

UNCLASSIFIED

United States
Agency for International Development

Benin: Economic Support Program (BESP)

PAAD/Program: 680-0205 / 680-K-601

February, 1991

Amount: U.S. \$1,357,275
Date: February 21, 1991

BEST AVAILABLE

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON D C 20523

ASSISTANT
ADMINISTRATOR

ACTION MEMORANDUM FOR THE ACTING ASSISTANT ADMINISTRATOR FOR AFRICA

FROM: Timothy J. Bork, *TJB* AFR/PD

SUBJECT: The Benin Economic Support Program (BESP), 680-0205,
680-K-601

I. Problem

Your approval is requested for a grant of \$1,357,275 from the ESF account to the Government of Benin (GOB) to implement an economic support program as described below. The planned obligation for FY 1991 is \$1,357,275.

II. Discussion

A. Background

In late 1989, the Government of Benin began making major economic and political changes with the abandonment of a Marxist-Leninist philosophy, the drafting of a new constitution and the scheduling of multi-party elections in order to return the country to a sustainable economic and democratic system.

Following major political changes, the Government of Benin has created the socio-political conditions needed to establish and implement a financial and economic structural adjustment reform program. The economic changes involve a number of areas including reducing the role of the public sector in the economy while increasing the role of the private sector, strengthening the public sector's capacity to manage resources, improving the allocation of investible resources, restoring an effective banking system and removing policy and regulatory constraints to improve performance of various sectors. The expected impact of the stabilization effort is three-fold: (1) the GOB will increase its revenues; (2) reduce expenditures and; (3) reduce the public sectors' role in productive activities. Increased revenues and lower expenditures will result in a narrowing of the GOB budget deficit. These attempts to restore internal equilibrium with regard to the fiscal deficit, and external equilibrium in the balance of payments are preconditions to the eventual resumption of economic growth.

A.I.D. does not have an operational country strategy for Benin. Thus, U.S. economic assistance to Benin during the past decade has been very limited. Staff are aware of several areas in which policies could be improved. However, there has been no analysis of which policies are the most constraining for the achievement of sustainable economic growth. Given Benin's need for assistance, we have chosen to support the structural adjustment program (SAP) designed by the GOB in consultation with the IMF and the World Bank. The proposed A.I.D. activity, the Benin Economic Support Program (BESP), supports the economic reform program of the World Bank, IMF and the community of donors.

The most immediate requirement under the structural adjustment program for Benin's return to economic health is the need to address the severity of the external debt situation. Thus, the most appropriate use of assistance resources for economic stabilization at this time is to help the GOB meet its balance of payments obligation.

B. Project Description

Essentially, the project provides some modest but important near-term cash flow relief for the GOB as the country fulfills its firm commitment to reduce the public sector and increase the private sector's role in the economy.

A cash transfer in the amount of \$1,357,275 will be made to the Government of Benin in support of the GOB's program of economic stabilization. This cash transfer constitutes the U.S. bilateral contribution to the residual gross financing gap for Benin's exceptional financing requirements under the structural adjustment program for 1990. It is part of a multi-donor effort to assist the Government of Benin to successfully implement stabilization measures which will restore equilibrium in the balance of payments and allow a resumption of sustainable economic growth.

Under the proposed terms of the BESP, the transfer of funds will be made in one tranche of \$1,357,275. However, the actual disbursement of funds will be subject to the review and approval by A.I.D. of the GOB list of proposed debt service payments to multiple institutions.

C. Financial Plan

The total funding will be \$1,357,275 from the ESF account. The funds will be fully obligated in FY 1991.

D. Committee Action and Findings

The Project Committee has reviewed the PAAD and found that there were no issues. However, the following should be noted:

1. Debt Payment - Even though this ESF cash disbursement will be used for debt service on multilateral loans, GC/AFR noted that there exists a second tranche (\$9.0 million) of the U.S. direct loan which is to be forgiven in December, 1990 contingent upon satisfactory SAP performance. Should there be a problem with SAP performance, the issue of the use of ESF funds may be reconsidered.

2. Disbursement and tracking - The Project Committee reviewed disbursement mechanisms for the cash transfer. The committee was cognizant of Section 575(b) of the Foreign Operations, Export Financing, and Related Programs Appropriations Act, 1991, which states that countries receiving cash transfers or cash disbursing non-project sector assistance, whether DA, DFA, or ESF financed, are required to set up separate accounts for receipt of such funds and prohibit commingling them with other funds [Section 575 (b) (1)]. The intent of this statutory requirement is to improve accountability for dollar resources provided to host governments.

The disbursement mechanism A.I.D. normally uses for countries which are part of the West Africa Monetary Union (WAMU) involves the transfer of dollars to the host government's account at the WAMU "central bank" (known as the BCEAO). The BCEAO converts the dollars to FCFA, a convertible currency, and the FCFA are provided to the host government. The host government establishes a separate account for these FCFA. A.I.D. then tracks FCFA to their end use in lieu of dollars. This system is necessary because under WAMU rules the member governments cannot establish and hold any foreign exchange accounts in their own name either domestically or off-shore. Benin is one of seven West African country members of the WAMU.

Although the above mechanism for complying with the dollar tracking may be workable (though burdensome) for most cash transfers to WAMU countries, this mechanism would be most cumbersome where, as proposed in the Benin ESF program, the assistance provided will be disbursed in a single tranche to repay multilateral debt. The reason is that in order to pay a multilateral institution, another step would be required in the sequence of events described in the above paragraph which would require the once-converted FCFA to be reconverted back to dollars, where the whole process started, in order to effect payment to a multilateral institution.

Therefore, a direct disbursement by A.I.D. to the multilateral institution would meet the intent of Section 575(b), according to GC/AFR, to no lesser a degree than the complex disbursement described previously, which does not literally track dollars in any event. A discussion of the direct disbursement approach proposed herein has been included in the Congressional Notification.

The Project Committee believes that the direct U.S. dollar disbursement option satisfies the statutory intent of Section 575(b) of the Act as A.I.D. maintains complete accountability for the resources being transferred on behalf of the host government. A.I.D.'s disbursing directly to the multilateral institution, greatly simplifies the system and there is a significant savings in the transaction costs one would encounter under the normal WAMU disbursement system. While the WAMU disbursement system used by A.I.D is appropriate for larger, more complex programs, it is not the preferred system for the Benin ESF Program.

3. Human Rights - No human rights clearance is required for this program.

4. Initial Environmental Examination (IEE) - A categorical exclusion based on Sections 22 CFR 216.2(c)(1)(i), 216.2(c)(1)(ii), and/or 216.2(c)(2)(vi) was concurred with by the Bureau Environmental Officer on November 5, 1990 and is included in the PAAD.

5. Payment Verification - Appropriate payment verification measures have been included.

6. Implementation Plan - The implementation plan for this program is realistic and establishes a reasonable timeframe for carrying out the proposed activities.

7. 611 (a) Requirements - The requirements of 611(a) have been met.

8. Conditionality - In addition to standard conditions precedent, the Program Agreement will include a specific condition which will require the GOB to furnish to A.I.D. a list of proposed debt payments.

III. Waivers: No waivers are anticipated at the present time.

IV. Congressional Notification: A Congressional Notification was prepared and sent to the Hill on December 14, 1990 and expired without objection on December 29, 1990.

Recommendation: That you sign the PAAD facesheet, thereby authorizing ESF program financing of up to \$1,357,275 for the Benin Economic Support Program (680-0205; 680-K-601), to be provided as cash transfer assistance.

Attachment: PAAD

Clearances:

AFR/PD/CCWA:AGetson (Draft)	Date: 11/05/90
AFR/PD:PGuedet (Draft)	Date: 11/23/90
AFR/CCWA:MGolden (Draft)	Date: 11/21/90
AFR/DP:MBonner (Draft) MB	Date: 11/05/90
AFR/DP:DWilson (Draft)	Date: 11/05/90
GC/AFR:PJohnson (Draft)	Date: 12/20/90
AFR/CONT:MRogal (Draft)	Date: 12/24/90
PPC/PB:RMaushammer (Draft)	Date: 11/20/90
PFM/FM/CONT:MUsnick (Draft)	Date: 12/05/90

INFO: AFR/TR:RCobb

Drafted by

AFR/PD/CCWAP:BHellyer/LJohnson: 12/17/90:CC:X69062:0612K/0695K

CLASSIFICATION

AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT (PAAD)		1. PAAD Number 680-K-601 (680-0205)	
		2. Country Benin	
		3. Category Economic Support Fund	
		4. Date	
5. To Scott M. Spangler AA/AFR		6. OYB Change Number AFR-91-31	
7. From Timothy J. Bork Director, AFR/PD		8. OYB Increase To be taken from:	
9. Approval Requested for Commitment of \$ 1,357,275		10. Appropriation Budget Plan Code 72-1111037 GESA-91-31680-JG31 (137-61-680-00-50-11)	
11. Type Funding <input type="checkbox"/> Loan <input checked="" type="checkbox"/> Grant	12. Local Currency Arrangement <input type="checkbox"/> Informal <input type="checkbox"/> Formal <input type="checkbox"/> None	13. Estimated Delivery Period	14. Transaction Eligibility Date
15. Commodities Financed N/A			
16. Permitted Source U.S. only Limited F.W. Free World Cash \$1,357,275		17. Estimated Source U.S. Industrialized Countries Local Other	

18. Summary Description

A cash transfer in the amount of one million, three hundred and fifty seven thousand, two hundred and seventy five dollars (\$1,357,275) will be made to the Government of Benin (GOB) in support of the GOB's political reform and economic stabilization program. This cash transfer constitutes and U.S. bilateral contribution to Benin's exceptional financing requirements under the World Bank and IMF supported structural adjustment program for 1990. It is part of the multi-donor effort to increase the feasibility of Benin in successfully implementing stabilization measures to restore equilibrium in the balance of payments and allow a resumption of sustainable economic growth.

The most appropriate use of assistance resources for economic stabilization at this time, therefore, is to help Benin meet its current external obligation. Debt service payments will be made on loans to multilateral institutions. Disbursement of the \$1,357,275 million cash transfer will be made in one tranche; no local currency will be deposited.

19. Clearances	Date	20. Action
GC/AFR:PJohnson (Draft)	12/20/90	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED
AFR/PD:PGuedet (Draft)	11/23/90	
AFR/CCWA:MGolden (Draft)	11/21/90	Authorized Signature: <i>Scott M. Spangler</i> Date: 2/21/91 Title: Scott M. Spangler Assistant Administrator
AFR/DP:MBonner	2/14/91	
PEM/EM/CONT:MUSnick	2/15/91	
PPC/PB:RMAusnammer (Draft)	11/20/90	
DAA/AFR:ELSalers	2/19/91	

AD 1120-1 (5-82)

CLASSIFICATION

Other Clearances on the Following Page.

Additional Clearances:

AFR/PD/CCWAP:AVGetson	<u>(Draft)</u>	DATE <u>11/5/90</u>
AFR/CONT:MRogal	<u>(Draft)</u>	DATE <u>12/24/90</u>
AFR/TR:RCobb	<u>(Info)</u>	DATE _____

PROGRAM ASSISTANCE APPROVAL DOCUMENT

BENIN ECONOMIC SUPPORT PROGRAM

680-0205/680-K-601

Benin Economic Support Program
(680-0205; 680-K-601)

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I. Executive Summary

A cash transfer in the amount of one million three hundred thousand dollars (\$1,300,000) will be made to the Government of Benin (GOB) to support the GOB's efforts at economic stabilization and political reforms. This cash transfer constitutes the principal U.S. bilateral contribution to Benin's exceptional financing requirements under the World Bank and International Monetary Fund (IMF) supported structural adjustment program for 1990-1993. It is part of the multi-donor effort to assist Benin in the implementation of stabilization measures to restore financial and economic equilibrium domestically and internationally and allow a resumption of sustainable economic, socio-political growth.

The \$1.3 million cash transfer is provided to the GOB to help meet its multilateral debt servicing obligations.

II. Background

A. Macroeconomic Framework

1. Macroeconomic Conditions and Growth Prospects

Benin has a population of roughly 4.5 million with per capita income of \$340 (revised 1988 data). Agriculture is the primary sector in the economy. Benin is self-sufficient in food and production of its principal agricultural export, cotton, has been increasing since 1982. Oil is another important export commodity (since 1983), but proven reserves are only expected to last through 1992. Benin has a considerable level of transit trade with its neighbors. However, this makes it vulnerable to their economic policies. Industrial production constitutes about 10 percent of GDP.

From independence in 1960 until 1972, Benin underwent a period of frequent changes in the government, which created an environment of extreme instability. In 1973, a single-party Marxist-Leninist government came to power and ruled until 1989. Under the Marxist-Leninist regime, economic policy in the 1970's emphasized a centrally-planned economy. Many foreign-owned businesses were nationalized and several state-owned enterprises were created, primarily in the banking, industrial, and agricultural sectors.

During the 1975-1982 period, major economic and financial difficulties occurred due to unfavorable external market developments and inappropriate domestic policies. Macroeconomic policy was excessively expansionary, based on large foreign borrowing and imprudent use of local banking credit. High capital expenditures, coupled with the spillover effects of the 1977-1980 commodity boom, generated GDP growth levels averaging 5 percent annually. However, inappropriate policies quickly reversed this trend after 1982, resulting in a period of low growth with structurally weak public finances, large balance of payments deficits, and a virtually bankrupt banking system.

Adjustment efforts began in 1983 but were insufficient given the magnitude of internal and external disequilibria. The financial situation continued to decline due to the fall in world cotton prices in 1985-86 and a protracted slump in regional transit trade since 1982. Delays in meeting the government payroll occurred in 1987-88 and the banking system became unable to honor requests for cash withdrawals and transfers abroad (about 75 percent of total outstanding loans were non-performing, with public enterprises accounting for two-thirds of the total). A new structural adjustment program supported by the IMF and World Bank began in mid-1989 to: 1) curtail the role of the public sector in the economy and increase the role of the private sector; 2) strengthen the public sector's capacity to manage its resources; 3) improve the allocation of investible resources; 4) restore an effective banking system; and 5) remove policy and regulatory constraints on the performance of various sectors.

Despite the Government's strong commitment to economic reform measures, the program has encountered serious difficulties in the form of revenue shortfalls. This has led to a renewed financial crisis which in turn has affected the ability of the Government to implement key program components. GDP growth in 1989 was a disappointing 1.4 percent. This is largely due to the continued absence of a well-functioning banking system, the reduction in incomes of large segments of the urban population due to arrears in salary payments, and a 20 percent decline in the volume of oil production.

In view of the dire situation, the Government took a major decision in December 1989 to abandon its Marxist-Leninist philosophy which conflicted with the implementation of the structural adjustment program. A new constitution is being drafted and multi-party elections are scheduled to take place in early 1991. Under the transitional government, which is convinced of the necessity of continuing the implementation of

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the structural adjustment program, significant progress has been achieved in fulfilling the specific conditions for the release of the second tranche of the structural adjustment program.

2. Balance of Payments

The current account deficit reached 25 percent of GDP during 1981-82 when the investment/GDP ratio reached 30 percent. When several large public sector projects were completed in 1983-1984, capital imports declined. Together with higher export earnings arising from the start of petroleum production and higher cotton exports, a substantial improvement was achieved in the current account balance. The current account deficit/GDP ratio declined further to an average of about 9 percent of GDP during 1985-1988 because of a further decline of imports and despite declining world market prices for cotton and crude oil in 1985-1986. Preliminary data for 1989 show a record low current account deficit/GDP ratio of about 3-4 percent due to an extraordinarily good performance of cotton output coupled with more than a 30 percent drop in commodity imports (in particular, capital goods for investment).

Benin's balance of payments is particularly difficult to forecast because of the large volume of unrecorded exports. Nevertheless, it is expected that the current account deficit/GDP ratio will rise to the 1988 level of 9.6 percent in 1990 and decline to 7.7 percent by the end of 1991. This decline in 1991 is predicated on higher output of foodstuffs, resulting in a 5-10 percent decrease in imports of food items and an increase in exports of food grains due to the liberalization of food crop marketing. As the result of a drastic decline in public investment in 1989, a relatively large level of concessional borrowing will be required in the medium-term to restore the 1988 investment/GDP ratio of 13 percent by 1991. However, the debt service ratio is projected to decline from 44 percent in 1988 to 20-25 percent in 1992, assuming new Paris Club rescheduling agreements through 1991 and future external borrowings on exclusively concessional terms. Five-year debt service projections indicate that Benin's total public and publicly guaranteed debt outstanding will increase from US\$ 925 million in 1989 to US\$ 970 million in 1993.

3. Fiscal Deficit

Policies which expanded the public sector through increased personnel and operating expenditures raised current budget expenditures from 13 percent of GDP during 1981-1984 to an average of 15 percent during 1985-1988. The overall deficit

has averaged about 9 percent of GDP during 1986-1989. The Government drew down all its deposits in the banking system to finance the deficit and became a net debtor to the banking system in 1984. As a consequence, arrears accumulated and delays in meeting the monthly payroll became frequent in 1987. Fiscal revenues dropped by more than 30 percent in 1989 and the overall budget deficit reached 10 percent of GDP. The overall fiscal deficit is projected to decline only gradually to 7 percent of GDP by 1992 as the fiscal system undergoes reform under the structural adjustment program. Measures have been introduced to achieve programmed fiscal targets, including the rationalization of taxation and expenditure as well as the reinforcement of tax administration and revenue collection. The public finance situation is likely to remain difficult in the medium term.

4. Exceptional Financing Requirements

Benin will require exceptional financing in 1990. Most of the exceptional financing requirements will be met for 1990 through public and private debt rescheduling, but there will remain a financing gap nonetheless. Total inflows needed are estimated at US\$ 789 million. Known inflows are: 1) export earnings and private transfers of US\$ 418 million; 2) official development assistance and disbursements from the existing pipeline of US \$151 million; and 3) other identified sources of financing totalling about US\$ 168 million (SPA, savings from a generous Toronto-type debt rescheduling with the Paris Club creditors in June 1989, and other expected disbursements on identified SPA co-financing and coordinated financing). The 1990 residual unfinanced gap amounts to about US\$ 52 million, which will require new commitments of US\$ 86 million (assumes that not all commitments will be disbursed in 1990).

B. Policy Framework

A.I.D. has not developed a country strategy for Benin. Thus, while staff are aware of numerous areas in which policies could be improved, there has been no analysis of which policies are the most constraining for the achievement of sustainable economic growth. Given Benin's need for assistance, we have chosen to support the structural adjustment program designed by the GOB in consultation with the IMF and the World Bank.

C. Other Donor Assistance

The IMF approved its first-year SAF program for Benin for SDR 6.26 million. Next to IDA, the EEC and the United Nations system are Benin's most important multilateral donors. France is the largest bilateral donor, followed by Germany, Norway, and Switzerland. Regional aid institutions such as the African Development Bank and Fund, the West African Development Bank and the Arab aid agencies are playing an increasingly important role as well.

The UNDP is organizing a donor's conference in late 1990 to mobilize financing for Benin's medium-term public investment program. Gross external requirements for 1990 are estimated at US\$ 789 million for imports and scheduled debt servicing.

III. Program Description

A. The Problem

Since the early 1980's, major economic and financial difficulties occurred in Benin due to unfavorable external market developments and inappropriate domestic policies. A structural adjustment program, supported by the IMF and World Bank, began in mid-1989. However, the severity of the crisis was such that Benin could not effectively implement the program given the political environment which conflicted directly with the program.

Major political changes took place in early 1990 with the abandonment of the Marxist-Leninist philosophy, drafting of a new constitution and scheduling of multi-party elections. The improved socio-political conditions have allowed for the renewal of Benin's structural adjustment program covering a period from 1990-1993. Significant progress was achieved in fulfilling the specific objectives for the release of the second tranche of the IDA's Structural Adjustment credits in June, 1990.

However, further adjustment progress will be constrained by the urgency to restore stability to public finance.

B. Purpose and Content

The A.I.D. program will consist of a \$1.3 million cash transfer to the GOB. This constitutes the U.S. contribution to the

approximately \$52 million 1990 residual gap in exceptional financing requirements identified by the World Bank and IMF for the economic stabilization program. This cash transfer will be reserved exclusively for debt service payments to multilateral institutions.

C. Impact

The cash transfer is, simply, the U.S. contribution to the residual gap in the exceptional financing requirements for 1990. Its impact, therefore, will not be independent of the effects of the GOB's efforts at economic stabilization.

D. Budget Support and Balance of Payments Implications

The cash transfer provides both budget support and balance of payments support. By providing \$1.3 million in debt service payments to multilateral institutions, the transfer will free up the equivalent in budgetary resources which can be devoted to other uses or will reduce the budgetary deficit. Alternatively, it will free up \$1.3 million in foreign exchange which can be used to meet import requirements rather than be devoted to debt service.

E. Implementation and Management Procedures

Preparation and negotiation of the Program Agreement with the GOB will be managed by the A.I.D. Representative, USAID/Togo, with assistance from REDSO/WCA. The A.I.D. Representative will be responsible for verifying that the conditions precedent to disbursement have been met and for approving the debt service payments to be made with the cash transfer resources.

F. Disbursement Mechanism

The GOB will submit, within ninety days(90) following the signing of the cash transfer grant, to USAID/Togo, the proposed debt payment to the multilateral institution. Following USAID/Togo verification (with REDSO/WCA concurrence) that the conditions precedent to disbursement have been met and approval of the proposed debt service payment to be made with the cash transfer resources, USAID/Togo (in conjunction with REDSO/WCA) will request A.I.D. to directly disburse the dollars for the approved debt service payment to the multilateral institution.

G. Dollar Uses

Para 5C of State 325792 of Oct. 24, 1987 entitled ESF Cash Transfer Assistance - Amplified Policy Guidance states "In certain instances where recipient country debt service is a significant barrier to growth and development, or where institutional arrangements may preclude the traceable use of cash transfer dollars otherwise, cash transfer assistance may be used to effect debt service payments." Both these conditions apply to Benin as a member of the West African Monetary Union (WAMU).

In December, 1989 all U.S.G. direct loans to the GOB were forgiven (approximately \$30 million). Therefore, the dollar assistance will be used for debt service payments on loans from multilateral institutions.

H. Local Currency Uses

Because the assistance will be used for external debt servicing, no local currency will be generated. The option of requesting the GOB to deposit and budget an equivalent amount of local currency was considered but rejected in order to avoid any inflationary impact which additional budgetary resources could create. In addition, because of the absence of A.I.D. staffing in Benin to provide proper monitoring of more A.I.D. activities in Benin, it was considered to be unfeasible to undertake any activities that would be more labor intensive than the proposed cash transfer.

I. Conditionality

In addition to the standard conditions precedent (legal opinion, specimen signatures, and designation of authorized representatives), the following condition precedent will in substance be included in the cash transfer agreement:

Prior to the disbursement of funds under this cash transfer agreement, the GOB will provide a list of debt service payments to A.I.D. Representative, USAID/Togo, giving the payment due dates and amounts due. The A.I.D. Representative, USAID/Togo will review the proposed debt service payments for acceptability and notify the GOB of its acceptance of the proposed debt service payments. REDSO/WCA concurrences will be obtained as appropriate.

J. Technical Assistance and Evaluation

There will be no technical assistance associated with this cash transfer.

With respect to evaluation, the Agency will monitor World Bank and IMF documents which report the status of the structural adjustment program to determine whether the GOB is achieving its objectives in the efforts at economic stabilization.

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ANNEXES

ANNEX 1

IEE

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ANNEX 1

Initial Environmental Examination

Country: Benin

Program Title: Benin Economic Support Program

Funding: \$1.3 million (FY - 1991)

IEE Prepared by: Robert Hellyer, AFR/PD/CCWA

Environmental Action Recommended:

Positive Determination	_____
Negative Determination	_____
Categorical Exclusion	<u>XXX</u>

Program Description:

The Benin Economic Support Program (BESP) is designed to support the Government of the Benin's economic stabilization program. The BESP, which will consist in a cash transfer to finance debt service, constitutes the principal U.S. bilateral contribution to the G.O.B.'s exceptional financing requirements under the World Bank and IMF supported structural adjustment program.

Summary Findings:

All of the activities to be undertaken under this program are categorically excludable pursuant to the provisions of 22 CFR 216.2(c)(1)(i), 216.2(c)(1)(ii), and/or 216.2(c)(2)(vi). The activities will not have an effect on the natural or physical environment. On the basis of the above, a categorical exclusion is recommended.

Approval:

Africa Bureau

Environmental Officer: John Gaudet

Approved: _____

Disapproved: _____

Date: 5 November 1990

Clearance:

GC/AFR: Pauline G. Johnson

Pauline G. Johnson

Date: 8 Nov 90

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ANNEX 2

Statutory Checklists (Country and NPA)

COUNTRY CHECKLIST

A. GENERAL CRITERIA FOR COUNTRY ELIGIBILITY

1. FY 1990 Appropriations Act Sec. 569(b). Has the President certified to the Congress that the government of the recipient country is failing to take adequate measures to prevent narcotic drugs or other controlled substances which are cultivated, produced or processed illicitly, in whole or in part, in such country or transported through such country, from being sold illegally within the jurisdiction of such country to United States Government personnel or their dependents or from entering the United States unlawfully? No

2. FAA Sec. 481(h); FY 1990 Appropriations Act Sec. 569(b). (These provisions apply to assistance of any kind provided by grant, sale, loan, lease, credit, guaranty, or insurance, except assistance from the Child Survival Fund or relating to international narcotics control, disaster and refugee relief, narcotics education and awareness, or the provision of food or medicine.) If the recipient is a "major illicit drug producing country" (defined as a country producing during a fiscal year at least five metric tons of opium or 500 metric tons of coca or marijuana) or a "major drug-transit country" (defined as a country that is a significant direct source of illicit drugs significantly affecting the United States, through which such drugs No

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are transported, or through which significant sums of drug-related profits are laundered with the knowledge or complicity of the government): (a) Does the country have in place a bilateral narcotics agreement with the United States, or a multilateral narcotics agreement? and (b) Has the President in the March 1 International Narcotics Control Strategy Report (INSCR) determined and certified to the Congress (without Congressional enactment, within 45 days of continuous session, of a resolution disapproving such a certification), or has the President determined and certified to the Congress on any other date (with enactment by Congress of a resolution approving such certification), that (1) during the previous year the country has cooperated fully with the United States or taken adequate steps on its own to satisfy the goals agreed to in a bilateral narcotics agreement with the United States or in a multilateral agreement, to prevent illicit drugs produced or processed in or transported through such country from being transported into the United States, to prevent and punish drug profit laundering in the country, and to prevent and punish bribery and other forms of public corruption which facilitate production or shipment of illicit drugs or discourage prosecution of such acts, or that (2) the vital national interests of the United States require the provision of such assistance?

3. 1986 Drug Act Sec. 2013. (This section applies to the same categories of assistance subject to the restrictions in FAA Sec. 481(h), above.) If recipient country is a "major illicit drug producing country" or "major drug-transit country" (as defined for the purpose of FAA Sec 481(h)), has the President submitted a report to

No

Congress listing such country as one:
(a) which, as a matter of government policy, encourages or facilitates the production or distribution of illicit drugs; (b) in which any senior official of the government engages in, encourages, or facilitates the production or distribution of illegal drugs; (c) in which any member of a U.S. Government agency has suffered or been threatened with violence inflicted by or with the complicity of any government officer; or (d) which fails to provide reasonable cooperation to lawful activities of U.S. drug enforcement agents, unless the President has provided the required certification to Congress pertaining to U.S. national interests and the drug control and criminal prosecution efforts of that country?

4. FAA Sec. 620(c). If assistance is to a government, is the government indebted to any U.S. citizen for goods or services furnished or ordered where:
(a) such citizen has exhausted available legal remedies, (b) the debt is not denied or contested by such government, or (c) the indebtedness arises under an unconditional guaranty of payment given by such government or controlled entity?
5. FAA Sec. 620(e)(1). If assistance is to a government, has it (including any government agencies or subdivisions) taken any action which has the effect of nationalizing, expropriating, or otherwise seizing ownership or control of property of U.S. citizens or entities beneficially owned by them without taking steps to discharge its obligations toward such citizens or entities?

No

No

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6. FAA Secs. 620(a), 620(f), 620D; FY 1990 Appropriations Act Secs. 512, 548. Is recipient country a Communist country? No
If so, has the President: (a) determined that assistance to the country is vital to the security of the United States, that the recipient country is not controlled by the international Communist conspiracy, and that such assistance will further promote the independence of the recipient country from international communism, or (b) removed a country from applicable restrictions on assistance to communist countries upon a determination and report to Congress that such action is important to the national interest of the United States? Will assistance be provided either directly or indirectly to Angola, Cambodia, Cuba, Iraq, Libya, Vietnam, South Yemen, Iran or Syria? No
Will assistance be provided to Afghanistan without a certification, or will assistance be provided inside Afghanistan through the Soviet-controlled government of Afghanistan? No
7. FAA Sec. 620(j). Has the country permitted, or failed to take adequate measures to prevent, damage or destruction by mob action of U.S. property? No
8. FAA Sec. 620(l). Has the country failed to enter into an investment guaranty agreement with PIC? No
9. FAA Sec. 620(o); Fishermen's Protective Act of 1967 (as amended) Sec. 5. (a) Has the country seized, or imposed any penalty or sanction against, any U.S. fishing vessel because of fishing activities in international waters? No
(b) If so, has any deduction required by the Fishermen's Protective Act been made?

10. FAA Sec. 620(q); FY 1990 Appropriations Act Sec. 518 (Brooke Amendment). (a) Has the government of the recipient country been in default for more than six months on interest or principal of any loan to the country under the FAA? (b) Has the country been in default for more than one year on interest or principal on any U.S. loan under a program for which the FY 1990 Appropriations Act appropriates funds? No
11. FAA Sec. 620(s). If contemplated assistance is development loan or to come from Economic Support Fund, has the Administrator taken into account the percentage of the country's budget and amount of the country's foreign exchange or other resources spent on military equipment? (Reference may be made to the annual "Taking Into Consideration" memo: "Yes, taken into account by the Administrator at time of approval of Agency OYB." This approval by the Administrator of the Operational Year Budget can be the basis for an affirmative answer during the fiscal year unless significant changes in circumstances occur.) Yes
12. FAA Sec. 620(t). Has the country severed diplomatic relations with the United States? If so, have relations been resumed and have new bilateral assistance agreements been negotiated and entered into since such resumption? No
13. FAA Sec. 620(u). What is the payment status of the country's U.N. obligations? If the country is in arrears, were such arrearages taken into account by the A.I.D. Administrator in determining the current A.I.D. Operational Year Budget? (Reference may be made to the "Taking into Consideration" memo.) Benin is in arrears by about \$263,000
Yes

14. FAA Sec. 620A. Has the President determined that the recipient country grants sanctuary from prosecution to any individual or group which has committed an act of international terrorism or otherwise supports international terrorism? No
15. FY 1990 Appropriations Act Sec. 564. Has the country been determined by the President to: (a) grant sanctuary from prosecution to any individual or group which has committed an act of international terrorism, or (b) otherwise support international terrorism, unless the President has waived this restriction on grounds of national security or for humanitarian reasons? No
16. ISDCA of 1985 Sec. 552(b). Has the Secretary of State determined that the country is a high terrorist threat country after the Secretary of Transportation has determined, pursuant to section 1115(e)(2) of the Federal Aviation Act of 1958, that an airport in the country does not maintain and administer effective security measures? No
17. FAA Sec. 666(b). Does the country object, on the basis of race, religion, national origin or sex, to the presence of any officer or employee of the U.S. who is present in such country to carry out economic development programs under the FAA? No
18. FAA Secs. 669, 670. Has the country, after August 3, 1977, delivered to any other country or received nuclear enrichment or reprocessing equipment, materials, or technology, without specified arrangements or safeguards, and without special certification by the President? Has it transferred a nuclear explosive device to a non-nuclear weapon state, or if such a state, either received or detonated a nuclear explosive device? (FAA Sec. 620E permits a special waiver of Sec. 669 for Pakistan.) No

19. FAA Sec. 670. If the country is a non-nuclear weapon state, has it, on or after August 8, 1985, exported (or attempted to export) illegally from the United States any material, equipment, or technology which would contribute significantly to the ability of a country to manufacture a nuclear explosive device? No
20. ISDCA of 1981 Sec. 720. Was the country represented at the Meeting of Ministers of Foreign Affairs and Heads of Delegations of the Non-Aligned Countries to the 36th General Assembly of the U.N. on Sept. 25 and 28, 1981, and did it fail to disassociate itself from the communique issued? If so, has the President taken it into account? (Reference may be made to the "Taking into Consideration" memo.) They have not yet entered reservations.
The matter was taking into account by the Administrator at the time of approval of Agency OYB.
21. FY 1990 Appropriations Act Sec. 513. Has the duly elected Head of Government of the country been deposed by military coup or decree? If assistance has been terminated, has the President notified Congress that a democratically elected government has taken office prior to the resumption of assistance? No
22. FY 1990 Appropriations Act Sec. 539. Does the recipient country fully cooperate with the international refugee assistance organizations, the United States, and other governments in facilitating lasting solutions to refugee situations, including resettlement without respect to race, sex, religion, or national origin? Yes

B. FUNDING SOURCE CRITERIA FOR COUNTRY ELIGIBILITY

1. Development Assistance Country Criteria

a. FAA Sec. 116. Has the Department of State determined that this government has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, can it be demonstrated that contemplated assistance will directly benefit the needy? No

b. FY 1990 Appropriations Act Sec. 535. Has the President certified that use of DA funds by this country would violate any of the prohibitions against use of funds to pay for the performance of abortions as a method of family planning, to motivate or coerce any person to practice abortions, to pay for the performance of involuntary sterilization as a method of family planning, to coerce or provide any financial incentive to any person to undergo sterilizations, to pay for any biomedical research which relates, in whole or in part, to methods of, or the performance of, abortions or involuntary sterilization as a means of family planning? No

2. Economic Support Fund Country Criteria

a. FAA Sec. 502B. Has it been determined that the country has engaged in a consistent pattern of gross violations of internationally recognized human rights? If so, has the President found that the country made such significant improvement in its human rights record that furnishing such assistance is in the U.S. national interest? No

b. FY 1990 Appropriations Act Sec. 569(d). Has this country met its drug eradication targets or otherwise taken significant steps to halt illicit drug production or trafficking? NA

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NONPROJECT ASSISTANCE CHECKLIST

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1990 Appropriations Act Sec. 523; FAA Sec. 634A. Describe how authorization and appropriations committees of Senate and House have been or will be notified concerning the project. Notification was sent to the authorizing and appropriating committee on 12/14/90. The waiting period expired without objection on 12/29/90.
2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance? N/A
3. FAA Sec. 209. Is assistance more efficiently and effectively provided through regional or multilateral organizations? If so, why is assistance not so provided? Information and conclusions on whether assistance will encourage developing countries to cooperate in regional development programs. No

4. FAA Sec. 601(a). Information and conclusions on whether assistance will encourage efforts of the country to: (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions. The program will provide both budget support and balance of payment support. The provision of funding for debt service payments will free-up equivalent in foreign exchange which can be used to meet import requirements. (FAA 601 (a) objective(a).
5. FAA Sec. 601(b). Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise). N/A
6. FAA Sec. 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds? N/A

B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE

1. Nonproject Criteria for Economic Support Fund

a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of Part I of the FAA? Yes

b. FAA Sec. 531(e). Will assistance under this chapter be used for military or paramilitary activities? No

c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will at least 50 percent of such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106?

No

d. FAA Sec. 609. If commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

N/A

e. FY 1990 Appropriations Act, Title II, under heading "Economic Support Fund," and Sec. 592. If assistance is in the form of a cash transfer: (a) Are all such cash payments to be maintained by the country in a separate account and not to be commingled with any other funds? (b) Will all local currencies that may be generated with funds provided as a cash transfer to such a country also be deposited in a special account, and has A.I.D. entered into an agreement with that government setting forth the amount of the local currencies to be generated, the terms and conditions under which they are to be used, and the responsibilities of A.I.D. and that government to monitor and account for deposits and disbursements? (c) Will all such local currencies also be used in accordance with FAA Section 609, which requires such local currencies to be made available to the U.S. government as the U.S. determines necessary for the requirements of the U.S. Government, and which requires the remainder to be used for programs agreed to by the U.S. Government to carry out the purposes for which new funds authorized by the FAA would themselves be available? (d) Has Congress received prior notification providing in detail how the funds will be used, including the U.S. interests that will be served by the assistance, and, as appropriate, the economic policy reforms that will be promoted by the cash transfer assistance?

Yes

N/A

N/A

Yes

2. Nonproject Criteria for Development Assistance

a. FAA Secs. 102(a), 111, 113, 281(a).

Extent to which activity will: (1) effectively involve the poor in development, by expanding access to economy at local level, increasing labor-intensive production and the use of appropriate technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (2) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward better life, and otherwise encourage democratic private and local governmental institutions; (3) support the self-help efforts of developing countries; (4) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (5) utilize and encourage regional cooperation by developing countries?

N/A

N/A

N/A

N/A

b. FAA Secs. 103, 103A, 104, 105, 106, 120-21. Is assistance being made available (include only applicable paragraph which corresponds to source of funds used; if more than one fund source is used for assistance, include relevant paragraph for each fund source):

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made; (b) extent to which assistance is used in coordination with efforts carried out

N/A

under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value; improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration programs explicitly addressing the problem of malnutrition of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

(2) [104] for population planning under Sec. 104(b) or health under Sec. 104(c); if so, extent to which activity emphasizes low-cost, integrated delivery systems for health, nutrition and family planning for the poorest people, with particular attention to the needs of mothers and young children, using paramedical and auxiliary medical personnel, clinics and health posts, commercial distribution systems, and other modes of community outreach.

N/A

(3) [105] for education, public administration, or human resources development; if so, (a) extent to which activity strengthens nonformal education, makes formal education more relevant, especially for rural families and urban poor, and strengthens management capability of institutions enabling the poor to participate in development; and (b) extent to which assistance provides advanced education

N/A

and training of people of developing countries in such disciplines as are required for planning and implementation of public and private development activities.

(4) [106] for energy, private voluntary organizations, and selected development problems; if so, extent activity is:

N/A

(i)(a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and

(b) facilitative of research on and development and use of small-scale, decentralized, renewable energy sources for rural areas, emphasizing development of energy resources which are environmentally acceptable and require minimum capital investment;

(ii) concerned with technical cooperation and development, especially with U.S. private and voluntary, or regional and international development, organizations;

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster and programs of disaster preparedness;

(v) for special development problems, and to enable proper utilization of infrastructure and related projects funded with earlier U.S. assistance;

(vi) for urban development, especially small, labor-intensive enterprises, marketing systems for small producers, and financial or other institutions to help urban poor participate in economic and social development.

(5) [120-21] for the Sahelian region; if so, (a) extent to which there is international coordination in planning and implementation; participation and support by African countries and organizations in determining development priorities; and a long-term, multidonor development plan which calls for equitable burden-sharing with other donors; (b) has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of projects funds (dollars or local currency generated therefrom)?

N/A

DRAFTER:GC/LP:EHonnold:6/22/90:2169J

GOB Request for Assistance

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REPUBLIQUE DU BENIN

Le Premier Ministre

Cotonou, le 29 octobre 1990

Réf. CAS/PM 005/SP

Madame l'Ambassadeur,

Au cours de mes entretiens le 27 juin 1990 au Département d'Etat avec le Sous-Secrétaire Robert Kimmitt, le sujet d'une assistance économique accrue au Bénin sous la forme d'une subvention financière de soutien économique était abordé. Ce sujet était également discuté au cours de ma réunion ultérieure avec l'Administrateur de l'USAID, Ronald Roeken et ses collaborateurs.

Il ressort de ces entretiens qu'avant de fournir une telle assistance, une demande en bonne et due forme du Gouvernement de la République du Bénin est requise. Ceci étant, je demande par conséquent à l'Agence Américaine pour le Développement International de fournir au Gouvernement du Bénin une assistance financière qui sera utilisée pour la mise en oeuvre des réformes politiques et économiques relatives au processus de démocratisation déjà entrepris en République du Bénin.

Veuillez agréer, Madame l'Ambassadeur, les assurances de ma très haute considération.

BEST AVAILABLE COPY

Michel

 Micéphore MIZU

Son Excellence Harriet ISOM
 Ambassadeur des Etats-Unis d'Amérique
 près la République du Bénin

Cotonou



ANNEX 3

GOB Request for Assistance

EMIS PARAMBRFXAEGTOCPU

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301439+

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REPUBLIQUE DU BENIN

Le Premier Ministre

Cotonou, le 29 octobre 1990

Réf. CAS/PM 005/8P

Madame l'Ambassadeur,

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Nicéphore MANDJIS

Son Excellence Harriet ISOM
Ambassadeur des Etats-Unis d'Amérique
près la République du Bénin

Cotonou

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