
COUNTRY PRIVATE SECTOR DIAGNOSTIC

# CREATING MARKETS IN BENIN

Leveraging Private Investment for Inclusive Growth

*Executive Summary*

March 2023

WORLD BANK GROUP
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# EXECUTIVE SUMMARY

**Benin enjoyed high growth in the 2010s, which did not translate into major poverty reduction.** When the COVID-19 outbreak began in March 2020, the economy was growing but was weakly productive. Strong reliance on commodity exports (cotton and cashews) and transit trade with Nigeria make Benin's economy vulnerable to external shocks and changes in trade policy. The widespread informality of the country's private sector and its limited use of recent technologies further restrict gains in productivity and reinforce overreliance on external growth drivers. Low levels of foreign direct investment spillover from existing ones also hamper productivity.

**Geographical and cultural assets, as well as a strong reform momentum, offer huge opportunities for more inclusive and sustainable growth in the country.** Benin is a small, open economy with fertile agricultural land that offers potential for further private sector–driven expansion of agribusiness in fruits and vegetables for export to the regional and European markets. Access to markets and improved productivity can have a large effect on development because nearly 40 percent of employment is in the agribusiness sector. Benin's geographical proximity to Nigeria represents an opportunity—now only partially used—to develop a more solid tourism sector following the COVID-19 shock, with potential to further expand toward international heritage tourism in the longer run. Benin's location at the crossing of two important regional corridors, Abidjan-Lagos and Cotonou-Niamey, calls for the private sector to reap the full benefits of business relationships at the regional level. The partial reopening of the border with Nigeria in December 2020 and the ongoing negotiations on the African Continental Free Trade Area (AfCFTA) provide a significant opportunity for regional integration.

**For these opportunities to materialize, Benin needs further structural reforms to overcome five major constraints.** To develop a more productive and competitive private sector able to generate quality jobs, Benin needs to address (a) limitations in access to finance that constrain firms' investment and (b) the largely unreliable and expensive energy supply, which greatly exceeds global benchmarks. Infrastructure is a critical enabler for development, typically with telecommunications and electricity having the largest impact. It is thus critical for Benin to improve its (c) digital and physical connectivity. Improving the former will help the country take advantage, when possible, of the latest technological advances to improve competitiveness and resilience. The latter will help Benin maximize the benefits of its geographical position as a trade corridor, providing access to the Port of Cotonou for landlocked neighboring countries and access to markets for its own produce. For the alleviation of these constraints to be truly effective, Benin will finally need to properly tackle its (d) difficult business environment and strengthen the (e) skill level of its workforce.

**A key for Benin is to turn its current strong reform efforts into effective implementation and results.** The swift socioeconomic response plan to the pandemic and the continuation of large public infrastructure projects are powerful tools to support the recovery. The government has devoted considerable effort to improving its business environment and trying to attract foreign and domestic private investments at all levels. There is, however, a gap between the reforms introduced to improve the business environment and their impact on businesses. Representatives of the domestic private sector point to a lack of support for entrepreneurs as they embark on the path of formalization, beyond the initial steps of business registration. More needs to be done on sustained communication and implementation, to help and support firms with gaining access to finance, markets, and skills. Although the government should continue to update and implement its reform action plans, it should also address the root causes of the inconsistencies including uncertainty, transparency, and the limited institutional capacity of support institutions. Two measures have the potential to provide support: in 2022, the government created an agency for the development of small and medium enterprises (SMEs) and is expected to enact a law for SMEs Promotion and Development that seeks to provide incentives. In addition, special economic zones (SEZs) are considered by the government as an affordable instrument to generate agglomeration effects, provide a suitable business environment to firms, and pilot business climate reforms when countrywide reforms are difficult.

**Effective deployment of existing tools, combined with reforms to support innovative products, can respond to firms' number one constraint, which is access to finance.** Benin's financial sector has relatively limited depth and has difficulties serving the private sector. Beninese authorities have established financing mechanisms and a national framework of action to mitigate these challenges, but limited financing has effectively been channeled to firms. Efficient deployment of public financial instruments, combined with a more comprehensive credit information system, will help de-risk commercial financing. As mobile money takes off, digital financial services represent an untapped potential, for which the regulatory framework is not adapted (for example, poor interoperability, weak supervision, and lack of public-private dialogue). Leasing and warehouse receipt financing could offer additional options for financing of agricultural firms if local banks' business models were adapted for the former, and if the regulatory framework were deployed for the latter.

**Bringing private sector expertise and funding, especially in infrastructure, can also be a solution to counter weakly performing public investments.** The authorities promoted public-private partnerships (PPPs) as a mean of financing for 61 percent of planned investment in the first Government Action Program (2016–21) and have set the target at 52 percent for the second Government Action Program (2021–26). For example, to boost the profitability of the Port of Cotonou, the government opted for a PPP, delegating management to the Port of Antwerp International. However, in its current form, the legal framework still has shortcomings when compared with international best practices, including the lack of specific budgetary control during execution and of rules regulating unsolicited proposals. Because funding is limited, a strong institutional/regulatory framework and a careful investment-pipeline evaluation based on economic returns are paramount.

**If ongoing reforms in the energy sector are implemented, access to electricity, the second most important obstacle to firms' operations, would significantly improve.** The costs required to get an electricity connection are prohibitive. In the future, the average cost of electricity supply should decline, thanks to the implementation of the least-cost production plan and the recent shift toward the domestic generation of clean energy. The ongoing implementation of a financial recovery plan for the electricity sector over the period 2019–22 also offers a credible path to improving the viability of the sector. However, there is still cause for concern. The dissolving of the binational power transmission utility Communauté Électrique du Benin (CEB), currently in discussion between Benin and Togo, will pose significant risk to the security of assets and threatens the integrity of the transmission network's operations.

**Digitization is a must for opportunities in tourism and trade to materialize, but Benin has not yet leveraged its potential.** The government of Benin has launched an ambitious digital strategy and taken action to boost digital connectivity, which was further highlighted in importance by the COVID-19 pandemic. For these efforts to be fully effective, an adequate competition dynamic is essential. The extension of the scope of Société Béninoise d'Infrastructures Numérique created risks in three segments of the market (mobile, fiber, and international) that threaten the affordability of digital services and innovation. In addition, the entry of telecom towers companies (towercos) could be a tangible solution to the lack of financing that has been slowing the reduction of the digital divide. Further clarifications on the new legal framework and regulatory decree for sharing broadband infrastructure could increase investments in fiber and fourth generation (4G) towers by mutualizing operators' costs. For the digital economy to translate into jobs and productivity increases, the government should implement priority policy actions for digital skills development recommended by both the World Bank Digital Economy for Africa (DE4A) for Benin and the Benin Strategy on Technical and Vocational Training (2019–25).

**The government recognizes the importance of improving transport infrastructure to make Benin a prime transit hub connecting coastal and landlocked countries to its north.** Benin provides the shortest transport route to Niamey in Niger and is a competitive option for goods destined for northern Nigeria and other countries in the Sahel region. The Port of Cotonou (PAC) acts as a critical point of entry for ocean freight and, though its performance has improved in the past decade, more needs to be done for it to catch up with regional competitors. In this context, Benin is positioning itself as a transit hub (as opposed to a transshipment hub such as Togo) and a gate between West and Central Africa. The successful implementation of the 2021–26 Master Plan for the PAC is critical to maintaining regional competitiveness toward that goal. Still, the poor condition of roads, together with inefficient trucking services, increases the cost of commerce and limits market access for agricultural exports. Benin needs to improve the market structure to enable multimodal transportation, starting with solving legal disputes related to the operation and extension of the rail freight system.

**Boosting the competitiveness of corridors from Benin to the hinterland is an opportunity to transform transport corridors into economic corridors.** Although illicitly collected fees and the average waiting time at border crossings are among the lowest for the Cotonou-Niamey corridor compared with other routes in the region, they remain important. Recent efforts to reduce barriers to trade, such as the two operational one-stop border posts, which aim to streamline border crossing procedures, have shown promising results for trade facilitation. The market structure of trucking services, characterized by fragmentation, inefficiencies, and asymmetry of information, also reduces competitiveness. This state of the market structure calls for an update of regulatory and legislative frameworks for transport companies, professionalization of the sector, and well-designed incentives to spur consolidation, innovation, and performance. The development of complementary services, such as digitized logistics solutions and cold chain logistics, provides another avenue for strengthening Benin's position. Modernizing the professional transport industry would enable higher levels of competition.

**Win-win cooperation with neighboring Nigeria could support business activities to serve that market of 206 million people.** Important volumes of informal trade, as well as the resilience of traders to Nigeria's sudden policy changes, are suggestive of strong trade ties across the border that may be able to adapt to changing circumstances. Offering better business conditions on the Benin side of the border could pave the way for future commercial relations that do not rest on evasion of regulations. For Benin, better cooperation with Nigerian customs may enable better enforcement, thus compensating for the loss of the taxes on reexport trade. This cooperation could be a win-win: Benin gradually would escape the stronghold of reexport trade by helping Nigeria apply its own regulation, while, through cooperation with Nigeria, it would open the possibility of obtaining better treatment of Benin traders. The political economy of entrepôt trade also needs to be considered to facilitate more legitimate businesses serving the Nigerian market and thus creating new business opportunities.

**Benin's tourism sector could benefit from transborder tourism from its neighbor and from demand for cultural heritage and nature-based tourism if the government transitions to a private sector–led development model.** Benin's tourism is currently primarily based on regional visitors, with business spending representing its largest share of receipts. However, demand has stagnated for years because of a poor product-market fit, weak packaging and distribution linkages, and a lacking strategic approach to market development. These challenges are being overcome as the government invests heavily in structuring its tourism sector and improving its offering. As the focus shifts from structuring to growing the tourism sector, the government should take the role of facilitator by focusing on demand creation and market-driven product development, building local private sector capacity, and reducing barriers to foreign direct investment. Although the government acknowledges the need to focus on these priorities, actual engagement has lagged. Evidence from similar countries shows that long-term, consistent, and concerted efforts in positioning and promoting a destination are required before it becomes established. This market development, combined with technology adoption and increased investment in skills, would help Benin set the stage to focus on high-value international niches of culture, beach, and nature-based tourism in the medium term.

**To overcome vulnerabilities to external shocks, Benin needs to diversify agricultural exports.** The government's strategic programs have contributed to increasing yields and the sector's growth over the past five years but may have led to market distortions. The interventions that lead to the concentration of production in crops subject to volatility in global markets, and where farmers are price takers from large international buyers, need to be phased out. In the short term, products with high yields and export prospects (pineapples, soybeans, shea nuts, and oil palm fruits) offer the best opportunity for rapid value generation. For the full potential of exported and emerging commodities to materialize, better availability and affordability of crop-specific inputs (seeds, seedlings, and fertilizers) are needed, including by further liberalizing sourcing of fertilizers. Government support is high but has not been targeted appropriately while research and development capacity is insufficient.

**Better market access would unlock the potential of competitive nontraded products in the medium term.** This access would require better promotion and market intelligence, which can be improved by strengthening the Agency for the Promotion of Investment and Exports. High-value perishable products require efficient cold chain logistics, quality infrastructure, and trade processes that are largely missing. If those reforms are adequately implemented, the AfCFTA could facilitate intra-Africa trade for Benin to serve the large Nigerian and regional markets. Opportunities also exist in segments of horticulture that are less permeable to international pressures, such as fresh food crops. The demand for vegetables is growing, and Benin's low engagement in this segment points to challenges in cold chain logistics. It calls for strategic investment in roads and cold chain infrastructure, stronger national quality infrastructure, and the adoption of post-harvesting operating procedures. The role of the logistics platform is important for exporting because aggregating products across processors could facilitate access to containers, which have become significantly less available because of COVID-19.

**With adequate support at the farm level, low-yield products can better serve domestic demand.** Despite unmet domestic needs in the animal sector, low-yield products would require significant efforts to compete with imports. The productivity of agriculture more broadly would benefit from better enforcement of land regulations and expansion of irrigation infrastructure, as well as better access to finance, organization of value chains, and provision of extension services. Processing is also limited because of difficulties in access to equipment, crops, and packaging.

The Country Private Sector Diagnostic seeks to identify short- to medium-term solutions to removing bottlenecks to private sector development and investment mobilizing by thorough economic and strategic analysis. Detailed recommendations are made in the report. Table ES.1 provides a synthesis of these recommendations from a strategic perspective.

**TABLE ES.1 MATRIX OF PRIORITY RECOMMENDATIONS TO FOSTER PRIVATE INVESTMENT**

| | | |
|---|---|---|
| **ENABLING** | Strengthen the PPP framework, create a knowledge-sharing mechanism to improve capacity to mobilize the private sector, and establish a pipeline of potential PPPs. | Short |
| | Foster interoperability in digital payment services across financial service providers and the underlying financial infrastructure. | Quick win |
| | Design and implement an action plan for the enforcement of the 2015 OHADA Insolvency Act to address weaknesses in the insolvency regime, such as delays and low recovery rates. | Short to medium |
| | Strengthen the regulatory power of the microfinance supervisor to improve trust in financial service providers and leverage these financial intermediaries for effective deployment of public programs. | Short to medium |
| | Improve the availability and quality of credit history information and extend the pool of available collateral by better implementing the land administration system and cadastre as well as establishing an efficient, secured lending regime for using movable property collateral. | Short |
| | Design a clear roadmap and financing strategy regarding the binational transmission utility CEB, whose dissolution would pose significant risk to the security of assets and transmission. | Short |
| | Facilitate the successful implementation of the Port of Cotonou's 2021–26 Master Plan, including competitive transfer of activities to the private sector, to maintain competitiveness. | Short to medium |
| | Design a strategic master plan for air connectivity to ensure complementarities between the new Glo-Djigbé airport and the existing Cotonou airport with ongoing renovation work. | Short to medium |
| | Resolve the ongoing issues regarding the outstanding concession for the Benin-Niger railways. | Short |
| | Implement the recommendations of the 2021 World Bank Digital Economy Assessment related to digital infrastructure and skills. | Medium |
| **AGRIBUSINESS** | Strengthen the operational efficiency of FONAGA and FNDA so programs are in place to better target farmers and SMEs, and effectively channel financing to a larger pool of agricultural actors. | Short |
| | Identify the bottlenecks that limit the offering of leasing services by domestic financial institutions and design the regulatory framework for warehouse receipt financing. | Medium |
| | Conduct an in-depth assessment of the system of distribution and financing of fertilizers to identify bottlenecks to the access of suitable, safe, and organic products. | Short |
| | Scale up strategic investments in rural roads and cold chain infrastructure, following the cascade principle to leverage private sector expertise and funding, to improve market access. | Medium to long |
| | Strengthen capacity of the APIEX through the training of staff on strategic market analysis and monitoring, and design partnerships with the ATDAs for the effective delivery of off-farm public services. | Short |

Note: APIEX = Agence de Promotion des Investissements et Exportations; ATDAs = Agence Territoriales de Développement Agricole; CEB = Communauté Électrique du Benin; FNDA = National Fund for Agricultural Development; FONAGA = National Guarantee and Small and Medium Enterprise Assistance Fund; OHADA = Harmonization of Business Law in Africa; PPP = public-private partnership.

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| **TOURISM** | Structure, finance, and implement the Benin Tourism Marketing Agency to lead national-level promotions and campaigns toward the Nigerian and niche international markets, informed by the development of a market intelligence platform. | Short |
| | Create a public-private commission to study and better communicate ways to integrate the local private sector in flagship tourism projects, while ensuring they have a clear product-market fit and demand rationale. | Short |
| | Increase transparency in access to land and investment opportunities in tourism zones, particularly the highly regulated coastal areas, while ensuring the respect of environmental and social safeguards for all new investments. | Short |
| | Improve the land border crossing experience and better communicate border openness and protocols. | Short |
| | Foster the adoption of new technologies by firms in the tourism sector and their integration into digital platforms to capture the growing share of digital booking channels for tourism. | Medium |
| **TRADE AND NIGERIA** | Implement trade facilitation reforms, such as automating and digitizing trade processes, reinforcing custom teams with English-speaking staff, enforcing trucking regulations, developing data exchange between customs and immigration authorities, and enhancing cooperation with Nigerian customs. | Medium |
| | Modernize the transport industry by enabling higher levels of competition through revisions of regulatory and legislative frameworks for transport companies and reinforced oversight. | Short |
| | Establish a transparent framework for freight allocation by revising the allocation mechanism to correct the information asymmetry between shippers and carriers. | Short |

Note: SMEs = small and medium enterprises.

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