged. Cashew is not included, closing the door to the large Nigerian market for cashew and its derivatives.

**The failure to use the by-products of cashew**

One of the main factors explaining the better performance of the Asian cashew processing industry is the use of fruit and processing waste (shells) on the local and international market. This is not the case in Benin, where only a small part of the fruit of the cashew tree is used for commercial purposes.

The largest source of waste is probably due to the non-recovery of the cashew apple, which is left in the fields. The cashew apple is edible and possesses great antiscorbutic qualities due to its high content of vitamin C. It can be used for making juice, wine or alcohol, but also jams and preserves. Finally, the rate of machining waste is extremely high. Only the best quality kernel is exported; broken kernels are not used. Problems related to the non-recovery of the apple and waste are also found in other countries in the sub-region (Côte d'Ivoire, for example). At the time of writing, there is no local or regional market for apples or for broken or small kernels.

Part of the shells are recycled in processing plants as fuel, but Cashew Nut Shell Liquid (CNSL), the liquid extract from the cashew shell, is not carried out in Benin or in other West African countries. There is however an international CNSL market. The potential uses of CNSL are numerous. It can be used as a fuel or additive in brake fluids or for the production of varnish and paint. It also has antibacterial and insect-repellent properties and can be used in organic farming. Indians have long specialized in the shelling of nuts and the CNSL extraction, which requires a certain technical capacity due to its highly caustic nature. India is currently the leading exporter of this substance, which it mainly exports to Korea, Japan and Australia.\(^{52}\)

**The search for sustainable coordination methods between stakeholders in the sector**

Compared to the cotton sector where the official price for purchasing from the producer is more or less met, there are significant coordination difficulties in the cashew sector where price competition is very strong. Price volatility during the season significantly increases the opportunities for strategic default on the part of producers (selling side) as well as buyers. Producers do not always come out as winners in competition among buyers. Most want to develop stable relationships with a buyer, letting them know in advance the purchase price, the quantity purchased and the quality requirements of the product.

While the conditions for the development of contractual relations between producers and buyers are still far from being met, the nascent organization of cashew producers is under way through the FENAPAB. The FENAPAB, created on 27 January 2006, groups four Regional Cashew Producer Unions\(^{53}\) (URPA), 43 Communal Cashew Producer Unions (UCPA), 33 of which are functional, and 860 Village Producer Cooperatives (CPV) representing 200,000 households. It is a cooperative professional organization (OP) governed by the Ordinance of 59/PR/MDRC 12.28.56 and compliant with the regulations of the OHADA on the right of Cooperative Societies (Uniform Act) in 2012.

The FENAPAB seeks to promote, in consultation with local processors and with the support of the PROCAD program of the World Bank, the mechanism of grouping together in local Unions. It is based on an initiative of the Ministry of Commerce in 2003, which until now has not been

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52 For further details, see: Info Comm, Unctad.org  
53 URPA/Zou Collines, URPA/Atacora-Donga, URPA/Borgou-Alibori and URPA/ouémé-Plateau.
developed. The principle of grouped sale is: farmers pre-collect, weigh and gather the product at the level of the village or town. The goal is to sell wholesale to a single buyer and at an average price higher than that offered to individual producers. It also means avoiding indebted producers having to offload their product at the beginning of the season.

This mechanism is supported by processors who hope, through this sales system, to establish stable relationships with producer groups and secure their access to the product. This mechanism also reduces the number of intermediaries and the cost of collection, passes on a portion of the cost and risk of storage to producers and makes it possible to handle larger volumes. Transformers and the FENAPAB are willing to agree on a purchase price and tonnage to be delivered.

Producers have high hopes for grouped sales, but implementation difficulties are significant and probability uncertain. This type of mechanism requires significant financial resources to cover advances on sales, collection costs and storage costs. Financing needs can be covered by the use of funding mechanisms secured by inventory credit (warrantage) or, more simply, by buyers of the product (processors), something which requires mutual trust. From this point of view, it is not clear that the grouped sale mechanism provides a solution to the problem of strategic default in an environment where purchasing competition is very strong, and regulations not respected. Strategic default or non-compliance by some members of the group may spread to the whole group. Moral hazard is also on the side of the buyer who may be tempted to disregard its commitments vis-à-vis the group, for example in the case of falling prices.

**Outlook**

The outlook for the international market is uncertain. After a boom in prices and global exports, the market is returning to less rewarding prices. Cashew consumption stagnated for several years in the USA and Europe, but it is increasing in emerging countries: India, China, Brazil, Russia, but also in East Asia (Thailand, Pakistan) and the Middle East (Iran).

Demand for Beninese nuts is highly dependent on production in India (the world's largest producer) and Brazil (fourth-largest). The withdrawal of Indian operators in cases of good harvests in India could be offset by the slowdown of production in Brazil, whose presence in West Africa is increasing. One can also expect, when there is a tightening of Indian demand, that Indian importers will favor good quality nuts such as those from Benin. Moreover, we note that the price of sea freight from Cotonou to India or Vietnam is no higher than from Maputo or Dar es Salaam, the two major competing countries of East Africa (see attached table). It is hoped that nuts from Benin will continue to perform well in the international market place, even if we expect prices to be below 2011 levels.

The decline in the kernel price, however, could seriously threaten the local nut processing industry, which is already unprofitable, and keep producers in a state of under investment in farms. Productivity gains must be sought at all stages of the supply chain - production, processing and marketing - which will require the support of the state in investment and the search for private capital. In this perspective, the structuring of the sector which has been underway since the mid-2000s is a positive element.

Under-investment in plantations and sub-optimal use of production facilities are not only the consequence of a system of low-prices, lacking incentives, but also the weakness of institutions resulting in non-compliance and commitments between sector stakeholders. From this point of view, the creation in November 2011 of the Conseil National des Transformateurs du Cajou (CNTC) and in 2013 of the Conseil National des Exportateurs du Bénin (CONEC) is an important step towards a

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54 Grouped sales represented 2.2% of production in 2008 (ICA 2009)
consolidation of the industry, the establishment of dialogue and relations of trust between stakeholders. We also note that since 2006, the Beninese sector has been affiliated with the African Cashew Alliance (ACA), whose current president is Beninese, strengthening Benin's standing on the international scene. The ACA is a platform for dialogue, discussion and information and promotion of the industry that gives operators visibility and access to information on the international market.

5.3.2 Pineapple

The pineapple industry is another priority sector for the Beninese government as part of its strategy to diversify exports. Pineapple is one of the products that create the most added value. The contribution of the pineapple sector to GDP and agricultural GDP was estimated at, respectively, 1.2% and 4.3% in 2006 (INSAE, 2007). According to data from 2007 (Anasside and Aivodji, 2009), 35% of pineapple production is consumed fresh locally, 15% is locally processed and consumed, 40% is sold in the markets of the sub-region (Sahel and Nigeria), 2% is exported fresh by air to the countries of the European Union (France, Belgium, Luxembourg, Italy, Germany, Holland, etc.), while 8% is converted into dried fruits and exported to the EU.

A substantial regional market

Southern Benin has a natural comparative advantage in the production of pineapple because of its soil and climatic conditions and organoleptic qualities of the fruit. According to the Ministry of Agriculture, pineapple production has grown exponentially since 2000, from 51,000 tons to 316,000 tons in 2012 (Figure 78), but is still far from the government target of 600,000 tons in 2015 (PSRSA, 2011).

Beninese exports of fresh and dried pineapple were 4,415 tons in 2011 (INSAE, according to customs data), far behind Ghana's exports (46,000 tons) and those of Côte d'Ivoire (64,000 tons). Pineapple is exported overseas by air, export volumes being too low to recoup the cost of maritime freight. The construction of a fruit dock at the Autonomous Port of Cotonou (PAC) remains a long-term project (see MCA). Weak export volumes do not justify investment in this type of infrastructure. In addition, exports to neighboring countries (Nigeria, Burkina Faso, and Niger) fall for the vast majority within the informal sector and are not recorded.

There is strong demand for Beninese pineapple in neighboring countries, particularly in Sahelian countries, which are major consumers of pineapple. But these markets are not well-known to Beninese exporters. Demand is also high in other countries in the sub-region but the length and / or costs of transport are prohibitive. Thus, the cost of air freight from Cotonou to Dakar reaches 1,300 FCFA / kg, or more than double the cost of freight to the EU. Added to freight costs is the lack of refrigerated transport, which prohibits exports beyond neighboring countries. Local sales and in neighboring countries is in bulk without packaging, which reduces the quality of the product (ARMEN 2012). The main sub-regional market is the Sêmê-Kraké border market on the Benin-Nigeria border, where Nigerian traders come to buy retail Beninese products. Nigerian wholesalers also send vans to collect products. According to a survey by the ABEPEC on the border, 80-100 "sheeted vehicles" pass the border of Nigeria every day carrying 1.5 tons of products per vehicle. Nigerian traders are more likely to buy directly from Beninese producers after ordering ethrelage, but the risk of these traders breaching their commitments is high (COOPETAB, 2012). Purchasing

55 This data should be treated with caution (see below). It coincides only partially with that of the PSRSA.
competition is very intense at certain times of the year, encouraging Nigerian traders to buy the standing crop.

Figure 78: Pineapple output and exports
(a) Pineapple production in Benin       (b) Beninese pineapple exports (tons)

![Pineapple output and exports graph]

Source; MAEP     Source; INSAE

The data collected during the assignment allows for an approximate calculation of the remuneration of different stakeholders in the export sector. The farm gate price of pineapple export at the end of 2013 is estimated at 120 F/kg (€ 0.18 / kg) for the Smooth Cayenne, per quarantine at export quality. Sugar Loaf is paid less, around 90F/kg (€ 0.14). At the same time, the price paid by the Company PromoFruit (processor) is 60 F / kg and the price of pineapples for the local market is estimated at 20 to 30 F/kg (Table 19).

Table 19: Breakdown of the pineapple export price

<table>
<thead>
<tr>
<th></th>
<th>Recommended floor price (Fcfa/kg)(*</th>
<th>Export pineapples (Fcfa/kg)</th>
<th>Export pineapples (€/kg)</th>
<th>% of theoretic CIF price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sugar loaf farm gate</td>
<td>41.8</td>
<td>90</td>
<td>0.14</td>
<td>13%</td>
</tr>
<tr>
<td>Smooth Cayenne farm gate</td>
<td>46.4</td>
<td>120</td>
<td>0.18</td>
<td>13%</td>
</tr>
<tr>
<td>FOB airport</td>
<td>350 - 394</td>
<td>0.53-0.60</td>
<td>38% - 43%</td>
<td></td>
</tr>
<tr>
<td>Freight</td>
<td>600</td>
<td>0.91</td>
<td>65%</td>
<td></td>
</tr>
<tr>
<td>Theoretical CAF</td>
<td>850 - 994</td>
<td>1.3-1.52</td>
<td>100%</td>
<td></td>
</tr>
<tr>
<td>Rungis</td>
<td>1378</td>
<td>2.1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Margin + importer cost</td>
<td>528 - 384</td>
<td>50%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Retail, French market(***</td>
<td>2487</td>
<td>3.79</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

(*) Proposal for a floor price calculated based on production costs and a profit margin of 15%. Results of a survey conducted in 2012 (see AMEN, 2012)

(**) According to espace agro December 2013.

(*** March 2014
According to these fairly rough estimates, the producer's share of the CIF price is low (13% of the CIF price or 37% of the FOB price) but the export sector appears to be very profitable for the producer compared to the cost of production and the price paid for pineapples intended for the local market which is estimated at 20 to 30 F/kg. However, it is necessary to take into account the high quality of the exported product and higher losses (sort rejects) for products for export, as well as the risk borne by the producer (risk of the buyer's default).

**Constraints**

Farm productivity is low: yields of small farms are of the order of 22 tons of fruit per hectare, while so-called modern farms achieve nearly 70 tons per hectare, according to a study by the Association de Développement des Exportations du Benin (ADEX) in 2005. Low farm productivity due to difficulties of access to waste management facilities (Anasside and Aïvodji 2009), the under-utilisation of inputs and non-compliance with technical schedules.

In the absence of specific pineapple fertilizers, growers use cotton fertilizers (complex fertilizer NPK). These fertilizers, that do not meet the K/N ratio required for pineapple, are unbalanced. They affect fruit quality and accelerate the decline in soil fertility (Dagba, 2006). Farmers buy fertilizer from SONAPRA at the same price as for cotton (two times cheaper than the market), but pay cash. Their demand is not always met, the supply of cotton being a priority. In addition, they must collect fertilizer from cotton zones, namely Malainville (Nigerian border) to bring it to the coast. The fertilizer available on the market, unsubsidized, is considered too expensive, therefore inaccessible.

*From the field to Cotonou airport*

Pineapple is harvested a few hours before being shipped by air. Given the lack of equipment for refrigerated transport and storage, time control is crucial. Any delay in harvesting or transportation to the airport increases the risk of loss of the goods. Producers cut, brush and sort the pineapple. Pineapple is calibrated before being boxed at the field gate. Crates are imported; they come mostly from Ghana. The most popular pineapples on the European market are small in size. This results in a high "sorting waste" which will be sold on the local or regional market at low prices. Pineapple is transported by non-refrigerated trucks (15 to 20 t) to the airport. Transport of the product is difficult because of the poor condition of the tracks that lead to the main road (the inter-state highway). It takes up to three hours to cover 10-15 km of bad roads before reaching the highway, and about two hours by road to reach Cotonou (in the case of products from the Allada Plateau). In addition, trucks cross many roadblocks before reaching Cotonou, and face police harassment at the airport and on the interstate highway. From the production zone (Atlantique department) to the airport, there are between 5 and 10 roadblocks. The average cost of a roadblock is about 2000 FCFA/truck (1% of the value of the merchandise on the purchase price for 10 roadblocks). Added to this are payments in kind, at roadblocks and the airport.

*At the airport: a limited supply of air transport*

Once at the airport, the exporter is not assured of being able to ship the product on time. Freight is provided by "mixed" commercial aircraft (cargo / passenger flights) on scheduled flights (usually Air France). When there is no space, pineapples must then be sold on the local market at a quarter of the international export price. As in the cashew sector, the system of weights and measures has failed entirely. Exporters buy at the farm gate without using a balance or scale for weighing fruits. The weight is estimated by the buyer, who weighs the fruit by hand. A visual quality control is performed at the airport by the phytosanitary services of the Direction Nationale de la Protection des Végétaux.
(DNPV), which issues the analysis certificate necessary for export. Pesticide residues are not systematically looked for. The main problem from the point of view of the sanitary quality of fruit is related to the use of ethrel - whose active ingredient is ethephon - during the production cycle to obtain the required EU coloring. In cases of overdose, the maximum residue limit (MRL) is exceeded; in cases of under-dosing, the product lacks the required color. It should be noted that that exporters are unfamiliar with export formalities (Phytosanitary Certificate and Certificate of Origin).

**Local processing**

There are a large number of artisanal and semi-industrial processors, but industrial transformers are few. There is no packaging production unit in Benin for either fresh pineapple, dried pineapple or pineapple juice. All packaging (bottles, cans, boxes, caps) must be imported, usually from Ghana and Nigeria. The low productivity of industrial processing units comes mainly from dilapidated industrial equipment. The juice extraction rate is relatively low and creates significant waste. Similarly, infrastructure for storage before the processing of raw material is insufficient. The final price of a can of juice produced locally is higher than a can of juice imported from Asia. The estimated additional cost is more than 18%. Nevertheless, the product is not the same. Local juice is a natural product\(^\text{56}\) (100% pure without adding water or dye, sugar or preservatives), which is not the case with competing imported juice. For now, Beninese juice is sold only on the domestic market. But the local market in natural juice is limited, with only a minority of consumers appreciating the quality of natural products. The need for information and training of processors in standards and quality management, distribution channels and opportunities for pineapple by-products is immense.

**Coordination methods in the pineapple sector**

As in other sectors, coordination among producer organizations and between organizations of producers, exporters and processors is difficult to implement. However, institutional progress has been made since the mid-2000s. Producer Groups come together in Unions Communales de Producteurs d’Ananas (UCPA), Economic Interest Groups (EIG) or other primary organizations structured into umbrella organizations. Faced with the lack of effectiveness of the organizational system, a new attempt at restructuring the sector was launched in March 2012 with the creation of the COOPETAB (Coopérative de Producteurs, d’Exportateurs et de Transformateurs de l’Ananas et dérivés du Bénin). This cooperative is the fruit of the project ARGON (CCI – ABEPEC). It is now supported by ProCAD (World Bank project). COOPETAB is governed by the Uniform Act relating to the right of cooperative societies of the OHADA. Finally, as in other sectors discussed previously (cotton, cashew), difficulties of coordination between stakeholders, especially between producers on the one hand, and processors and exporters on the other, are related to non-compliance with commitments.

**Outlook**

International markets are rewarding but difficult to access for Beninese operators, who are penalized by the cost and risk of air freight in particular. The European market is dominated by varieties from Central America and Latin America at low prices. Because of its good taste, Beninese pineapple certainly has the ability to gain export market share while remaining in a narrow niche. By contrast, the regional market (Sahel, Nigeria) of fresh and processed products seems more promising and more accessible. Obstacles to the development of trade remain numerous and are largely common to all agri-food sectors: access to inputs, inadequate public services (roads, etc.), different stakeholders' responsibilities. It is pasteurized before bottling and steam-sterilized.
access to financing, training and information. Regulation of the sector by strengthening regulatory and representative organizations is the start a secure business environment in this sector. There remain significant financing needs, particularly for the fresh pineapple sector, in refrigerated equipment (coolers, trucks, etc.).

5.3.3 Shea

Shea is among the 13 diversification products adopted by the Association de Développement des Exportations du Bénin (ADEX). Shea is the 3rd Beninese export product after cotton and cashew. It is a traditional production sector in Benin, until now mainly focused on the domestic market. However, over the past ten years, due to the expansion of global demand, kernel and shea by-product exports have grown. The sector, still unorganized, is poorly structured and suffers from the same disadvantages as other sectors of Beninese agribusiness, and has its own specific problems. Nevertheless, the potential of kernel is high and could have a potentially significant drag effect on artisanal and industrial fabric. In addition, shea is notable for being an important source of income and employment for women and contributes to the development of the northern regions of Benin and to balanced regional growth. The sector, abandoned by the Government, has received strong support from technical and financial partners including USAID and WATH, but also GIZ and HELVETAS among others.

An unknown sector in statistical terms

Over the past 10 years, the shea sector has experienced strong growth in West Africa. Producing countries of West Africa are, in order of importance, Nigeria, Mali, Burkina Faso, Ghana, Côte d'Ivoire, Benin and Togo. For Benin it is estimated that only 40% of potential production is exploited. There is no updated data on the shea trade since 2005-2006. According to UNCTAD, global exports of shea nuts increased by 50,000 tons in 1994 to 250,000 tons in 2007. The price increased from $150 / tons to $400 / tons during the same period. The top three exporters of shea nuts are Burkina Faso, Ghana and Benin.

This data should be approached with caution because of the confusion often made in international statistics between various shea products (nuts, kernels, butter), as well as the weakness of statistical services in producer countries. According to the FAO, Beninese shea nut production was 14,000 tons in 2012, while production from natural orchard is estimated at 85,000 tons per year, of which 42,000 tons were actually marketed (Riboux, 2012).
There are numerous uses for shea butter. At the local level, butter is traditionally used in rural areas as kitchen fat. Shea butter is also used in cosmetics and pharmacology. The development of industrial extraction of shea butter for food is a more recent phenomenon, a result of the change in European legislation. Since 2003, regulations allow for the introduction of 5% of Fatty Vegetable (FVM) other than cocoa butter in chocolate production.

Products for the cosmetic market are generally exported in the form of butter. By contrast, products for the food industry are exported in raw form (kernels) and processed in the consumer countries. Trade in raw materials accounts for the bulk of international trade in shea. The market for shea kernels is highly concentrated. The main purchasers and processors of shea kernels are: AAK in Sweden and Loders Croklaan in the Netherlands, who import 90% of shea kernels (Badini et al. 2011). The other buyers are 3F in India and ADM in Germany. Finally, 90% of imports of shea nuts are intended for the chocolate sector. The main difficulties the sector faces are related to the lack of organization of the sector, low volumes, and lack of protection for trees.

**The upstream chain: gathering and traditional production of butter**

Currently, there are no plantations of shea trees in Benin, which is a major problem for the development of production. Production comes from trees that grow in the wild. The main production areas are located in the departments of Atacora and Donga, as well as in the departments of Borgou and Alibori. It is particularly important for the future of the industry to protect the natural park, which is threatened by uncontrolled felling and forest fires. The varieties currently available take 30 to 35 years to mature, so the renewal of the park involves several generations of farmers. The first challenge for sustainable development of the sector is to develop the practice of grafting (which improves yields in the shorter term) to develop fast-growing varieties of trees and fire-resistant trees. This type of long-term investment requires significant involvement by the state.

**Picking: very difficult working conditions for women**

Across West Africa, gathering nuts and butter production are activities traditionally reserved for women. From the gathering of nuts to butter extraction, the work done by women is long, painful, dangerous and most often performed manually. Women must travel long distances to gather fruits in the forest. Fruits are better quality when they are picked ripe, once fallen on the ground. The fruit is

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57 UNCTAD, Infocomm.
then transported in baskets or bowls. The cost of collection is particularly high because of the distances involved, the lack of suitable equipment for transportation (bicycle, tricycles etc.) which prohibits the transport of large quantities. In addition, women have no means of protection, including gloves or shoes, and are exposed to snake bites and other injuries when gathering the product from the bush. The fruit must then be boiled for pulping, and the nuts shelled to extract the kernel. Kernels, once washed and dried, are processed locally by the women who gathered them or are sold to women's groups specializing in the transformation of nuts into butter. These groups transform kernels using traditional methods, while some have some semi-mechanized units (cold pressing unit).

Artisanal processing

Part of the production is processed locally by women to cover the needs of the village in fat products or to be sold. Kernels are crushed, roasted and finely ground to a paste. The paste is then mixed with hot water and churned to obtain butter. These operations are also performed by women, often manually with a pestle and mortar at the village level. There is equipment for the mechanization of tasks (grinding) but not for churning, one of the most difficult parts of the butter extraction process. But most nuts collected are sold to wholesalers and collectors, and will be exported raw or processed in industrial or semi-industrial units.

The export of raw kernels

Wholesalers and collectors buy kernels from women through their network of brokers, directly at the village level or at markets. The nuts are collected and stored before being sold to local processors or to international buyers to be exported raw. These are agents or subsidiaries of international companies in the food and cosmetics industry, based in Europe, Asia or America. The main shea nut exporting company is Knar-Benin, a subsidiary of the Swedish company AAK, created in 2008, with export volumes of 10 to 15,000 tons per year. In this sector, as in the cashew sector, Indian buyers are also present. These are often the same companies that export cashew and shea. These trading companies buy and sell through an export company. As with cashew, buying shea nuts for export recycles currency (CFA) from the sale of imported products.

Interior transport

The transport of products (kernels or shea butter) from production areas to factories or to the port of Cotonou is long and expensive because of the poor condition of tracks and roads and numerous roadblocks. Thus, it takes about 7 hours to cover the 400 km between the production zone in Parakou and Cotonou, encountering 5-6 roadblocks. The length of transport poses a specific problem for the conservation of butter because Benin has no transport companies that specialize in the transport of fresh produce. The easiest and cheapest solution is to package butter in bags of 20 to 25 kg. Another solution that limits loss during transport is packaging in cans of 25 liters. Unfortunately, cans are usually recycled products that may have contained toxic materials. The risk of contamination of the butter is too high for this solution to be widespread. The problem with packaging also arises with packaging for kernels usually stored in plastic bags, which are unsuitable for this purpose. These products should be packaged in jute bags. Importing new bags being too expensive, the jute bags used are used bags imported from Ghana.

Industrial butter extraction

Industrial extraction of shea butter is carried out by using chemical solvents, which allows for higher yields. Traditional extraction provides a yield of 30% while yield by chemical extraction is 45% (Infocomm). The main company for the industrial production of shea butter for the food industry is
Fludor, an Irish-owned company, founded in 1996, whose factory is located in the southern part of the country. Fludor originally specialized in the crushing of cottonseed and soybean for the production of edible oils. Fludor moved into the shea crushing sector after the crisis in the cotton sector and difficulties in accessing seed cotton. Shea crushing is now a major activity of the company, accounting for about one third of its turnover. Fludor has received aid from USAID for its conversion into shea crushing. It is currently a member of the Global Shea Alliance and is engaged in a process of HACCP certification. Few operators are active in the exportation of shea cosmetic products to overseas markets.

**Constraints**

*Fragility of natural capital*

Production potential is currently untapped, but it is threatened by logging, forest fires, etc. There is also concern that pressure on the resource will increase with the opening up of new markets, resulting in overexploitation of natural resource and land conflicts.

*Regulation of campaigns*

The State intervenes in the shea sector by setting the opening day of the season and a floor price, as well as the regulation of various professions. The opening day of the season is considered to be too late by processors. In fact the season is officially opened after the nuts have fallen, while women have already started gathering them. Kernels are then stored in poor conditions at the village level, pending the official opening of the marketing year. Poor storage conditions cause high rates of acidity in the butter.

It should be noted that neighboring countries, including Ghana and Mali, there is no official opening date of the shea season. Traders from neighboring countries have therefore already bought before the season opens in Benin. The Government has also set a floor price for kernels. This price is only indicative, and is generally not respected, with the price paid to the producer generally being higher than the floor price. The actual purchase price of the kernel depends on the moisture content, one of the essential quality criteria. As in other agricultural sectors, exporters cannot purchase the product directly at the village level and must instead go through approved collectors. These professional buyers are generally well organized. They organize the removal of products by truck. However, this measure is perceived by exporters and industrial transformers as an obstacle to their business.

*Difficulties in structuring the Beninese sector*

The organization of the shea industry is in its infancy. There is no real coordination in the upstream sector at the level of women's groups that gather and process shea using traditional methods. There are also no specific organizations of cashew processors and exporters. These professionals are nevertheless part of the ADEX. On the other hand, under the impetus of USAID, the Association Karité Benin (AKB) was created in 2011 following the creation of the Global Shea Alliance (GSA). The purpose of the Association Karité Benin (AKB) is to act as an inter-professional grouping. The first national conference on shea was held in 2011 and was attended by over 150 industry professionals. However, this association is struggling to structure itself due to internal conflicts. On the ground, raw kernel exporters and processors are engaged in fierce competition for the purchase of raw materials. Processors do not engage in pre-financing of producers. They struggle to secure their supply in terms of quantity, quality and delivery times. In the end, they are struggling to meet demand because of uncertainty about access to raw materials.
The positive externalities of the Global Shea Alliance

The Global Shea Alliance (GSA) was created in 2011 with the help of USAID. It brings together industry professionals worldwide. The GSA is based in Accra, in the premises of the USAID West Africa Trade Hub. It aims to promote shea and help SMEs improve the quality of their products and access the international market. Each year, the GSA organizes an international conference on shea. The fifth annual conference was held in Cotonou in April 2012, reflecting both international recognition of Benin as a major shea producer and the involvement of Beninese professionals and the Government (including the ABePEC) in the development of this sector. Among the Beninese members GSA are companies such as NATURA ANTEMANA and FLUDOR.

The outlook for the shea sector

Challenges for the sustainable development of the shea sector in Benin are in part the same as other sectors and solutions will depend on the commitment of the State to support the sector through: investment in infrastructure, support for the organization of stakeholders and the structure of the sector, the adaptation of regulations, and support for strengthening the capacity of stakeholders. At this stage of development of shea processing, the problem is less a matter of opportunities than of operators' ability to respond to international demand, which requires control of quality, quantity and deadlines. The need for security of supply and improvement of harvesting and post-harvest practices, an essential quality factor, once again shows the importance of an effective organization.

However, the Beninese shea sector has at least two characteristics that require special vigilance. On the one hand, growth prospects in the sector are totally dependent on the proper management of plant resources, whose renewal period is greater than the life of a farm. It is therefore incumbent on the State to make every effort to preserve and develop this resource. On the other hand, women are historically and culturally at the heart of the development of this sector. It is essential for economic and social reasons, including the fight against poverty and inequality, to ensure that women are not marginalized or excluded from the process of developing the sector. There is a danger that the development of the production of shea butter by industrial or semi-industrial extraction will act to the detriment of production by women's groups. For the sector's growth to be inclusive it is important to ensure the place of women in professional organizations and representative bodies of the industry.

5.4 Cross-cutting export barriers

5.4.1. Agricultural inputs

SONAPRA has been made responsible for the importation and distribution of inputs beyond the cotton sector through CARDER and decentralized Ministry of Agriculture (MAEP) services. Inputs are sold with the same subsidy rate as cotton inputs but they are sold for cash. Despite this, demand is high and SONAPRA has no difficulty in selling specific inputs. SONAPRA did not have time to actually redeploy its activities, because, as of the 2012/13 season, it was asked to resume its former activities in the cotton sector. In 2013/14, SONAPRA was restored to its central role in the organization of the cotton season (management of inputs, primary marketing, ginning and sales), and can no longer fulfil its new missions. To fill this gap, the Council of Ministers of December 4, 2013 decided to accelerate the creation of the Centrale d’Achat des Intrants Agricoles (CAIA), in the form of a mixed economy company, endowed initially with a simple operational structure. This company will take over operations for the control and distribution of food inputs for the 2014-2015 cotton
season. It is too early to assess this new system’s performance in the purchasing and distribution of inputs.

5.4.2 Quality control
Currently control of the sanitary quality of food products is divided between many services or directions of the MAEP and other ministries (Ministries of Health and Trade and Industry in particular). These services are being consolidated into a new agency, the ABSSA, but this process is now at a standstill. At least 3 departments are involved in the process of quality control of agricultural products and foodstuffs: the DNPV, DANA, and the DPQC.

The Direction Nationale de la Protection des Végétaux
This is a department of the MAEP based in Porto Novo with regional offices in CARDER and at border crossings. Its agents are responsible for monitoring and inspecting all plants imported and exported. DNPV issues the phytosanitary certificate required for export. This certificate attests to the absence of parasites on plants and plant products. Because of its lack of resources, DNPV performs a documentary and visual inspection of products.

DNPV also has phytosanitary brigades responsible for overseeing risk areas and ensuring protection against major health scourges (seed-eating birds, crickets, armyworms, etc.). These brigades are responsible for alerts in case of infestations, the implementation of campaigns or sporadic actions. There are stocks of pesticides in areas for rapid response but they are mostly obsolete. DNPV is also responsible for the selection of pesticides and other cotton pests, and training in the use of pesticides. It can also be mobilized for the distribution of pesticides.

DNPV has a severe shortage of the necessary material and financial resources to enable phytosanitary brigades to function effectively and to perform inspections prior to certification. Its premises are old, it has few operating resources and few qualified personnel. As in the rest of the Beninese public service, the age pyramid is imbalanced. Retirees are not replaced and public agencies are required to work with contract staff (often interns).

The Direction de l’Alimentation et de la Nutrition Appliquée (DANA)
DANA, also based in Porto Novo, is responsible for monitoring the sanitary and nutritional quality of processed food products placed on the Beninese market (locally produced and imported products) and for the control of exported processed products. For example, it carries out checks for producers of pineapple juice. It is also responsible for monitoring the nutrition of the population and providing nutritional education, but has virtually no resources for performing these missions. Prior to export, the exporter must send a sample to DANA, which performs tests and issues a health certificate. DANA can also travel to assess hygiene practices during the manufacturing process.

Since 2010, DANA has had no analysis laboratory, the existing one having been demolished. Physicochemical and microbiological analyses are performed by the laboratory of the Department of Agriculture (DAGRI) or by IRGIB-AFRICA or by foreign laboratories. Depending on the product, analyses are designed to detect the presence of pesticide residues, food additives, plant protection products, sulfites, etc. Soon, the samples will be sent to LCSSA for these analyses (see below).

IRGIB-AFRICA is the official partner laboratory of the APRM for pesticide analysis and tests on fish products. It is supported by the Chamber of Commerce and Industry of Benin and supports private sector operators in their agro-food analyses (pineapple, shea, fish, cereals) in formulations
and packaging. Following new EU regulations on pesticides, the IRGIB-AFRICA laboratory has validated, as of the end of 2009, three analytical protocols and conducted 120 tests determining the chemical profile of pineapple exported by Benin. It also conducts research and examines dosages of veterinary drug residues, mycotoxins, heavy metals and physicotoxines.\(^5\)

Note that there is no Beninese laboratory accredited by COFRAC in the food industry, which greatly devalues the certificates issued by DANA or other quality control divisions, and is a source of dispute in terms of results. DANA is present at the border alongside DNPV. It runs documentary checks on health certificates accompanying the imported product and gives authorization to import. DANA’s lack of resources in personnel, equipment, infrastructure, etc. is striking. Its place and mission under the new system are unclear.

The Direction de la Promotion de la Qualité et du Conditionnement des produits agricoles (DPQC)

DPQC is responsible for quality control of imported and exported raw materials (for example cashew and cotton). The application for certification is made by the exporter. After testing, DPQC issue the certificate of quality required for export. Checks are carried out in the region, by CARDER and / or downstream in the sector in warehouses and stores.

For cotton, agents of the Direction de la Promotion de la Qualité et du Conditionnement (DPQC) stationed in CARDERs check the quality of seed cotton in primary collection markets at the time of weighing. Cotton is classified by DPQC as first or second choice. The cotton fiber is then, .ex works, again classified into different types by SONAPRA grading services, which has the necessary equipment. DPQC also has a laboratory for physico-chemical analyses, tests on seeds and plants, aflatoxin of products of plant origin, and infection rates in cereals.

The Agence Béninoise de Sécurité Sanitaire des Aliments (ABSSA) and the Laboratoire Central de Contrôle de la Sécurité Sanitaire des Aliments (LCSSA)

The Beninese government has decided to establish a single authority, the ABSSA, for the sanitary safety of all foods (animals, plants, fisheries and processed products) with the support of the Belgian Cooperation, the European Union (PASP) and the FAO. We note that there is no equivalent of such an agency at the sub-regional level. This new system involves a major institutional reform. Indeed, at least five directions or services must merge within the ABSSA: the Department of Farming and Fishing, DANA, DAGRI and DPQC. In total, there should be 300 people working in this agency.

The process of creating ABSSA was launched in 2010 and its establishing Decree was signed in May 2012. Since then, the project has been suspended. The problems posed by the reallocation of State agents in the new structure and the choice of management are the main reason for this suspension. The place and missions of certain services or departments in the new structure is not well defined, as is the case for example with DANA and ABeNOR (Beninese Agency for Standardization), which is responsible for drawing up and defining standards. Finally, the independence of ABSSA is in question. Originally, ABSSA was intended to be an independent agency, but it ultimately became a sub-directorate of the APRM. At the same time as the creation of the ABSSA, the MAEP built and equipped the Laboratory for Controlling the Sanitary Safety of Food (LCSSA), which served as the benchmark laboratory for the ABSSA. The Strategic Plan for the Recovery of the Agricultural Sector (PSRSA) plans to strengthen existing sectoral laboratories of the MAEP which should specialize in their specific field.

\(^5\) http://irgibafricalabo.com/index.php/component/content/article/30-presentation
The LCSSA was functional at the end of 2013. The staff is there, as is the equipment, but the laboratory has not yet been accredited. With the support of the Belgian Cooperation, the LCSSA was expected to obtain ISO 17025 certification in 2014. The LCSSA will be the first accredited lab in the whole sub region, which will give it a regional remit. Its certificates will be valid throughout the sub region. It will have to conduct analyses for all microbiology and physio-chemistry (pesticides, DDT, heavy metals, mycotoxins, aflatoxin, etc.). At this stage of the project to create ABSSA, there remain many grey areas concerning the further restructuring of services involved in quality control. Currently, these services do not have the resources, manpower or equipment to perform the tasks entrusted to them for food products: controls in the field, warehouse and point of embarkation. As things stand, controls are not carried out and when they are, the certificates have little value. Accreditation of the LCSSA will provide an answer to the problem of certification of exported products. But a coherent sanitary and phytosanitary policy remains to be defined and the entire institutional quality system is yet to be structured.

5.4.3. Metrology and packaging

The Agence Béninoise de Métrologie et du Contrôle de la Qualité (ABMCQ) is responsible for ensuring the uniformity of measures and controlling measurement units. ABMCQ was created in 2009. The foregoing sectoral analyses channels also showed the weakness or absence of weighing equipment for agricultural products (scales, balances, etc.) especially at the port and the airport, but also at the level of producer organizations. When these exist, they are rarely checked. ABMCQ does not have the resources to control weighing instruments used in food chains. The diversity of measurement systems impairs the transparency of the market, i.e. the informational efficiency of the market promotes fraud and trade disputes at the local level between producers and buyers, but also at the international level between exporters and importers. It is also detrimental to the development of reliable agricultural statistics. A first stage in the process of harmonizing units of measurement may be to establish a conversion benchmark in weight of volumes sold, made freely available online. The second would be to move rapidly towards the widespread use of weighing instruments through financing facilities and investments in public infrastructure at the port and the airport.

Control over packaging of agricultural products exported is the responsibility of DPCQ. The analysis of the cashew sector has shown that regulation, if it exists, is not applied. Cashew, like shea, is exported raw in bags recycled from neighboring countries (mainly Ghana). Not only is marking on recycled bags misleading as to the origin of the goods, but the image of the product is also affected by poor or cheap packaging. The use of recycled packaging is primarily the result of economizing on the part of operators. It is also the result of the lack of professionalism of some exporters, who seize opportunities offered by the international market in the short term without investing in a development strategy in the longer term. All in all, it is the image of Beninese products which is affected. However, any development of the rules on product packaging should be performed in close consultation with the various professions in the sector. It should not, however, burden the competitiveness of exports, for example through the tightening of regulations on packaging.

5.5 Looking ahead

The diversity of the Beninese agricultural sector offers strong growth potential for local industry and agro-industrial exports. Historically, cotton has been the basis for the development of the Beninese
industrial fabric. Its drag effects on the ginning, crushing and spinning industries are very important for the Beninese economy. More recently, the processing of fruits and vegetables (pineapples), cashew and shea provides exciting new perspectives in terms of value creation and export. These agro-industrial sectors remain fragile and vulnerable to international market fluctuations. This is the case of the cotton sector, which suffered from low international prices during the 2000s. More generally, all the markets of agricultural raw materials entered a period of high volatility in the late 2000s. In 2014, these markets were more profitable than they were ten years ago but uncertainty about future prices remains strong.

Agro-industrial sectors in Benin are also undermined by the weakness of institutions and the legal and judicial framework. This is particularly true in the cotton sector, which is threatened by the collapse of the institutional arrangements put in place gradually since 1994, and the brutal eviction from the private sector of primary processing in 2012/2013. In 2013/14, the entire cotton industry is once again tightly controlled by the State, from managing inputs to supplying crushers with cotton, and the organization of transport. Besides the fact that the current mode of organization of the cotton sector is certainly not the most efficient, the insecurity of property rights created by the brutal intervention of the State in the sector is not likely to reassure and attract future private investors.

The sustainable development of agro-industrial sectors in Benin therefore entails putting in place a regulatory and institutional framework for the market to function efficiently. This also involves strengthening the capacity of stakeholders and investing in public goods and services. The following recommendations are along these lines, and specifically concern the cashew, pineapple and shea sectors. The recommendations specific to the cotton sector were presented at the end of the analysis section on cotton.

5.5.1. Institutions for the development of agro-food chains

The preceding analyses have highlighted a number of failures in the regulatory framework surrounding transactions within the sectors studied. The areas for improvement that are set out below should be discussed, clarified and developed for each sector within a framework of consultation involving all stakeholders and public authorities.

**Strengthening of professional and inter-professional organizations**

The strengthening of professional and inter-professional organizations is a prerequisite for most regulatory measures whose purpose is to define the "rules of the game" for the proper conduct of commercial transactions within sectors. Professional organizations are places of dialogue within each occupation (producers, processors, exporters). It is essential to strengthen them so that they can play an active role with the Government in the definition of sectoral policies. Acting as a spokesperson of interest groups in the sector before the Government, a strong inter-professional association is essential to change regulations, implement quality discipline, promote products in foreign markets, develop other sources of added value, but also develop contracts between partners in the sector.

**Defining a national quality policy and streamlining the institutional framework for quality**

Significant actions have been taken by the Beninese Government to strengthen the sanitary quality of products placed on the Beninese market, and exported products, mainly through the creation of LCSSA and ABSSA. It is important that the actions taken in this area are completed. In particular, LCSSA accreditation allows exporters of food products to offer their customers an internationally recognized certificate. It is also important that the creation of the ABSSA takes a concrete form. This
is an opportunity, in a context where public resources are scarce, to streamline the institutional framework and to increase efficiency. Beyond that, it is important that Benin define a national quality policy that fits into the regional quality policy (ECOQUAL) implemented at the ECOWAS level. The quality of products is an issue from the field to the final consumer. It is therefore essential to review the consistency of the overall regulatory and institutional framework for quality and clearly define the respective roles of the various departments and agencies.

**Statistical information system: strengthening agricultural statistics**

It is fundamental for the definition and evaluation of agricultural policies to have reliable and efficient statistical tools. However, the above sectoral analyses have shown that some sectors, such as cashew and shea, fall totally outside the remit of the current statistical system. Due to a lack of human capital and material resources, the data collection system is inefficient, and the data unreliable. Efforts are underway to strengthen the current system with the assistance of the FAO. It is important to continue to support these activities but also strengthen the collection of data on trade in agricultural products. Indeed, inconsistencies are numerous depending on the sources (INSAE, Customs, CAP, etc.) so it is difficult or impossible to properly understand agricultural exports.

**5.5.2. Strengthening the capacity of stakeholders and promoting products**

Training and information needs are huge and affect all stakeholders in the industry: producers, processors, workers, traders and exporters. Farmers need to be guided in the choice of technical pathways, and trained in new practices. The level of education and training of the workforce employed in processing units is extremely low. Similarly, expertise in business management and marketing is rare. The focus here is on building the capacity of agents downstream. Indeed, development projects in the agricultural sector often focus too much on the upstream part of the sector, the production stage, and ignore the area of marketing and processing. This is the case in the field of training and access to information, though the needs of stakeholders in the commercial and industrial sector remain extremely important.

**Strengthening the managerial capacity of entrepreneurs**

Information needs are immense in the field of tax regulations, customs, labor laws, etc. The poor mastery of foreign languages, especially English, is also seen as a handicap by many exporters. The State, with the assistance of ABePEC and / or the Chamber of Commerce and Industry of Benin (CCIB), could develop targeted training elaborated with representatives of professional organizations that are open to private sector operators and cooperatives in order to strengthen management, marketing and language skills, etc.

**Strengthening systems for information on production techniques and markets**

Access to information is a priority for most stakeholders in the industry: access to technical information on best farming practices, access to market information and external market conditions (prices, standards, consumer tastes, etc.). It is the responsibility of ABePEC and consular chambers to provide professional organizations with as much information as possible on production techniques, markets, etc. and to encourage fact-finding trips to foreign countries that include representatives of all stakeholders in an industry.
Helping companies obtain quality certification

The Belgian Cooperation supports thirty Benin SMEs in the food sector in the introduction of international control systems such as GHP (Good Hygiene Practices), GMP (Good Manufacturing Practices), HACCP (Hazard Analysis Critical Control Points) and traceability. Among these companies are producers of pineapple juice, exporters of cashew kernel and shea by-products. This type of action is obviously very important for their access to foreign markets and should be encouraged.

5.5.3. Investing in agricultural support services

The development of the agro-industrial sector faces specific obstacles related to the fact that processing units must, to reduce transport and storage costs, be located near production areas, therefore in rural areas, where public services are particularly poor.

Strengthening infrastructure and public services in key areas of agricultural production will help meet the need to not only encourage the establishment and development of food processing enterprises, but also to increase the profitability of the activities of the sector overall.
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