THE INSTITUTIONAL DIAGNOSTIC PROJECT

State Capture and Rent-Seeking in Benin

Edited by François Bourguignon, Romain Houssa, Jean-Philippe Platteau and Paul Reding

State Capture and Rent-Seeking in Benin

Benin is a small, slow-growing economy whose development relies on two sources of rent that are controlled by self-centred elites: cotton export and illegal cross-border trade with Nigeria. Patrimonialism governs Beninese society as a forceful struggle for political power takes place between the oligarchs who control these sources and use them as formidable levers of power. *State Capture and Rent-Seeking in Benin* argues that this struggle causes the instability and unpredictability of economic policies, resulting in institutional problems that make economic diversification and growth difficult. Based on a thorough account of the economic, social, and political development of Benin, this institutional diagnostic provides a detailed analysis of its critical institution- and development-sensitive areas such as electoral campaign finance, state capture by business and elites, management of the cotton sector, the tax effort, the informal trading between Benin and Nigeria, and the political economy of land reform. This title is Open Access on Cambridge Core

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The Institutional Diagnostic Project

A suite of case-study monographs emerging from a large research program on the role of institutions in the economics, and the political economy of development in low-income countries, supported by a synthesis volume of the original case studies. This program was funded by the United Kingdom's Foreign and Commonwealth Development Office during a period of six years, during which program researchers had regular interactions with its staff, either directly or through Oxford Policy Management (the lead managing organisation).

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The Institutional Diagnostic Project

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Preface

François Bourguignon, Romain Houssa,
Jean-Philippe Platteau, and Paul Reding

Why has Benin been chosen, after Tanzania, as the second in-depth case study of the relationship between the quality of institutions and development? The first reason is the need to diversify the features of the economies to be studied. Diversity here is first geographical and historical. Tanzania is an East African country with a British colonial past. Benin is a West African country with a French colonial history. But diversity is also about economic endowments. Tanzania is a rather diversified economy, with both mineral and agricultural exports. Benin is officially a mono-agricultural export country, with cotton as its main resource. On top of this, Benin exploits its lengthy common border with Nigeria for profitable illegal cross-border trade, thus partly sharing the oil rent of its neighbour. Benin is thus much closer to the many resource-rich sub-Saharan countries than to Tanzania. Another key difference lies in the size of the two countries. Tanzania's population is approximately five times larger than that of Benin, which is more representative of the many 'small' sub-Saharan countries. It is well known that the development context of a country greatly depends on its size. Finally, it turns out that both countries were roughly at the same level of development, when measured by gross domestic product (GDP) per capita, in the early 1990s. Almost thirty years later, Benin lags behind Tanzania by some 25 percentage points in GDP per capita terms. Both countries thus also differ in their long-run growth performance.

But there are also some features that are common to Benin and Tanzania, which as a matter of fact they share with several sub-Saharan African countries. They both went through a socialist episode after, or not long after, independence: the Ujamaa era launched by Nyerere in Tanzania and the Marxist–Leninist regime imposed under Kérékou's dictatorship in Benin. In both cases, the liberalisation and the transition to a market economy took place in the early 1990s, very much under the pressure of donors. Yet, their trajectories have been quite different since then. If both countries behave according to democratic rules and are often praised for this, their political landscape is different and the relationship between politics and the economy takes very different forms today.

The comparability or diversity of the two countries will matter at the final stage of the Economic Development and Institutions (EDI) institutional diagnostic project, when lessons from the various case studies will be put together. The present volume focuses exclusively on Benin and essentially tries to identify the institutional weaknesses, together with the political economy factors, that have prevented the country's GDP per capita from growing faster than 1.2 per cent on average over the last twenty-five years, that have prevented a fall in its poverty rate, and that have prevented a reduction in its dependency on foreign official resources – and all of this behind a peaceful democratic façade that has been praised by donors.

To begin with the Benin study, an exploratory mission was carried out in Cotonou in May 2016, with the aim of identifying a preliminary list of institutional weaknesses Benin is facing. Thereafter, an engagement workshop was held in Cotonou in August 2017. The workshop gathered participants from a wide range of backgrounds who later played key roles in the project either as chapter authors for the volume, as resource persons for providing various advice, or as key informants in the institutional surveys. The surveys were implemented from December 2017 to February 2018. A thematic chapter kick-off workshop was held in Brussels in September 2018. Thereafter, a workshop on the first draft of the whole case study took place in Grand Popo in March 2019, and a complete first version of this volume was posted on the EDI website in August 2019 (https://edi.opml.co.uk/research/benin-institutional-diagnostic). Finally, a dissemination workshop, with participants and contributors from other countries in West Africa, was held in Cotonou in January 2020.

WARNING

This study was developed in a context in which Benin has been experiencing several institutional changes since President Talon was elected in 2016 and re-elected for a second term in 2021. Moreover, the COVID-19 pandemic has severely impacted Benin since 2020. We were not able to systematically study the 2016–2022 period due to the evolving nature of the institutional changes that have been occurring in Benin since 2016, but also due to the lack of consistent and systematic data for that period. It is nonetheless natural to ask whether the main conclusions of the diagnostics presented in this volume are still valid today. At the end of the book we revisit a number of critical issues that were identified in our analysis (see Afterword).

Acknowledgements

We wish to acknowledge the precious help the editors and authors of this study received from many friends and colleagues. In the first place, the editors would like to thank Tatiana Goetghebuer, who has chiefly managed this project from the beginning until the end, not only making sure that drafts were handed over on time and organising meetings, workshops, and seminars, but also providing valuable reflections on the design of the institutional survey and contributing to the training of enumerators in the field. This study would not have been completed without Tatiana's professionalism, devotion, and friendliness. Thanks again, Tatiana.

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There remain a few individuals whom we must single out for their contributions to the thinking and analysis underlying the Benin institutional diagnostic. We would like to acknowledge the friends and colleagues (Marijke Verpoorten, Modeste Dayé, Elena Briones Alonso, Kelbesa Megersa, Priscilla Toffano, and Patrice Kpadé) who provided insightful comments on the work. We also wish to thank academics who participated in the workshops in August 2017 in Cotonou and/or in March 2019 in Grand Popo: Yasid Dissou, Emilia Tingbe-Azalou, Biaou Gauthier, Christophe Codjo Kougnianzonde, Rogatien Tossou, Ilyass Sina, Mohamed Baco, and Rachidi Kotchoni. Cyriaque Edon and Albert Honlonkou must be specially acknowledged for providing valuable reflections on the design of the institutional survey.

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Abbreviations

ACC	Association Cotonière Coloniale
ACFTA	Africa Continental Free Trade Area
ADC	*Attestation de Détention Coutumière*
ADE	Analysis for Economic Decisions
AFD	Agence Française de Développement
AIC	Association Interprofessionnelle de Coton
ANCB	Association Nationale des Communes du Benin
ANDF	Agence Nationale du Domaine et du Foncier
AOF	Afrique Occidentale Française
APEB	Association Professionnelle des Egraineurs du Bénin
BCEAO	Banque Centrale des Etats de l'Afrique de l'Ouest
BDC	Bureau de change
BDPA	Bureau pour le Développement de la Production Agricole
BOAD	Banque Ouest-Africaine de Développement
CAETS	Coopératives Agricoles Expérimentales de Type Socialiste
CAGIA	Coopérative d'Approvisionnement et de Gestion des Intrants Agricoles
CAI	Centrale d'Achat des Intrants Agricoles
CARDER	Centres d'Action Régional pour le Développement Rural
CATS	Coopératives Agricoles de Type Socialiste
CBT	Cross-border trade
CCCE	Caisse Centrale de Cooperation Economique
CEMAC	Communauté Economique et Monétaire d'Afrique Centrale
CEN-SAD	Community of Sahelian-Saharan States
CET	Common external tariff
CFA	Communauté Financière en Afrique
CFD	Caisse Française de Développement

CFDT	Compagnie Francaise pour le Developpement des Fibres Textiles
CFR	*Certificat foncier rural*
CNAO-TF	Commission Nationale d'Appui à l'Obtention des Titres Fonciers
CNEC	Conseil National des Égreneurs
CNIDIC	Conseil National des Importateurs et Distributeurs d'Intrants Coton
CNPC	Conseil National des Producteurs de Coton
CPF	Country Partnership Framework
CPI	Consumer Price Index
CPIA	Country Policy and Institutional Assessment
CRIET	Court for the Punishment of Economic and Terrorism Infractions
CSP	Center for Systemic Peace
CSPC	Caisse de Stabilisation des Prix du Coton de la Fédération de l'AOF
CSPR	Centrale de Sécurisation des Paiements et de Recouvrement
DAC	Development Assistance Committee
DAGRIS	Développement des Agro-Industries du Sud
DANIDA	Danish International Development Agency
DDET	Direction des Domaines, de l'Enregistrement et du Timbre
DTIS	Diagnostic Trade Integration Study
EAC	East African Community
ECOWAS	Economic Community of West African States
EMICoV	Enquête Modulaire Intégrée sur les Conditions de Vie des Ménages
FAO	Food and Agriculture Organization
FAOSTAT	FAO Corporate Statistical Database
FAS	Fonds Autonome de Stabilisation et de Soutien des Prix des Produits Agricoles
FCBE	Forces Cauris pour un Benin Emergent
FED	Fonds Européen de Développement
FIDES	Fonds d'Investissement pour le Développement Economique et Social
FRUITEX	Fruits et Textiles
FS	Fonds de Soutien des Produits à l'Exportation
FSS	Fonds de Stabilisation et de Soutien des Prix des Produits Agricoles
GDP	Gross domestic product
GIZ	Deutsche Gesellschaft für Internationale Zusammenarbeit (German Corporation for International Cooperation)

GRVC	Groupement Revolutionnaire à Vocation Cooperative
GV	*Groupements Villageois*
GVA	Gross value-added
HIPC	Highly indebted poor countries
IBECO	Industrie Béninoise d'Egrenage et des dérivés du Coton
IC	Investment Code
ICA	International Cotton Association
ICBT	Informal cross-border trade
ICRG	International Country Risk Guide
ICT	Information and communication technologies
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IGN-Bénin	Institut Géographique National du Bénin
IMF	International Monetary Fund
INSAE	Institut National de la Statistique et de l'Analyse Economique du Bénin
IRCT	Institut de Recherche du Coton et des Textiles Exotiques
LCB	Label Coton du Bénin
LDPDR	Lettre de Déclaration de Politique de Développement Rural
MAEP	Ministère de l'Agriculture, de l'Elevage et de la Pêche
MCA	Millennium Challenge Account
MCC	Millennium Challenge Corporation
MCI	Marlan's Cotton Industry
MDRI	Multilateral Debt Relief Initiative
MPs	Members of Parliament
NGN	Nigerian Naira
NPL	Non-performing loans
OCAD	Office de Commercialisation Agricole du Dahomey
ODA	Official Development Assistance
OEC	Observatory of Economic Complexity
OECD	Organization for Economic Co-operation and Development
OHADA	Organisation pour l'Harmonisation en Afrique du Droit des Affaires
OLS	Ordinary least squares
ONS	Office Nationale de Stabilization et de Soutien des Prix aux Producteurs
OPEC	Organization of Petroleum Exporting Countries
PARFC	Projet d'Appui à la Réforme de la Filière Coton
PASEC	Programme d'Analyse des Systèmes Educatifs de la Conférence
PFR	*Plan Foncier* Rural
PGRU	Projet de Gestion et de Réhabilitation Urbaine

PPEA	Water Sector and Water Purification
PR/PICA	Programme Régional de Production Intégrée du Coton en Afrique
PRD	Parti pour le Renouveau Démocratique
PRPB	Parti de la Révolution Populaire au Benin
PR-PICA	Programme Regional de Production Intégrée du Coton en Afrique
PRSA	Projet de Restructuration des Services Agricoles
PSD	Parti Social Démocrate
PVI	Programme of Verification of Imports
QoG	Quality of Government
RCT	Randomised control trial
RFU	*Registre Foncier Urbain*
SAC	South African Community
SAMAAC	Société Africaine de Management, d'Affrètement et de Commerce
SAP	Structural Adjustment Programmes
SARA	Semi-Autonomous Revenue Authority
SATEC	Société d'Aide Technique et de Cooperation
SCD	Systematic Country Diagnostic
SCN	Societe Cotonniere de N'dali
SDI	Société de Distribution Internationale
SEICB	Société d'Egrenage Industriel de Coton du Bénin
SERHAU-SEM	Société d'Etudes Régionales d'Habitat et d'Aménagement Urbain
SIP	Société Indigène de Prévoyance
SMDR	Sociétés Mutuelles de Développement Rural
SMEs	Small and medium-sized enterprises
SOCAD	Société de Commercialisation et Crédit Agricole du Dahomey
SODECO	Société de Développement du Coton
SODICOT	Société des Industries Cotonnières du Bénin
SOGICOM	Société Générale pour l'Industrie et le Commerce
SONACED	Société Nationale pour la Commercialisation et l'Exportation du Bénin
SONACO	Société Nationale Agricole pour le Coton
SONADER	Societe Nationale pour le Developpement Rural du Dahomey
SONAGRI	Société Nationale d'Agriculture
SONAPRA	Société Nationale pour la Promotion Agricole
SSA	Sub-Saharan Africa
SVAR	Structural vector auto-regression
TF	*Titre Foncier*
TFP	Total factor productivity

TV	Training and Visit
UDD	Union Démocratique Dahoméenne
UN	United Nations
USAID	United States Agency for International Development
VAT	Value-added tax
WAEMU	West African Economic and Monetary Union
WDI	World Development Indicators
WGI	Worldwide Governance Indicators
WP	Working paper
WTO	World Trade Organization

Institutional Diagnostic Project: Preamble

François Bourguignon and Jean-Philippe Platteau

Institutions matter for growth and inclusive development. But despite increasing awareness of the importance of institutions in economic outcomes, there is little evidence on how positive institutional change can be achieved. The Economic Development and Institutions – EDI – research programme aims to fill this knowledge gap by working with some of the finest economic thinkers and social scientists across the globe.

The programme was launched in 2015 and concluded in 2022. It is made up of four parallel research activities: path-finding papers, institutional diagnostics, coordinated randomised control trials (RCTs), and case studies. The programme is funded by the UK Foreign and Commonwealth Development Office (FCDO). For more information, see http://edi.opml.co.uk.

The Institutional Diagnostic Project Presentation

François Bourguignon and Jean-Philippe Platteau

This study of Benin is one of four case studies in a research project whose final aim is to devise a methodology that would establish an 'institutional diagnostic' of economic development in a particular country. The objective of such a diagnostic is to identify the institutional factors that may slow down development or reduce its inclusiveness or sustainability, the reforms likely to overcome these weaknesses, but also the political economy that may prevent or facilitate such reforms. These diagnostics must thus rely on a thorough review of economic development and institutional features of countries under analysis, which is the content of this volume on Benin. As a preamble, the following pages offer a general description of the whole diagnostic project.

1 'INSTITUTIONS MATTER'

'Institutions matter' became a motto among international development agencies in the late 1990s, when it became clear that Structural Adjustment Programmes (SAPs), themselves based upon the so-called Washington Consensus, and their emphasis on markets were not delivering the growth and development that was expected. The slogan sounded a note of disappointment for those liberalist reformers, sometimes jokingly called the 'marketeers', who promoted reliance on market mechanisms and the pre-eminence of private actors in order for developing countries to get out of the crises of the 1980s and restore long-run growth. Giving more space to the market was probably justified from a theoretical point of view. Practically, however, it was another story. What the 'marketeers' had not fully realised was that a well-functioning market economy requires regulating institutions, public goods, and non-market services, which most often were missing or deficient in the economies being considered. Under these conditions, liberalising, privatising, and deregulating might in effect prove counterproductive without concomitant institutional changes.

Nowadays, the 'institutions matter' slogan appears as a fundamental truth about development, and it is indeed widely shared by the development community, including international organisations. Equally obvious to all is the complementarity between the market and the state: the economic efficiency expected from the former requires some intervention by the latter through adequate policies, the provision of public services, and – more fundamentally – institutions able to impose rules constraining the activity of various economic actors, whether public or private. Practically, however, the institutions of a country are the outcome of history and specific events or circumstances. Therefore, they are not necessarily well adapted to the current economic context and to the modern development challenge. This raises the issue of how existing institutions can be reformed.

That 'institutions matter' has also long been evident for those academic economists and political scientists who kept stressing that development is the outcome of the joint and interactive evolution of the economy and its institutional set-up, with the latter encompassing not only state and political agencies but also cultural and social norms. As a matter of fact, the study of the role of institutions has a long history in the development economics literature, from the very fathers of the discipline in the post-World War II years and their emphasis on development as a structural and cultural transformation, as, for instance, in the writings of Peter Bauer, Albert Hirschman, Arthur Lewis, or Hla Myint, to the New Institutional Economics as applied to development issues, in particular with the work of Douglass North, to the Institutional Political Economy approach put forward nowadays by social scientists like Mushtaq Khan, and to the more formalised school of Political Economics pioneered by Daron Acemoglu and James Robinson.

II HOW INSTITUTIONS MATTER IN DEVELOPMENT POLICY TODAY: THE ROLE OF 'GOVERNANCE'

Faced with the disappointing performances of the so-called Washington Consensus, which governed the market-oriented 'structural adjustment' policies put to work in developing countries at the time of the macro-economic crisis of the early 1980s, international organisations and bilateral development agencies switched to what was called the 'post-Washington consensus'. This extended set of principles was seen as a way of compensating for the neglect of institutional considerations in the original set of policies. Market-oriented reforms had thus to be accompanied by other reforms, including regulating various sectors, making government more efficient, and improving human capital formation. Most importantly, however, emphasis was put on good governance as a necessary adjuvant to market-led development, especially in its capacity to protect property rights and guarantee contract enforcement. With time, governance then became a key criterion among donors for allocating aid across low-income countries and monitoring its use.

It is fair to say that, practically, governance is defined and evaluated in a rather ad hoc way, based on some expert opinion, firm surveys, and some simple economic parameters like the rate of inflation or the size of budget deficit. The relationship with the actual nature and quality of institutions is thus very indirect. This still seems to be the case today, even though the recent World Development Report by the World Bank (2017), entitled 'Governance and the Law', intends to go deeper by showing how governance, or policy making in general – including institutional reforms – depends on the functioning of institutions, the role of stakeholders, and their relative political power. Practically, however, there remains something rather mechanical and schematic in the way institutions are represented in this report, which is actually more about effective policy making than the diagnosis of institutional weaknesses and possible avenues for reform.

If there is no doubt that institutions matter for development, the crucial issue is to know *how* they matter. After all, impressive economic development achievements have been observed despite clear failures in particular institutional areas. In other words, not all dimensions of governance may be relevant at a given point in time in a given country. Likewise, institutional dimensions that are not included in governance criteria may play a decisive role.

There is admittedly limited knowledge about how institutions affect development, how they form, and how they can be reformed in specific contexts. Despite intensive and increasing efforts over the last few decades, the challenge remains daunting. The difficulty comes from the tight imbrication of the way the quality of existing institutions affects the development process, including policies; the political economy context that conditions possible institutional reforms; and the influence that the pace and structure of development exerts, directly or indirectly, on the dynamics of institutions.

III SEARCHING FOR EVIDENCE ON THE RELATIONSHIP BETWEEN THE QUALITY OF INSTITUTIONS AND DEVELOPMENT

Three approaches have been followed to help in the identification of development-hindering or -promoting institutional features, and of their evolution over time, whether autonomously or through discretionary reforms. All three approaches have their own drawbacks.

The first approach consists of historical case studies. These are in-depth studies of successful, or unsuccessful, development experiences, and their causes and processes as they unfolded in the historical past or in the contemporary world. The formation and success of the Maghribi trading networks in the eleventh-century Mediterranean basin, the effects of the Glorious Revolution in Britain, the enactment of effective land reforms in Korea and Taiwan after the demise of Japanese colonial rule, and the implementation of the Household Responsibility System in rural China are all examples of institutional changes that led to vigorous development, whether state led or resulting from decentralised initiatives triggered by external factors. On the other hand, violent fights for the appropriation of natural resource rents in several post-independence African states illustrate the opposite course of blocked development under essentially predatory states. Studying such events is of the utmost interest insofar as they highlight rather precise mechanisms susceptible to governing the transformation of institutions, often under the pressure of economic and other circumstances, sometimes prompting and sometimes hampering development. In their best-selling book *Why Nations Fail*, for instance, Acemoglu and Robinson (2012) masterfully show the role of institutions in several historical and contemporaneous experiences of sustained or failed development. In particular, they stress the critical role of inclusive institutions compared with predatory ones, and most importantly the role of favourable political conditions in changing institutions and sparking development. The most serious problem with this approach, however, is that the experiences thoroughly analysed in the history-based empirical literature are rarely transferable in time or in space and are not necessarily relevant for developing countries today.

Under the second approach are cross-country studies pertaining to the contemporaneous era. These rely on indicators that describe the strength of a particular set of institutions or a specific aspect of governance in a country, for example the protection of property rights, the nature of legal regimes, the extent of democracy, the strength and type of controls on the executive, or the extent of corruption – the issue being whether there is a correlation between these indicators and gross domestic product (GDP) growth or other development outcomes. These institutional and governance indicators are generally based on the opinion of experts in various areas evaluating, on a comparative basis, countries about which they have specialised knowledge. They are thus based on largely subjective grounds and lack the precision needed for statistical analysis. If correlation with development outcomes is sometimes significant and often fits intuition, the use that can be made of them is problematic as they essentially refer, by construction, to an abstract 'average country' and may be of little use when focusing on a particular country. Most importantly, they say nothing about causality and still less about the policy instruments that could improve the institutions under consideration. Corruption is generally found to be bad for development, but in what direction does the causality go? Is it true in all countries and all circumstances? What about cases where corruption 'greases the wheels' and reintroduces economic efficiency in the presence of too stringent administrative constraints? And, if it is to be curbed, what kind of reform is likely to work?

Cross-country studies are a useful approach, provided that they are considered as essentially exploratory. They need to be complemented by more country-specific analyses that can detect causal relationships, shed light on dynamic processes at play in key sectors of the economy as well as on their interactions with institutions and the political arena, and inform on potential ways of conducting reforms.

The third approach exploits the fact that some sorts of institutional weaknesses or strengths are readily observable, such as the delivery of public services like education or health care. For instance, absenteeism of teachers in public schools reveals a breach of contract between civil servants and their employers and/or a monitoring failure by supervisors. There are ways of incentivising teachers so that they show up to school, and numerous experiments, rigorously evaluated through randomised control trial (RCT) techniques in various community settings, have successfully explored the impact of such schemes in different countries over the last two decades or more. Identification of similar institutional weaknesses at the micro level and experimentation on ways to remedy them have sprouted up in the recent past, so much so that the field has become the dominant subject among researchers in development economics. Inspired by the RCT methodology and its concern with causality, a new economic approach to history has also blossomed in the last decades. This literature exploits so-called natural experiments and intends to assess the impact of institutional changes that exogenously emerged in particular geographical areas in the past, the outcomes of which can still be observed and compared to otherwise similar neighbouring regions today. These outcomes can be of an economic, social, or political nature.

A major limitation of the third approach is that it generally addresses simple cases that are suitable for experimentation. Identifying more macro-level institutional failures and testing appropriate remedies through the RCT method is much less easy, if not impossible. In addition, successful testing of reforms susceptible to correcting well-identified micro-level institutional failures does not mean that the political will exists, or that an effective coalition of interest groups can be formed, to fully correct the detected inefficiency. Thus, in the example of teachers' absenteeism, there is no guarantee that the state will systematically implement the incentive scheme whose impact has been shown to be the best way to improve school performance. The institutional weakness may thus not be so much in the breach of contract between teachers and their public employer as in the incapacity of the latter to design and implement the right policy. As this example shows, an in-depth understanding of macro-political factors is needed to reach a proper assessment of the feasibility of reforms and the conditions required for their successful implementation.

These empirical approaches leave a gap between an essentially macro view of the relationship between institutions and development, whether it consists of stylised historical facts or cross-country correlations between GDP growth and governance or institutional indicators, on the one hand, and a micro perspective on institutional dysfunction (e.g. the observation of absenteeism of civil servants or corrupt tax inspectors) and possible remedies, on the other hand. Also note that, in most cases, these approaches permit the identification of relationships between institutional factors and development outcomes, but not the mechanisms responsible for them. In economic modelling parlance, they give 'reduced form' rather than 'structural' evidence about the institution–development nexus. Filling this twofold gap requires a meso approach based, as much as possible, on structural analysis conducted at intermediate levels of the social and economic structure of a country, including economic or social sectors as well as key groups of actors and official decision-making or monitoring entities.

Awareness of these drawbacks of the standard analysis of the relationship between institutions and development – and, therefore, of the need for a more structural, sectoral, and political economy approach to that relationship – has motivated the exploratory research undertaken within the present Institutional Diagnostic Project.

IV INSTITUTIONAL DIAGNOSTIC AS A NEW APPROACH TO INSTITUTIONS AND DEVELOPMENT

The Institutional Diagnostic Project research programme aims at developing a methodology or, better said, a framework that allows the identification of major institutional weaknesses or dysfunctions that block or slow down economic growth and structural transformation, and/or make them non-inclusive and non-sustainable, in a given country at a given stage of its development process. The diagnostic is also intended to formulate a reform programme and point to the political stakes involved in its implementation. In other words, it should contribute simultaneously to a better understanding of the specific relationship between institutions and development in the country under consideration, to a more complete stocktaking of policies and reforms likely to improve the development context, and to characterising the political barriers that might obstruct these reforms. It is a country-centred approach that differs from historical case studies in the sense that the focus is not on a particular event, circumstance, or episode in a country, but on the overall functioning of its economy and society. It also goes beyond the mere use of governance or institutional indicators that appear to be much too rough when dealing with a specific economy. On the other hand, it makes use of micro-economic evidence on institutional weaknesses and dysfunction in a country and, when available, on whatever lesson can be learned from experimental works that may have been conducted in the area concerned. It thus makes use of the various methodological approaches to the study of the institution–development relationship, but goes beyond them by embedding them in essentially a structural approach adapted to the particulars of a country.

A priori, it would seem that institutional diagnostics should resemble the 'growth diagnostics' approach developed by Hausmann, Rodrik, and Velasco (2005) some fifteen years ago to identify the binding economic constraints on economic growth. The resemblance can only be semantic, however. Practically, if the objective is similar, the difference is huge. Most fundamentally, the growth diagnostics approach relies explicitly on a full theoretical model of economic growth based on the accumulation of means of production and innovation in the private sector, the availability of infrastructure, financial facilities, the control of risk through appropriate insurance mechanisms, and the development of human capital. Constraints in one of these dimensions should logically translate into a high relative (so-called) shadow price paid for that resource or that facility that is the actual cost paid by the user of that resource, which may differ from its posted price. The observation of those prices should then allow the analyst to identify the constraints most likely to be binding. No such model is available, even implicitly, in the case of the relationship between institutions and development: there is no shadow price easily observable for the availability of a fair and efficient judiciary, an uncorrupted civil service, an effective regulatory agency, or a transparent budget. Another, more heuristic approach needed to be developed.

In the exploratory attempt of the Institutional Diagnostic research programme, we decided to avoid designing a diagnostic framework a priori, testing it through application to various countries, and then revising it progressively in the light of accumulated experience. Instead, our preference was for a more inductive approach consisting of exploring the relationship between existing institutions and the development process in a limited number of countries. On the basis of these in-depth country case studies, the idea is to draw the contours of an institutional diagnostic framework destined to be applied to other countries. The purpose of this framework is to identify pivotal and dysfunctional institutions, understand the causes of the dysfunction, and suggest feasible ways of correcting them in the particular social and political context of a country. In short, the elaboration of the diagnostic methodology has proceeded quasi-heuristically, from a few exploratory yet detailed attempts to understand the role and the dynamic of major institutions in a country, as well as their interactions with the local environment, including the society, the polity, and the geography.

A requirement of the UK Department for International Development, now the Foreign and Commonwealth Development Office (FCDO), that funded this research project was to focus on low-income and lower middle-income countries. Accordingly, and in view of available resources, the following four countries were selected: Bangladesh, Benin, Mozambique, and Tanzania. The rationale for this choice will be provided in the individual case studies. At this stage, it will be sufficient to emphasise that, taken together, these four countries exhibit the diversity that is needed in such an exploratory exercise, diversity being understood in terms of geography, population size, economic endowments, historical and cultural legacy, and development strategy. Despite that diversity, however, the fact that they often face similar economic and institutional challenges in their development suggests there may be common lessons to be drawn from the in-depth study of these challenges.

V STRUCTURE OF CASE STUDIES

Before presenting the structure of the case studies, it is worth defining more precisely what is meant by 'institutions'. In the present research programme, we use a definition derived from North (1990), proposed by Baland et al. (2020, p. 3) in the recently published *Handbook of Institutions and Development*:

> [Institutions are defined] as rules, procedures or other human devices that constrain individual behaviour, either explicitly or implicitly, with a view to making individual expectations about others' behaviour converge and allowing individual actions to become coordinated.

According to that definition, laws – and all that they stipulate – are institutions, insofar as they are commonly obeyed. Even though often appearing under the label of governance, democratic elections, the control of the executive, and the functioning of public agencies are institutions too. But this is also the case for customary law, even unwritten, or common cultural habits. Institutional failures correspond to situations where a law or a rule is inoperant and contraveners are not punished. Actually, this situation may concern large groups of people such as when, for instance, several laws coexist, or a law cannot be enforced on the whole population for lack of resources. The formal production relationships between employers and employees or between firm managers and the state through tax laws are institutions that govern modern companies in developing countries, but the existence of informal production sectors results from the inability of the state to have labour and tax laws enforced through the whole production fabric, especially among micro and small enterprises. Yet, implicit rules govern the relationship between informal managers, their clients, and people who work for them. As such, production informality may thus be considered as an institution in itself, which coexists with formal labour laws. The concept of institution also applies to laws and customs that rule social and family life. Here too, informal institutions (e.g. religion or tribal tradition) dictate behavioural rules that differ from secular laws (e.g. in areas like marriage, divorce, or inheritance). However, note that because the focus is on economic development, most institutions or institutional weaknesses considered in the Institutional Diagnostic Project generally refer to those likely to have a significant impact on the economy.

Equipped with this definition, the in-depth study of the relationship between institutions and development in a country and the identification of institutional impediments to long-term inclusive and sustainable development will proceed in three steps. The first one is 'mechanical'. It consists of reviewing the economic, social, and political development of a country; surveying the existing literature; and querying various types of decision makers, top policy makers, and experts about their views on the functioning of institutions in their country. The latter can be done through questionnaire surveys or through focused qualitative interviews. Based on this material, some binding 'institutional weaknesses' in economic development may be identified and hypotheses elaborated regarding their economic consequences and, most importantly, their causes.

This direct but preliminary approach to the institutional diagnostic of a particular country is also expected to point to several thematic areas where critical institutions seem to be at play. Depending on the country considered, some of the areas obviously deserving scrutiny are the following: modalities of state functioning, that is, the bureaucracy and the delivery of basic public goods like education; tax collection; economic regulation and the relationship between private business and political power; land allocation system and property rights; and decentralization.

The second step consists of a thorough analysis of these critical areas in order to define the modus operandi of relevant institutions and the sources of their inefficiencies, the ways of remedying the situation, and the most important challenges posed by the required reforms. Are the observed institutional inefficiencies caused by a lack of competent civil servants, their tendency to shirk or get involved in corrupt deals, the excessively intricate nature of the law or administrative rules or their undue multiplication and mutual inconsistency, or the bad organization of the administration? Moreover, why is it that reforms that seem adequate to correct major institutional inefficiencies have not been undertaken, and why have important reforms voted for in the parliament not been effectively implemented? Who would be the gainers and the losers of particular reforms and, therefore, who is likely to promote or oppose them?

Based on these detailed analyses of key thematic areas, the third step of the case studies, and the most challenging task, is to synthesise what has been learned into an articulated view of the main institutional problems hindering progress in various areas, their negative consequences for development, and – most importantly – their causes, proximate or more distant, as well as their susceptibility to reforms. This is the essence of the 'diagnostic' that each case study is expected to deliver.

It bears emphasising that this exercise is a diagnostic, not a reform agenda. Because there are gainers and losers from most reforms, political and economic circumstances will determine whether they can be undertaken or not. This needs to be thoroughly discussed, but it must be clear that no firm conclusion about political feasibility can be reached without a precise evaluation of the distribution of political power in the society, something that goes beyond the contemplated diagnostic. From the strict standpoint of the diagnosis, however, its critical contribution is to expose the nature of the institutional dysfunction, highlighting possible reforms and the stakes involved. In other words, the diagnostic must eventually make all key actors aware of the implications of the needed reforms, and of the expected collective gains and the possible losses they would entail for some groups of the population or some categories of key economic and political actors.

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PART I

AN OVERVIEW OF ECONOMIC AND INSTITUTIONAL CONSTRAINTS ON BENIN'S DEVELOPMENT

This first part of the volume comprises three chapters that review the economic, social, political, and institutional development of Benin. Chapter 1 looks at the context in which Benin's development has taken place, including geography, historical legacies, and social and political characteristics. Chapter 2 provides a macro picture of growth performances and their determinants, structural change, and social achievements since 1960. Together, these two chapters contain many useful pieces of information required for a proper understanding of the background against which all the subsequent chapters should be read. To facilitate this understanding, the conclusion at the end of Chapter 2 summarises the main lessons drawn from both Chapters 1 and 2. Chapter 3 focuses on the institutional obstacles to development based on quantitative and qualitative evidence.

1

The Spatial, Historical, and Socio-political Context

Jean-Philippe Platteau

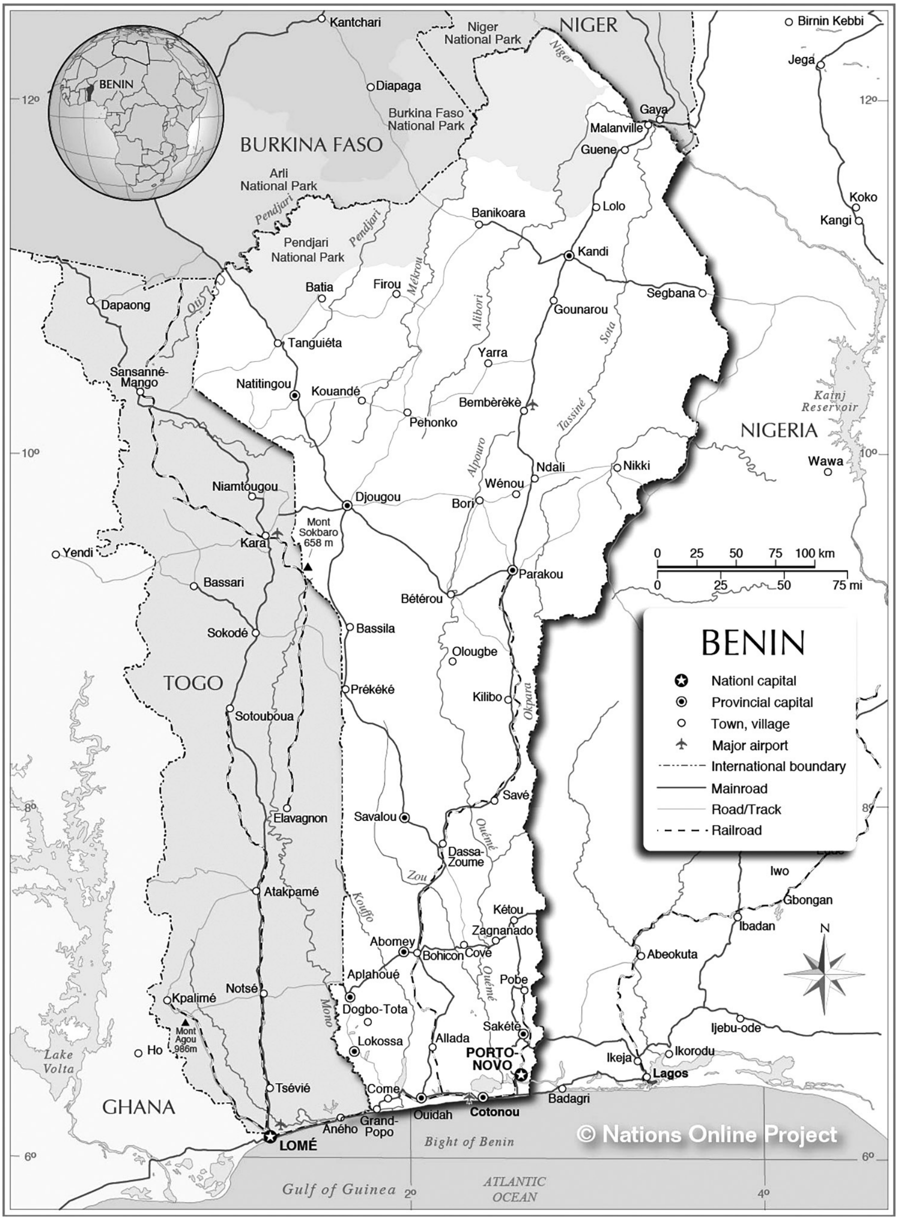
This chapter is structured as follows. After providing basic information about the overall geography of Benin, Section I goes into the country's history in order to examine whether some important legacies can be traced back to particular events or circumstances. Section II then looks at the issue of ethnicity and discusses its possible role in Benin's recent performance. Section III proceeds by supplying a summary view of the political history of the country in the post-World War II era. Taking the discussion up from there, Section IV attempts to characterise the political system of Benin by describing the main mechanisms governing its operation. Section V concludes the chapter.

I GEOGRAPHY AND HISTORY

A Geography

Benin, shown in Map 1.1 and formerly known as Dahomey (1890–1975), is a West African country located between Togo and Nigeria, with which it shares 600 and 700 km of border, respectively. Currently, the country includes twelve administrative departments: Alibori, Atacora, Atlantique, Borgou, Collines, Couffo, Donga, Littoral, Mono, Ouémé, Plateau, and Zou.

In 2016, Benin had a population of 10,822,298 living in an area of 112,760 km^2. Its gross domestic product (GDP) was estimated at US$8,583 billion. Benin is therefore a relatively small country in comparison to its giant neighbour to the east, Nigeria, which is currently Africa's largest economy in terms of GDP (US$404,653 billion) and population size (185,989,640 inhabitants). In addition, Benin possesses few natural resources except for agricultural land, and its biggest geographical asset is its direct access to the sea.



MAP 1.1 Map of Benin
Source: Nationsonline.

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B Deep Historical Legacies

Benin is an extraordinarily varied mosaic of people and ethnic groups, as well as a place with a long legacy of all sorts of political entities, running from old kingdoms or empires (the Yoruba kingdoms, which centred on the Ife and Oyo, the Bight of Benin, the Allada kingdom, and its successor states the Dahomey kingdom and the Borgou kingdom) to principalities and microstates (possibly born of the breaking up of kingdoms or empires), which also coexisted with stateless areas dominated by non-hierarchised families and clans (particularly among the peoples bordering Benin). Because over the last ten centuries the country has been the locus of numerous waves of migration from neighbouring countries, it is a multinational state with strong links to its neighbours, and has porous and flexible borders considered from the standpoint of human settlement. Relatedly, with its direct access to the sea in its southern part, Benin has long been a nexus of trade networks and routes actively engaged in regional and even external commerce. It is therefore not surprising that although the kings of Benin seem to have been reluctant to supply either the quantity or the quality of slaves that the Portuguese wanted during the sixteenth century, Benin became an important basis for the transatlantic slave trade by the end of the seventeenth century when the demand for slaves intensified under the pressure of growing needs in the Americas (Fage, 2002, pp. 235, 266–67; Iliffe, 2007, pp. 78–80).

The kingdom of Dahomey was thus created in response to the Atlantic trade. It was first an offshoot of Allada, the then chief polity among the Adja-Ewe people together with the Bight of Benin (late fifteenth century). When Allada tried to control the intensive trade in slaves and firearms that began at that time, the Dahomey king conquered it (in 1724) and became the dominant local power, although it remained tributary to Oyo state (in present-day Nigeria). It was a more efficient authoritarian state than its predecessors and was politically stable (until its dismantling by the French colonial power). This was partly due to three factors: the royal succession was largely determined by primogeniture, the kingdom was closely administered through commoner chiefs and royal courts, and it was stridently militaristic and treated its enemies cruelly (Iliffe, 2007, pp. 148–49).

That account suggests that in addition to the absence of mineral resources, present-day Benin might suffer from two important problems: (1) a lack of cooperation due to strong ethnic diversity (along the line proposed by Alesina and La Ferrara, 2005); and (2) a lack of interpersonal trust due to the traumatic experience of slavery (as argued in Nunn, 2007, 2008). The situation nevertheless appears in a more positive light if two favourable elements of Benin's legacy are emphasised: (3) a tradition of centralised state organisations with the associated political and administrative skills; and (4) long periods of active engagement in supra-local trade and commercial entrepreneurship.

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

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

Turning to (1), two main points must be made. First, if ethnic fragmentation may ignite tensions between different ethnic groups in a competitive environment, it may yield favourable effects when the groups possess complementary skills. Second, even in the presence of competition, the existence of a large number of groups, as is the case in Benin (and Tanzania), is much less damaging than situations of ethnic polarisation, such as those found in Rwanda, Burundi, or Kenya (see Esteban and Ray, 1994, 2008; Duclos et al., 2004). This matters especially in the sphere of politics, where the possibility of different inter-group coalitions and counter-coalitions may give rise to a spirit of cooperation more conducive to development than the 'winner-takes-all' approach that a polarised society typically fosters. More will be said about this when we turn to the political system.

The idea that slavery has left deep scars in the societies where it prevailed, undermining trust among people, has gained ground following the pioneering work of Nunn; see (2). Unfortunately, there is no firm evidence of this long-term impact in the case of Benin, which requires that confounding effects (such as ethnic diversity) are duly controlled for. As a first approximation, we would expect measures of trust to be of lower value for Benin than for African countries that did not suffer from the slave trade, at least on a scale corresponding to modern transatlantic commerce. Just to get a rough and preliminary idea, we compare Benin to three African countries that did not experience slave trading: Lesotho, Malawi, and Kenya. Kenya is probably the best comparator because, like Benin, it suffers from strong ethno-regional antagonisms. Employing data from the Afrobarometer (2011–2013 Round), we use several subjective indicators of trust and corruption, carefully distinguishing between interpersonal trust (Table 1.1) and trust in institutions (Table 1.2).

What are the messages emerging from these two tables? First, in terms of interpersonal trust, Benin does not fare unambiguously worse, or better, than the three other African countries considered. Moreover, when we compare Benin with the rest of Africa in a regression framework, the ambiguity persists.

TABLE 1.1 *Cross-country comparison of interpersonal trust: 2011–2013 Round (per cent)*

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

Source: Author's calculation based on data from Afrobarometer.

TABLE 1.2 *Cross-country comparison of trust in institutions: 2011–2013 Round (per cent)*

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

Source: Author's calculation based on data from Afrobarometer, World Value Survey.
*Between brackets are indicated the proportions of people who believe that all or most corresponding officers are corrupt.

More precisely, based on individual data, we compute regressions in which the dependent variable corresponds to each indicator, and the key explanatory variable is a dummy equal to one when the country is Benin and to zero when it is any other country belonging to the African continent. We also control for the gender, education, income, and residence (rural or urban) of the respondent. We then find that Benin exhibits relatively more interpersonal trust than

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other African countries when the first two questions mentioned in Table 1.1 are used as indicators, but relatively less trust when the last two questions are used.[1] This indicates that when the question of interpersonal trust is raised in rather abstract or general terms, the population of Benin is more confident than other African populations. But when the question is related to 'concrete others' (neighbours, relatives, etc.), the opposite is true. There are two possible interpretations here. First, the regression results can be taken as evidence that the population of Benin has more generalised trust, but less particularised trust, than other populations in Africa. Whether this is a superior outcome than the opposite situation is open to debate: if generalised trust is better for the operation of anonymous markets, particularised trust is critical for the smooth functioning of social networks that underlie many informal institutions in Africa. Second, and less advantageously, it could be said that Beninese profess more interpersonal trust when the question is raised in general terms, alludes to distant people, and refers to situations that have not been personally experienced, whereas they appear more suspicious as soon as the question makes concrete reference to known people and known situations.

Second, as far as trust in institutions is concerned, Benin appears worst only regarding courts of law (the difference with the second worst-ranked country is only one percentage point regarding members of parliament). Third, Benin fares worst, and neatly so, when asked whether judges or magistrates are corrupt (see the figures between brackets in question 3 of Table 1.2), or whether tax officials are corrupt (see question 5). Overall, Benin does not display a bright picture, but the situation is especially worrying with respect to the justice and tax collection systems.[2] Comparing Benin with the rest of Africa in a regression framework leads to the same conclusion in the sense that Benin's people exhibit less trust in court magistrates and tax officials (questions 3 and 5 of Table 1.2). Yet, Benin performs relatively better if we look at trust in police officers (question 4). It also performs better if trust in institutions is measured by trust in local governments and members of parliament (questions 1 and 2).

The overall picture is therefore mixed. It appears bleaker, however, when the Afrobarometer data on trust are complemented by data from Transparency International's Corruption Perception Index, which ranks countries according to the degree of perceived corruption in government and politics (corruption is defined as the abuse of public office for personal gain). Out of 176 countries evaluated in 2016, Benin ranked 95th, behind Senegal. Examination of the dynamics in the ranking over the period 2012–2016 points to slow progress: Benin's score was 36 in both years, while Senegal moved from 36 to 64. The

[1] We are thankful to Romain Houssa for having carried out the regression exercise. Results of the regressions are available upon request.

[2] We do not show the figures for trust in the president because they vary a lot from round to round. Nor do we show them for trust in the prime minister because there is no variance (100 per cent of respondents believe the prime minister is corrupt).

picture is again confirmed by firm surveys: as many as 84 per cent of companies consider corruption to be a major problem, with informal payments seemingly required for day-to-day operations such as requesting a telephone line and obtaining import documents or a trade licence (Benin, 2006, 2016; World Bank, 2016; MCA, 2012).

Let us now turn to dimension (3). Here, we would want to weigh the positive effect of a legacy of pre-colonial centralised state organisations against the negative effect of (French) colonisation. Under the former, Africans acquired some degree of administrative experience and skills in statehood, and it is a remarkable feat that the kingdom of Benin kept its polity intact until the very end of the nineteenth century. By then, the state-formation process was already well advanced in Benin (Fage, 2002, pp. 99, 270). Since the existence of more layers of hierarchy prior to contact with Europeans has been shown to be robustly associated with greater development today (Gennaioli and Rainer, 2007; Michalopoulos and Papaioannou, 2013, 2014), political history seems to favour development in the case of Benin. Under the latter, by contrast, Africans were submitted to a centralised and authoritarian system of government in which they became simple auxiliaries or, in the best cases, executive subordinates of French officers receiving their orders from a well-defined chain of command (Fage, 2002, pp. 410–12).[3] It is only through *assimilation*, a formal process involving education in French schools, performing military service, formal forswearing of traditional and Muslim law and custom, and a minimum of French civilian employment, that locals could be elevated in the French colonial order. Only a tiny minority proved to be eligible. There are therefore grounds to believe that French colonisation undermined positive legacies of pre-colonial states in Benin, the kingdom of Dahomey in particular. Note that this line of argument goes against the idea that, compared to British rule, the legacy of French colonial rule is a positive asset for long-term development because the French colonial power encouraged state centralisation and strong bureaucracies, in addition to using French as a common official language and downplaying ethnic cleavages (Ali et al., 2019).

Factor (4) is probably the most indisputable long-term legacy that Benin can benefit from today. For many centuries, the country has enjoyed a well-organised trading system that is easily accessible from the sea, and fruitful trading relationships were established with the interior and with earlier European traders on the coast (Fage, 2002, pp. 106, 270). At times, like during the Benin kingdom (fifteenth and sixteenth centuries), the rulers felt so self-confident that they could choose to virtually cut the country off from contacts with Europe: 'European trade was something it chose to do without' (p. 236). A major

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

impetus to trade came with successive waves of migrants from Yorubaland (in present-day Nigeria), particularly under the Ife and the Oyo empires during the sixteenth to eighteenth centuries. According to Fage, the Yoruba developed a remarkably strong sense of identity and cultural specificity, aided in this, somewhat paradoxically, by the fact that they were open to Christian missions, and hence to Western education, as early as the 1840s (p. 99). They became specialised in trade in the first part of the nineteenth century and quickly understood that an open society that fosters free competition and establishes links with the outside world can offer considerable opportunities for men of skill and initiative (p. 346). Moreover, the Yoruba have always provided an organic link to Nigeria, from which they originated, maintaining special relationships with the states of Kwara, Oyo, Ogun, and Lagos. (Other ethnic groups nurture persisting links with Niger, Burkina Faso, and Togo: the Maori with Niger, the Gourmantche of northern Benin with the eastern part of Burkina Faso, and the Adja with Togo.) What bears emphasizing is that Benin enjoys the presence of groups other than the Yorubas, which have well-established experience in trade and long-distance trade. Thus, the Waranga are caravan merchants from the Bariba northern group who have a long tradition in linking present-day Ghana and Burkina Faso to northern Benin.

To end this overview of the historical legacies of Benin, it is important to note that a tight interrelationship between slavery, commerce, and strong political organisation has always existed in West Africa (and in other parts of the continent), so it is meaningless to assess the impact of these three factors separately. The logic, which evokes the argument developed by Domar (1970) and Mathur (1991), has been succinctly put as follows by Fage (2002, pp. 268–70). People were scarce relative to land and other natural resources. Confronted with this situation, traditional village societies based on ties of kinship and subsistence agriculture were unable to take advantage of all the opportunities arising from growing external demands for scarce and valuable commodities such as gold, copper, and ivory. There were too few people to act as traders and carriers, as workers in the mines, to provide the political organisation and military force required for the safe transportation of goods, and to supply food and other support for those withdrawn from the subsistence sector to engage in these new activities. The solution lay in the creation of kings powerful enough to recruit labour and to extract tribute, and forced recruitment meant that ordinary men and women were converted into slaves, clients, or tributaries. In West Africa, some slaves were employed simply as agricultural labourers on the estates of kings and other Big Men. More generally, however,

> they were regarded as additions to the social group headed by their master and, although they could never wholly escape the stigma of their slave origin, in course of time they and their descendants – especially if these came by marriage with a free member of the group – became integral parts of it, acquiring or inheriting property much like other

members. At the lowest levels, then, they became members of the family unit. At the highest levels they could become trusted traders or soldiers or court officials.

(Fage, 2002, pp. 268–69)

The latter, rather paradoxical situation occurred when old slaves were considered reliable agents by their masters: their slave origin indeed meant that their authority was solely a reflection of their master's authority, which they could not therefore usurp for themselves.

The main function of slaves thus consisted of relaxing the labour constraint that prevented kinship groups or large families from seizing upon valuable economic opportunities. With the forced mobilisation of labour came the growth of political authority, and both processes largely pre-dated the expansion of transatlantic slave trading, the main effect of which was to intensify them.[4] If slaves could be exchanged for the desirable goods brought by long-distance travellers and even exported to distant lands in the Americas, the general pattern was different. They were less valued as traded goods than as a resource needed to produce goods for export, and to support the economic and political superstructures that trade required to flourish (Fage, 2002, p. 269).

II ETHNICITY

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

The Beninese population is made up of nearly 100 ethnic groups, the majority of which are found in the south and in the Atacora Mountains in the north-western parts of the country. During the 1961 demographic census, 47 ethnic subgroups were identified that were regrouped into 12 broad ethnic families. However, subsequent national censuses (in 1979, 1992, 2002, and 2013), although they counted around 56 ethnic subgroups, opted for a reorganisation into nine broad families only: Adja, Fon, Yoruba, Bariba, Dendi, Otamari, Yao, Fulani, and a residual category of other minority groups. Table 1.3 shows the evolution of population shares of Benin's main ethnic groups between 1992 and 2013. The Fon (and related ethnic groups) clearly form the dominant group, followed by the Adja and the Yoruba, the two main migrant

[4] It is difficult to give a precise estimate of the number of captives deported to America from the coast of Dahomey during the entire period of the slave trade (1641–1850). What seems more or less certain is that south Benin, at the core of the so-called Slave Coast, was one of the most prolific slave producers in Africa (see Fage, 2002, p. 266, Table 4).

TABLE 1.3 *Cross-country comparison of trust in institutions: Distribution of the population by ethnic group and growth rates, 2002–2013*

	Relative shares of ethnic groups in the total population (%)			Growth rates of the population of each group (%)
	1992	2002	2013	2002–2013
Benin				
Size	48,73,963	67,69,914	10,008,749	3.52
Ethnic groups				
Adja and related groups	15.7	15.2	15.1	3.42
Fon and related groups	42.5	39.2	38.4	3.32
Bariba and related groups	8.7	9.2	9.6	3.92
Dendi and related groups	2.8	2.5	2.9	4.91
Yoa and Lokpa and related groups	6.2	7	4.3	−0.74
Fulani	3.8	4	8.6	10.81
Gua or Otamari and related groups	6.2	6.1	6.1	3.59
Yoruba and related groups	12.2	12.3	12	3.33
Other ethnic groups	1.2	1.4	0.9	−0.16
Foreign	0.7	2.1	1.9	2.57
Not declared	*	1	0.2	−10.81
Total	100	100	100	

Source: Author's calculation based on data from Institut National de la Statistique et de l'Analyse Economique du Bénin (INSAE), General Population and Housing Census (RGPH).
*Percentage less than 0.1.

groups. In terms of dynamics, we see that the population share of the Fon has slightly decreased over the period considered, whereas that of the Fulani has significantly increased. We must nevertheless worry about the reliability of statistical records, since the Fulani are nomadic herders and it is quite possible that their movements into and out of the country may be very imperfectly measured, and that measuring problems have been (partly) corrected during recent years.

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

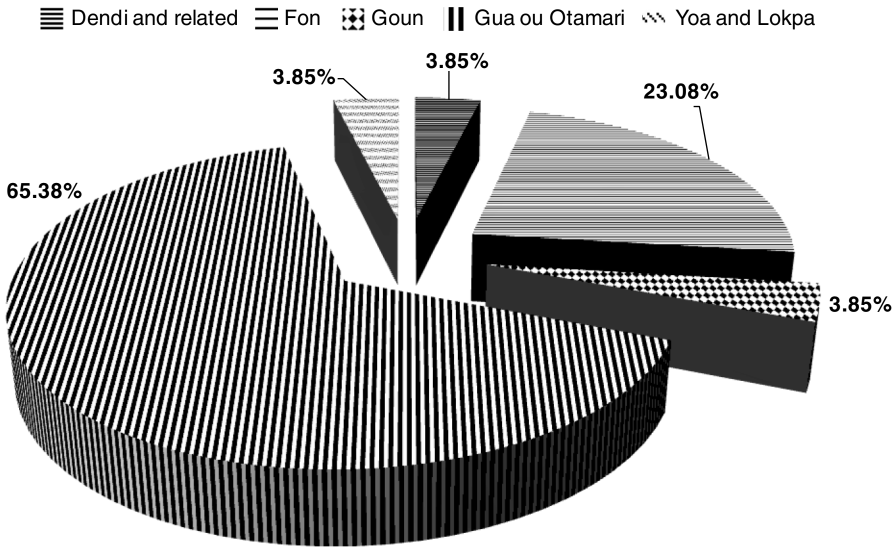

FIGURE 1.1a Political representation of main ethnic groups: Ethnicity of the executive, 1960–1989 (per cent)
Source: Author's calculation based on data from Tossou (2010).

population density observed in that part of the country, as compared to the centre and the south.

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

We have already mentioned, in general terms, the delicate issue of how ethnic diversity bears upon cooperation practices among the people of Benin, emphasising politics. We would therefore like to know how, in the specific case of Benin, politics is affected by ethnic diversity. Figures 1.1a–1.1d show how key political functions, heads of executive and ministerial jobs, have been apportioned to different ethnic groups over a forty-six-year period subdivided into two subperiods, 1960–1989 and 1990–2006. The overall picture is of a rather

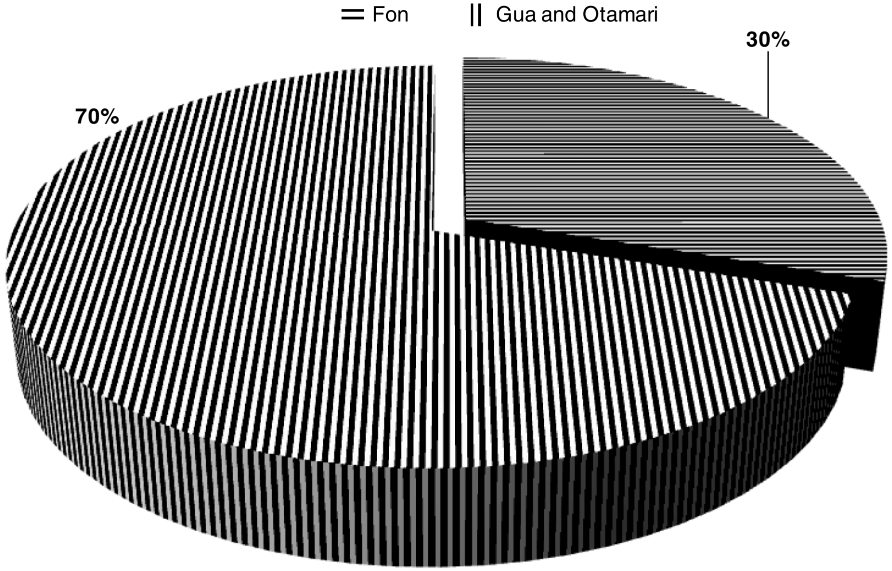

FIGURE 1.1b Political representation of main ethnic groups: Ethnicity of the executive, 1990–2006 (per cent)
Source: Author's calculation based on data from Tossou (2010).

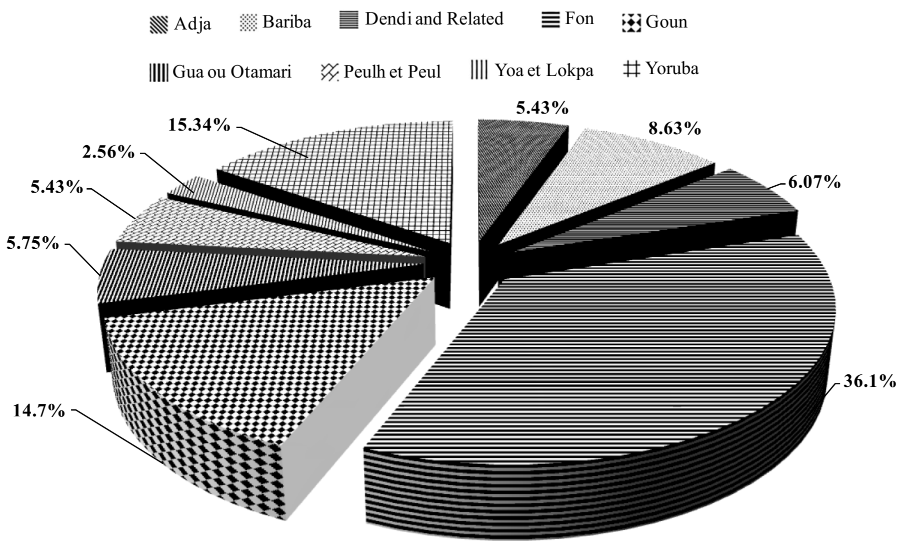

FIGURE 1.1c Political representation of main ethnic groups: Ministries, 1960–1989 (per cent)
Source: Author's calculation based on data from Tossou (2010).

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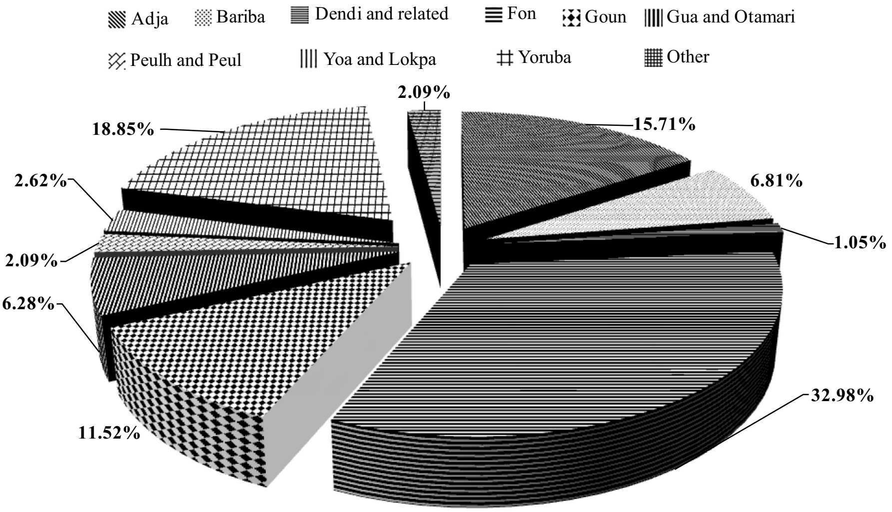

FIGURE 1.1d Political representation of main ethnic groups: Ministries, 1990–2006 (per cent)
Source: Author's calculation based on data from Tossou (2010).

fair representation of the main ethnic groups and the main regions at the highest levels of power. The dominant group, the Fon, is under-represented at the level of the presidency but is well represented at the level of ministerial jobs. The Otamari, a group that is comparatively small nationwide but important in the north, has a disproportionate share of the allocations of the highest executive position. Finally, the Adja and the Yoruba, the two groups that are numerically dominant behind the Fon, are well represented among government members.

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

Before going into the details of the political history of Benin, an important remark deserves to be made. Despite the appearance of significant ethnic diversity, the socio-political life of Benin is structured around essentially four groups: the Adja-Fon, the Bariba, the Yoruba, and the people from the Atacora. However, and contrary to what this categorisation might suggest, it is not the tensions between those four groups that cause the most serious problems for harmonious social fabric in the country. What creates instability are the strong and deep-rooted divisions inside a single ethno-linguistic family, namely the Adja-Fon. More specifically, there is persistent hostility between the Fon of Abomey, the Goun of Porto-Novo, and the Mina-Adja coming from Mono.[5] Sometimes the hostility dates back to the colonial period. This can be seen in the antagonism between the first two subgroups: the people of Abomey have never forgotten the treason of their 'brothers' from Porto-Novo who joined with the French colonial forces to conquer Abomey in the late nineteenth century.[6] The internal divisions of the Adja-Fon group are reflected at the political level. Thus, the political configuration prevailing in southern Benin is determined by the fierce struggles between three groups – PRD–Porto-Novo, Renaissance du Benin–Abomey, and PSD–Mono – which are themselves the scions of old parties – the PRD of Apithy in Porto-Novo, the UDD of Ahonmandégbé in Abomey, and the Mono movement directed by Adrien Dégbéh. How the tensions between these three branches of the same family have been settled politically since the time of independence, whether in an authoritarian or a democratic setting, depends on the key refereeing role played by the other three ethnic groups.

III LANDMARKS IN THE POST-1944 POLITICAL HISTORY

To have a good grasp of the interactions between political institutions and economic development in Benin, three key periods in the country's political and economic history need to be distinguished. Chronic political instability was the hallmark of the years 1944–1972, a Marxist–Leninist revolutionary regime ruled during the period 1972–1989, and the period from 1990 to the present has been characterised by a democratic renewal that soon became perverted by narrow links between state power and business interests.

A Political Instability before and after Independence: 1944–1972

Dahomeans began to take an active role in the modern political life of the country around 1944, at the time of the Brazzaville conference when France ruled out colonial self-government and instead decided that each colony would be given electoral representation in the French Assembly in Paris (Iliffe, 2007, p. 242). The first Beninese intellectuals, educated in French schools and universities (in Dakar and France), were assuming leadership in a national movement

[5] I am greatly indebted to John Igue for having drawn my attention to this important point.
[6] Romain Houssa has kindly provided this piece of historical information.

that was tainted by ethno-regionalism from the very start. The multiparty political system in place was highly unstable owing to intense personal rivalries between strong figureheads representing three main regions and their associated political legacies: the north (around Parakou) led by Hubert Maga, the centre (around Abomey) led by Justin Ahomadégbé, and the southeast (around Porto-Novo) led by Sourou Apithy. It is in this context dominated by personal confrontations and fragmented identities that the Republic of Dahomey was proclaimed in December 1958, the elections to the first National Assembly took place in April 1959 (where no party won a majority), the first presidential election was organised in July 1960, and the country's independence was declared on 1 August of the same year after some seventy years of French colonisation. The newly elected president was Hubert Maga from the northern region, who obtained the support of the party standing for the central region.

As was the case in other newly independent French-speaking countries, the early rules governing elections ensured that nationalism took a predominantly constitutional form, and the transfer of power from France to its ex-colonies took place peacefully. This contrasts with East Africa, where violence played a crucial role, and with Congo, where the Belgians did not build representative institutions or governmental training before granting independence (Iliffe, 2007, pp. 255–56). In West Africa in general, and in Benin in particular, the new political elite thus chose to introduce a system of liberal democracy in line with the model used in France. The new constitution, adopted in 1959, was largely inspired by the French Constitution of 1958. It provided for a parliamentary system with a president at the head of the country, but also with a prime minister responsible to the parliament. Moreover, it set out fundamental rights for citizens, such as freedom of expression, association, and the press.

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

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

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

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

B A Marxist–Leninist Revolution: 1972–1990

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

It is only when compared to the first twelve years of independence that the revolutionary period (between 1972 and 1989) can be said to have promoted relative political stability. There were, indeed, numerous attempts to overthrow the government, sometimes coming from military quarters themselves (January 1977). The turmoil was not surprising given the poor economic performance of the new regime, coupled with its propensity to nurture corruption and rent-seeking. Thus, a series of investigations into parastatal organisations revealed the same problem of top-down corruption and widespread inefficiency. According to Chris Allen (as cited in Meredith, 2005, p. 278): 'The institutions were found to be hierarchical, authoritarian, and highly bureaucratic, leading to failure to perform essential tasks, to waste and inefficiency. The personnel, apart from being in many cases unqualified or ill-qualified, tended to be idle, undisciplined, arrogant and above all corrupt'. Fraud was especially pervasive in the banking sector, with dramatic consequences for the whole economy. As pointed out by Meredith (2005, p. 387), Kérékou and his cronies 'had looted the state-owned banking system so thoroughly that nothing was left to pay the salaries of teachers and civil servants'. It is as a result of large unsecured loans awarded to members of his inner circle and the bogus companies they had set up that three state-owned banks went bankrupt in 1988. And, in an almost surrealist manner, his closest adviser, a Malian marabout known as Mohammed Cissé, took 'the habit of sitting in the manager's office at the Commercial Bank, transferring millions of dollars by telex to his bank accounts in Europe and the United States'. It is therefore not surprising that the draining of all liquid funds of the entire state banking and credit system eventually caused the disruption of all current business activities, whether in the production or trading sectors (Meredith, 2005, pp. 387–88).

Groups of citizens, civil society organisations, trade unions, and underground political parties started to express their growing frustrations about the suppression of freedoms, corruption, months of salary arrears, and deteriorating living conditions in the country. In January 1989, a student protest over unpaid grants triggered a general mobilisation against Kérékou's regime that involved teachers, civil servants, workers, and church groups. The army did not keep quiet and was bubbling with plots. Unpaid soldiers did not hesitate to hijack shipments of banknotes sent in from abroad to alleviate the general economic crisis. Only Kérékou's elite Presidential Guard, drawn exclusively from his northern ethnic group, remained loyal to the regime (Meredith, 2005, p. 388).

The regime was thus compelled to open up, especially because to the internal demonstrations were added external pressures from international financial institutions and donors in a context of relaxed geo-political relations at the world level (around the end of the Cold War). When Kérékou asked for Western aid to pay salary arrears, he was turned down. Under these mounting pressures, he abandoned Marxism–Leninism as an official ideology and, still expecting to manipulate events, proposed a national 'Conférence des Forces Vives de la Nation' to find a solution to the deadlock. That solution was to take the form of constitutional reform. Lasting nine days from 19 February 1990, the National Conference brought together 488 participants from all walks of life (business, professional, religious, labour, and political groups), including the so-called enemies of the revolution who were living in exile at the time.

Counter to Kérékou's expectations, the conference proceedings, broadcast live on radio and television, consisted of a severe indictment of the venality and corruption of his regime. In a dramatic turn of events, 'the delegates, presided over by Archbishop Isodore de Souza, declared themselves to hold sovereign power, suspended the constitution, dissolved the National Assembly, appointed a former World Bank official, Nicéphore Soglo, as prime minister of an interim government and laid down a schedule for elections' (Meredith, 2005, p. 389). The National Conference adopted a new constitution on 11 December 1990, which re-established liberal democracy and the market economy in Benin. In 1991, in a presidential election considered free and fair by international observers, Kérékou – who had stayed on as interim president – was decisively defeated by Soglo. Unlike what his military background might have led us to expect, Kérékou accepted the voting verdict and ceded power to his political rival. As a result, Benin 'became the first African state in which the army was forced from power by civilians and the first in which an incumbent president was defeated at the polls' (p. 389).

C Democratic Renewal: 1990–2016

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

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

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

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

D From 2016 Onwards: Towards a Regime Change?

The year 2016 appears to be a landmark in the recent political history of Benin. As a matter of fact, the presidential election that occurred in that year saw the victory of one of the most important businessmen in the country, Patrice Talon. His business career started in the provision of inputs for the cotton sector, where he quickly acquired a dominant position. His takeover of the cotton industry then proceeded with the creation of ginning factories at the time the cotton sector was liberalised in 1990 and later, and with the acquisition of the factories initially operated by the national company Société Nationale pour la Promotion Agricole (SONAPRA), which was dismantled in 2008. The former operation owed much to the support he offered to the election of President Soglo in 1991, and the latter to his support of President Yayi in 2006. Thereafter, thanks to his support for the re-election of Yayi in 2011, he was also able to secure the control of the Programme of Verification of Imports (PVI), an agency that assesses the value of imported goods. He thus gained considerable control over the Beninese economy and the corresponding rents.

As a result of a serious conflict with President Yayi shortly after his re-election, the PVI licence and a portion of the ginning factories were taken away from Talon's control. The second measure was vindicated as being part of a move to re-nationalise the ginning and commercialisation of cotton. There are good grounds to believe that the conflict with President Yayi prompted Talon to stand as a candidate in the 2016 election, which he won with the support of a rival Beninese tycoon, S. Ajavon. In this instance, the business elite defeated the political elite in the political arena, most likely because the former was no longer able to control the latter through standard levers.

Soon after Talon took power, his business empire regained the PVI licence and the ginning factories, while the cotton sector was re-privatised. Talon's grip on the cotton sector, the backbone of Benin's economy, is almost monopolistic. As for his control over imports, it is equally strategic given the importance of Benin's re-export activity towards Nigeria. On the political front, the rise of Talon to supreme power also constituted a breakthrough. First, as we explain in the next section, he decided to reorganise or rationalise the political landscape by drastically reducing the number of political parties. But he did it in a way that throws suspicion on his real intents, since the consolidation of political parties blatantly benefited him. Second, Talon has obviously adopted the style of 'iron fist' rule, which reflects his admiration for enlightened despotism. Whether this political system will cause a surge in Benin's economic development is a crucial question that we address shortly, at the end of the next section.

In the following section, we elaborate on the characteristics of the post-Marxist political system of Benin, stressing the tight links between business and politics that lie at its heart.

IV CHARACTERISING THE POLITICAL SYSTEM OF BENIN: PATRIMONIALISM WITH MULTIPLE OLIGARCHS

A General Considerations

Patrimonialism means that state power and private business interests are tightly interpenetrated, implying that a large portion of state resources are privately appropriated and rent capture is the main objective of political contenders. Accumulation of wealth is largely conditional upon access to political power. In the purest form of patrimonialism, the ruler does not make any distinction between the state budget and his private purse, which are merged for all practical purposes. In more common forms, he uses any possible stratagem to embezzle public money, distort public contracting, extort money and assets from private agents, and appropriate national resources or the rents flowing from them.

Patrimonial power may be conferred according to some pre-determined rule (such as dynastic rule) or through fierce competitive struggles. In the case of sub-Saharan Africa, as many political scientists have pointed out, these struggles oppose Big Men who are heads of factions mobilised around 'natural groups' (clan, tribe, ethnicity, common birthplace, etc.) or networks formed in the course of schooling, professional, or other significant life experiences. To accede to supreme power, a Big Man needs to buy or co-opt leaders of at least some other factions or cliques, especially in contexts of strong ethnic fragmentation. This requires him to be wealthy enough to finance the related expenses, which come on top of the demands of the people at various levels of his own patronage network. Unless he satisfies these demands, he risks losing clients or supporters to rival factions or networks (see, in particular, Sklar, 1979; Bates, 1983; Bayart, 1986, 1989; Booth, 1987; Kennedy, 1988; Boone, 1992, 1994; Platteau, 2009; De Waal, 2015).

What must now be added to this conventional analysis of the African state is the role of business. In the unregulated set-ups of weak states, in which there are no established (and well-enforced) rules constraining the behaviour of Big Men, businesspeople are eager to control key power holders up to the highest level (i.e. the presidency). The former want to be able to exert pressure on the latter, so they enact decisions aligned with their particular private interests. Because they are typically reluctant to occupy the front stage of politics, which carries all the risks associated with visibility and publicness, they favour more discreet positions. Their preferred tactic consists of financing the costs of the political career of a Big Man (or two) considered to be reliable, and in return they expect to be granted exclusionary privileges and other advantages that can be used to promote the expansion of their business ventures. Only if this tactic appears too risky, as a result of great political instability or high unpredictability of political outcomes, do they opt for a more direct pre-emption of state power that may lead them to apply for the highest political responsibility themselves.

Two additional points deserve to be made. First, in a context of weak governance, the control of the state apparatus requires the placement of many loyal men (and, possibly, women) at key positions. A system based on vertical but highly personalised relationships follows from this requirement. Young (1986) thus noted that abstract bureaucratic jurisprudence was no longer sufficient after independence, since 'hostile cliques and conspiracies had to be pre-empted by ensuring placement of personnel at critical points in the state apparatus'. Their fidelity to the ruler 'was not simply formal, but immediate and personal'. What rulers did was to construct 'an inner layer of control – key political operatives, top elements in the security forces, top technocrats in the financial institutions – whose fidelity was guaranteed by personal fealty as well as by hierarchical subordination'. Affinity of community or kinship was the surest basis for such fidelity, although it was to be coupled with personal interest, 'the most reliable collateral for loyalty'. The key principle followed by rulers was thus to 'reward generously and impose severe sanctions for any weakening of zeal'. The consequence was that public resources became a pool of benefits and prebends, while dismissal from office, confiscation of goods, and prosecution were the punishments awaiting those guilty of 'slackness in their personal fidelity'. In this way, holders of high office became clients of the ruler individually, whereas collectively they formed a service class (Young, 1986, p. 38).

Second, in most instances there are several Big Men or oligarchs interested in capturing state power. As already suggested, coalitions between two or more oligarchs are possible, since the payment of compensatory transfers is common practice in the kind of political system considered. Nonetheless, as shown by Shapley and Shubik (1969) in a celebrated paper, as soon as there are more than two players the feasibility of such (Coasian) transfers does not guarantee the existence of a stable cooperative equilibrium. In fact, a coalition may well be succeeded by a counter-coalition, itself followed by a counter-counter-coalition so that an infinite sequence of unstable agreements unfolds. This is true even when several (quite restrictive) conditions that the Coasian approach requires are fulfilled: zero transaction costs, credibility of promises, symmetrical information about the gains and costs of feasible coalitions, and so on. We therefore have solid ground on which to argue that political instability is an expected outcome when access to state power is managed in a purely decentralised manner; that is, with no superior rule of the game applying to the contenders. If the number of contenders is two, instability is still likely, but will then certainly result from the violation of at least some of the aforementioned restrictive conditions.

B The Case of Benin

The case of Benin fits remarkably well with this characterisation. We now explain why in more detail.

There are several successful businessmen competing for the control of state power in order to advance their particularised interests. They strike alliances that nevertheless appear to be continuously shifting, as a result of which politics is highly unstable and accusations of treason and corruption are commonplace.

Thus, on the occasion of the 2006 presidential election, Patrice Talon, until then quite a discreet businessman, chose to support Thomas Boni Yayi, who had been governor of the West African Bank for Development, at the expense of Nicéphore Soglo, previously a World Bank official. This choice was made despite Talon's tight links with the Soglo family. His calculation was presumably that Yayi's chances of winning the election were higher, therefore providing a more secure way to expand his control over the cotton sector (he became known as the 'king of cotton' among the people). The plan worked very well, since several of Talon's competitors (foremost among whom was Sefou Fagbohoun) were eliminated at the behest of the newly elected president.

In the meantime, Sébastien Ajavon, another outsized businessman who accumulated wealth in the cross-border trade with Nigeria, threw his weight behind Adrien Houngbédji, the natural leader of the rich Ouémé region, who was defeated by Yayi. Ajavon nonetheless succeeded in becoming president of the powerful employers' association (Association du Patronat), which made him Talon's most prominent rival.

The next presidential campaign, in 2011, set the stage for an apparent about-turn on the part of Talon. The stakes seem to have been the management and control of the juicy rent opportunities opened by the new *Programme de Vérification des Importations*, or PVI. Talon made an approach to Ajavon and Houngbédji, thus betraying his alliance with Yayi, at least upon a first reading of the event. His tactic was more subtle, though, as it consisted of playing off Yayi against Houngbédji to extract from the former the concession that he was seeking. Once more, his political stratagem paid off, as he was awarded the contracts for Bénin Control (the new name of the PVI) as well as other highly profitable business deals. The big loser was Ajavon, who was indicted by Yayi for alleged tax evasion.

Surprisingly, only one year after the election, disagreements about the way of sharing the spoils of state power led Talon into a poisonous conflict with President Yayi (Yayi actually accused Talon of having attempted to poison him), following which he was forced into exile in France. In essence, Yayi found Talon too greedy. In this way, even though it was Talon who bankrolled two successful campaigns for Yayi, the two men became involved in what has been called 'one of the more bizarre falling-outs in West African politics in recent years' (Corey-Boulet, 2019).

Talon did not give up, however. He clinched a deal with Dossou, a businessman with interests in the railways, and with his old enemy Ajavon. Determined to return to his country and to retrieve his business privileges, he discreetly prepared his campaign for the presidential election of 2016. This move did not please Ajavon and Dossou, who considered it a violation of their tacit agreement, according to which supreme state power should remain in the hands of politicians. In reaction, Ajavon decided to apply as a candidate for the presidency himself. As a result, Benin's two highest net worth individuals started to confront each other openly on the political terrain. The saga did not end there because, upon reflection, the two men understood that the priority lay in breaking Yayi's system. Talon took the lead over Ajavon, but made heavy concessions that included reimbursement of all the state debts of Ajavon's commercial companies. Talon became president, but quickly came to the conclusion that the demands of his partner-rival were impossible to meet. Ajavon responded angrily and in due course became the number one enemy of the regime.[7]

The end result of this succession of political moves and counter-moves is a triangular struggle between three Big Men or oligarchs: Yayi, Talon, and Ajavon. This struggle, which has come into the open through political contests, is devastating for the long-term development of the country, not least because it reinforces the idea that, behind the façade of parliamentary democracy, the key operators think only of lining their pockets rather than promoting national progress. Not surprisingly, any attempt to combat corruption is viewed as a partisan move by its initiator to crush political enemies and business rivals.

[7] This discussion is largely based on Mensah (2018).

For instance, critics blamed President Talon for being selective and overzealous in his anti-corruption campaign. This applies to his initiative of creating the Court for the Punishment of Economic and Terrorism Infractions (CRIET in its French acronym), which has been used to prosecute figures like Ajavon (sentenced to twenty years in prison on drug-trafficking charges). It is therefore not surprising that the Court stands accused by the opposition of using trumped-up charges driven by political motives (Corey-Boulet, 2019). More generally, it is striking that when scandals are exposed and when the government demands audits that ultimately point to the responsibility of ministers and high-level public servants, those persons are barely punished and the money embezzled or unduly appropriated is not repaid.[8] Such visible impunity provides an important reason for the lack of trust of the people of Benin in their judicial system.

According to expectations, Benin has been characterised by 'anarchic multipartism', as reflected in a proliferation of political parties. The number of political parties reached 200 in 2015, while it was only 36 about twenty-five years earlier. Combined with the rule of proportional representation, this situation has led to an unprecedented atomisation of the country's political landscape. The question then arises as to how such ethno-political fragmentation squares with the aforementioned system of patrimonialism with multiple oligarchs. Two main points need to be made here.

First, the growing practice of 'cross-party transhumance' indicates that ethnic affiliation was not a rigidly defined, overwhelming criterion conditioning access to a particular political party. Joining a party or a political faction is obviously motivated by considerations from which self-interest is not absent and in which the personal qualities and winning chances of the leader play a non-negligible role.

Second, political parties tend to be regrouped into large federations for the purpose of supporting a particular candidate. Thus, the FCBE (Forces Cauris

[8] There is a long list of such scandals. Among others, we can pinpoint the scandal surrounding construction works for the summit of the Community of Sahelian-Saharan States (CEN-SAD) in Cotonou (2008); the tax evasion scandals involving Ajavon (2009–2012 and 2014–2016); the over-invoicing scandal regarding the purchase of agricultural machinery within the framework of the Programme de Promotion de la Mécanisation Agricole (Promotion Programme for Agricultural Mechanisation) in 2010; the corruption detected in the construction of the new building intended for the Chamber of Commerce and Industry of Benin in Porto-Novo (2009–2011); the embezzlements at the level of the Ministry of Youth and Sports on the occasion of the organisation of the African athletics championship (2012); the scandal around the attribution of the PVI (2011–2012); the scandal related to the Maria Gleta electricity project (2013); the so-called affair of the Caisse Nationale de Sécurité Sociale (National Social Security Fund), which came into the open in 2013 following a report submitted by Ajavon (who himself managed the fund between December 2009 and March 2013); embezzlements in connection with the construction of the Parliament building (2006–2015); and the corruption around the Programme Pluriannuel d'Appui au Secteur de l'Eau et de l'Assainissement (Multiyear Program in Support of the Water Sector and Water Purification, PPEA 2), a project financed by the Dutch government (2015). For more details, see Adoun and Awoudo, 2008, 2015.

pour un Benin Emergent) is a collection of about forty small parties determined to back President Yayi. The political party Union fait la Nation, created in 2008, has attracted his opponents and gave its support to Adrien Houngbédji during the 2011 presidential election. Alliance Soleil (Sun Alliance) regroups parties from the north, with the exception of those allied with Yayi. The party of Ajavon (Union Sociale Libérale) is anchored in the Ouémé region, which forms his electoral basis. As for Talon, he eventually consolidated all his support bases into two major blocs. These blocs were the only ones sanctioned by the electoral commission in the 2019 parliamentary election, a decision that Talon justified by the need to avoid political fragmentation.

The important point is that political alliances struck in the form of confederations of parties continuously evolve according to the interests of the Big Men at their helm. If regional and ethnic affiliations play an undoubted role in the prevailing political alignments, then it is important to note that they are not the only factor at play.

That said, the rise of Talon to supreme power in 2016 could well prove to be a game changer in Benin. As pointed out in the previous section, this rise marked the defeat of the old political elite at the hands of the business elite, which was no more satisfied by the constraints placed on its expansion and ambitions. Since Talon has taken various measures to consolidate his power, the question arises as to how a more authoritarian rule will affect the country's destiny. A priori, the profile of a president-cum-oligarch raises serious doubts about his ability to design enlightened policies that give priority to common good considerations. But it could be retorted that precisely because he exerts significant control over the economy and is very wealthy, the president-cum-oligarch can now pursue other ends that will promote his fame and reputation as a leader who rescued his country from stagnation and even pervasive corruption.

It is of course too early to form a judgement on such a thorny issue. Two facts tend to indicate that the combination of politics and business in a single figurehead ought perhaps to be given its chance in the specific context of Benin. For one thing, there is no denying that the new president has so far shown a determined willingness to launch important reforms and to establish clear priorities. Overall, these priorities go in the right direction, as they are addressing key constraints that hamper the country's economic development. Especially worth singling out are the reforms of the education system (with an emphasis on the creation of technical schools and training institutions), plans for infrastructure expansion, and measures intended to diversify the economy in the sense of adding value to agricultural and raw material (e.g. cotton) products. Furthermore, a war against corruption has been declared and in just a few years the petty corruption that was so extensively observed under all the previous regimes (harassment and bribe taking by the police in particular) seems to have been significantly reduced as a result of drastic sanctions introduced by Talon. Such results can earn him popular support among ordinary people. Taking this into account, it remains to be seen how a president-cum-oligarch can surmount the numerous conflicts of interests that are bound to beset his rule. For example, how can a man who privately controls the customs end corruption in that vital part of the revenue collection system? And how can his monopoly position in key sectors of the economy (including oil distribution) be made to work for the general good?

V CONCLUSION

There are four main lessons to draw from this overview.

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

Second, Benin is characterised by the presence of multiple ethnic groups, some of which also live beyond the country's borders. Ethnic fragmentation is not necessarily an impediment to development, especially if it helps escape situations of persisting opposition between two antagonistic groups, such as has been found in Rwanda and Burundi. If in the past politics has been largely defined by the north–south divide, today it appears to be the locus of competition between multiple factions that enter into shifting alliances. Consequently, political power does not belong to one group at the definite expense of the other groups. However, the fact that the contending factions tend to take a 'winner-takes-all' approach to power has the effect of raising the stakes of elections and promoting particularised privileges instead of policies aimed at the country's long-term economic development.

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

Fourth, there definitely seems to be a critical problem with the justice and tax collection systems in Benin. People's level of trust in the courts as well as the judges and magistrates is very low, and they tend to believe that the latter are often corrupt. People also tend to believe that tax officials are corrupt. These worrying findings should mitigate the optimism of those who praise Benin's democratic system since the Democratic Renewal took place. In fact, a careful analysis of the way this system works in practice reveals that it operates as a patrimonial system with multiple Big Men or oligarchs, most of whom have accumulated big fortunes and see state power as an instrument to advance their economic interests. Impunity for embezzlement or undue appropriation of public assets or money, as well as the partisan character of accusations, nurtures popular discontent and anger against power holders. Moreover, the coalitions and counter-coalitions they form in pursuit of the control of state positions, whether vicariously or not, create a great political instability that further undermines long-term national development.

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2

Exploring the Reasons behind Modest Economic Performance*

Romain Houssa and Paul Reding

This chapter reviews Benin's economic development performance, within its historical and institutional context as well as in recent years. Its aim is to identify the main economic challenges the country's development is facing. How some of these challenges are linked to the characteristics of Benin's economic, social, and political institutions will be examined at a later stage. This deeper analysis of particular aspects of the Beninese development challenges will be undertaken in several thematic chapters in the second part of this volume.

The chapter is organised in six sections. Section I focuses on the somewhat disappointing growth performance and the apparent lack of a powerful and sustainable engine of growth. Section II focuses on the two key sectors of the Beninese economy: cross-border trade (CBT) with Nigeria and production and export of cotton and other agricultural products. Section III considers the foreign trade context, highlighting the largely illegal CBT flows with Nigeria as one of its specificities. Section IV is devoted to macro-economic aspects, with emphasis on key issues in public finance and the financing of the economy. Section V concentrates on social aspects, achievements, and limitations of Beninese development. Section VI intends to identify the Beninese economy's 'binding constraints' for which a deeper analysis is required.

I GROWTH PERFORMANCE OVER TIME AND CHANGING ECONOMIC CONTEXT

A Aggregate Growth

Benin's growth performance has been relatively modest since independence. With an estimated US$3,161 gross domestic product (GDP) per capita (at

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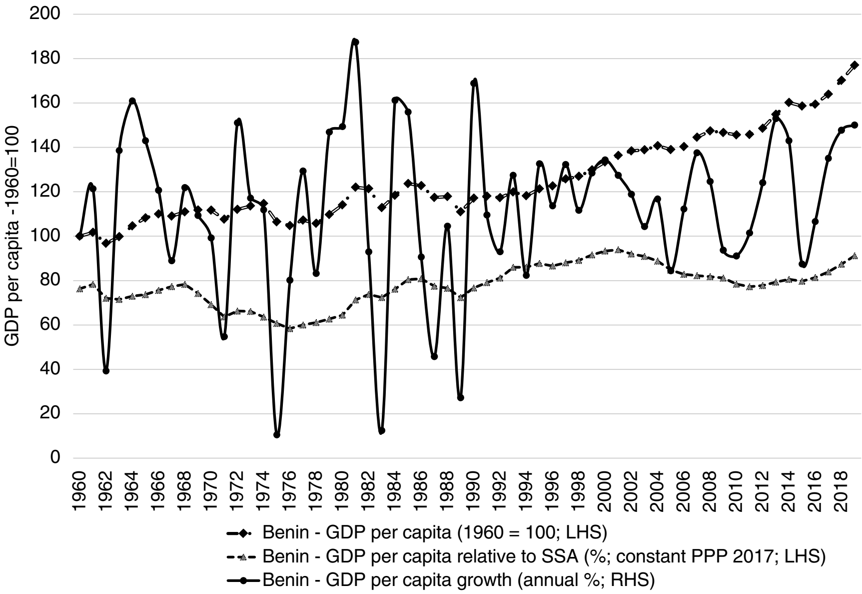

FIGURE 2.1 Benin's GDP per capita: levels, absolute and relative to sub-Saharan Africa (1960 = 100), and growth rates, 1960–2019. LHS, left-hand side; RHS, right-hand side. Sources: Author's calculation based on data from World Development Indicators (WDI).

2017 international prices) in 2018, Benin ranks among the world's poorest countries, just at the upper limit of the poorest 15 per cent. As can be observed from Figure 2.1, its real GDP per capita was only 72 per cent higher in 2018 than in 1960, reflecting a weak annual growth rate of 0.94 per cent. Total GDP growth has been considerably faster, but it bears emphasis that three-quarters of it have been amputated by the high population growth rate (2.85 per cent on average). As in other sub-Saharan African (SSA) countries, population growth continues to be an important challenge: while it is expected to decline slowly, it should still reach 2.5 per cent per year in 2030.[1]

Benin's growth performance from independence in 1960 to the present time closely matches the major changes in economic policy the country has witnessed under its successive political regimes. One can accordingly distinguish three main subperiods:

1 1960–1972: *Post-Independence Instability*

Political instability went hand in hand with low and very volatile growth during this period. GDP per capita grew by 1 per cent per annum, less than

[1] United Nations (2019). The data reported in the text for Benin are those of the medium variant of the projections. For 2030, the high variant population growth rate is 2.77 per cent per year and 2.21 per cent for the low variant.

the average SSA country (2.26 per cent). The economy had essentially kept its colonial features with agricultural exports – mostly seed cotton– as the dominant activity and France as the main trading partner.

2 1973–1989: The Socialist Experience, the Ensuing Financial Crisis, and the Structural Adjustment Programme

During this period, the Marxist and military regime managed the economy through state control and central planning. The major industries and banks were nationalised and public involvement in the agricultural sector became important through government-owned enterprises. Economic growth was quite uneven because of both domestic and foreign causes.

Growth was weak in the early years (1973–1976) of the period, with a big drop in 1975 because of the oil crisis and a poor performance in the cotton sector. It then picked up, under the pull of large public investments and of strong demand from Nigeria. However, major macro-economic imbalances became apparent in the early 1980s, which quickly led to an unsustainable external public debt – 75 per cent of GDP in 1985 – and to the collapse of the whole banking system in 1989.

Amid the financial crisis, Benin had to request debt relief from its creditors and new external financing. In 1989, a Structural Adjustment financing agreement was set up with the World Bank, the International Monetary Fund (IMF), and other multilateral and bilateral donors. The *macro-economic adjustment* part of the package focused on reducing public spending and liquidating public enterprises. The correction was all the more severe because Benin's fixed exchange rate commitment within the West African Economic and Monetary Union (WAEMU) prevented resort to a devaluation.

These severe shocks resulted in a dismal growth performance of Benin's economy for the whole 1973–1989 period. A telling testimony to the severity of these shocks is that GDP per capita turned out to be at the same level at the end of the period as it was at the beginning.

3 1990 and after: Market-Oriented Reforms but Modest Overall Growth

Wide-ranging economic reforms were initiated in 1989 within Benin's Structural Adjustment Programme (SAP). They ranged from liberalising trade, to lifting domestic regulations, to improving the performance of a downsized public sector, to restructuring the banking system.

Growth picked up again after 1990, and Benin even grew more rapidly than the average SSA country throughout the 1990s. Yet, it is difficult to assess to what extent this improvement was due to the liberalisation of the economy or to favourable external circumstances, including cotton exports and CBT with Nigeria at the end of the period.

Growth slowed down a bit after 2002, unlike in the rest of the region, and it became more volatile. Yet, a clear acceleration seems to have taken place over the last five years or so: the annual growth rate of GDP per capita achieved

2.5 per cent on overage, an unprecedented performance when compared to the last three or even four decades.

B Growth and Structural Change

Economic growth always comes with structural changes: some sectors increase their weight in total output while others, typically agriculture, recede. Structural changes also explain the growth of labour productivity, and thus of GDP per capita. Indeed, overall productivity gains result from both the reallocation of labour from least to more productive sectors of the economy and from productivity gains within sectors. This section analyses the structural changes that took place in Benin, as well as their contribution to growth. We proceed in two steps. First, we discuss briefly the results of a 'growth accounting' aggregate analysis that spans the 1970–2017 period. Second, we examine the relationship between aggregate growth and the sectoral structure of activity and employment. This sectoral analysis had to be restricted to the 1999–2017 period, and sometimes even a shorter period, due to limited availability of fully time-consistent data.[2]

The *growth accounting analysis* decomposes GDP growth into the contributions of the production factors, labour and capital, and of total factor productivity (TFP). Appendix 1 to this chapter presents this decomposition for the five decades since 1970. A striking result emerges, which is the contraction of the capital-per-capita ratio over the whole period since 1970. Capital only weakly contributed to growth, except in 1971–1980 (a period of substantial public investment) and in the very recent years when, at last, some capital deepening occurred again. It thus appears that, by and large, growth of GDP per capita, which largely coincides with labour productivity, has mostly resulted from TFP growth, at least since the 1980s. TFP growth appears to have more than compensated for the effects of the decline in capital intensity. It turns out, however, that the observed changes in TFP largely reflect the major changes that have occurred in the sectoral structure of the economy rather than autonomous productivity gains. This is what we argue in what follows.

[2] Detailed national account data published by Institut National de la Statistique et de l'Analyse Economique (INSAE) and the Ministry of Economics and Finance are available since 1990, but rest on a methodology, especially a classification of industries and activities, which was profoundly overhauled in the early 2000s. The national account data under this new methodology are only available since 1999, while the publication of those following the old methodology was discontinued after 2012. The methodological changes in the sectoral classification are too important to allow for combining the data to cover the full 1990–2017 period. Benin's national accounting system has recently been overhauled again, providing for a greater use of survey data. This rebasing was officially introduced in 2019, starting with the 2015 data (see INSAE, 2019). As a consequence of the new methodology, nominal GDP has been re-evaluated by 37 per cent relative to the previous system of accounts. For consistency reasons, we stick in this section to the older system of accounts.

TABLE 2.1 *Sector-based structure of GDP (per cent of value-added at current factor prices) and informality ratios*

	1999–2003	2004–2008	2009–2013	2014–2017	Average
Primary	26.0	27.7	25.5	23.9	25.8
Informality ratio	1.00	1.00	1.00	1.00	1.00
Secondary	32.4	28.7	24.1	24.3	27.4
Informality ratio	0.66	0.69	0.67	0.61	0.66
Tertiary	41.6	43.6	50.4	51.9	46.9
Informality ratio	0.43	0.44	0.45	0.45	0.44
GDP (factor costs)	100.0	100.0	100.0	100.0	100.0
Informality ratio	0.65	0.67	0.64	0.62	0.65

Source: Author's calculation based on data from Institut National de la Statistique et de l'Analyse Economique du Bénin (INSAE) for 1999–2015 and Ministère de l'Economie et des Finances (2017) for 2016/17 provisional data. The informality ratio is defined as informal over total value-added.

To assess the extent of the structural changes, we first focus on broad patterns. Table 2.1 shows that the primary (mostly agriculture) and tertiary (services, broadly defined) sectors dominate Benin's economy in terms of gross value-added at factor cost (GVA). The share of the primary sector has been decreasing over the whole period, but it is remarkable that it did so only recently, suggesting indeed the limited dynamism of the economy prior to recent years. The share of the tertiary sector has increased, another typical pattern of the development process. It now represents more than half of total GVA – that is, of GDP. At the same time, however, the share of the secondary sector (manufacturing, utilities, and construction) declined, which points to quite a worrying aspect of Benin's development.

Table 2.1 also reports the large role played by the informal sector in Benin: two-thirds of GDP originate in the informal sector. The ratio is equal to unity in the primary sector, where all activity is recorded as informal. It is approximately constant in the two other sectors, but declines overall because of the falling weight of the primary sector. Altogether, however, the change in informality has been limited and concentrated in the recent period.

Table 2.2, adapted from Haile (2018), zooms in on the most recent period (2006–2015) and provides more disaggregated data.[3] It combines GVA and employment data, from which it is possible to derive relative levels and changes in sectoral labour productivity. It also provides an interesting decomposition of the overall change in labour productivity.

[3] Haile (2018) combines Beninese national account data with employment data taken from three waves of surveys of household living conditions (*Enquête Modulaire Intégrée sur les Conditions de Vie des Ménages* (EMICoV) 2007, 2011, and 2015) and complemented with the World Bank's International Income Distribution Data Set (I2D2).

TABLE 2.2 *Structural changes in the Beninese economy and decomposition of changes in labour productivity, 2006–2015*

	Sectoral structure of GVA and of employment (Empl.). Sectoral levels of labour productivity (LP)						Sectoral decomposition of change in aggregate labour productivity (Annualised percentage changes)		
	2006			2015			Contribution of		
	GVA	Empl.	LP	GVA	Empl.	LP	Structural change (inter-sectoral)	Productivity within sector	Total
Agriculture	26.9	59.4	0.41	22.3	42.1	0.52	1.02	0.69	1.71
Mining	0.5	0.1	5.31	0.4	0.1	4.47	0.00	−0.01	−0.01
Manufacturing	20.1	7.3	2.51	14.7	7.8	1.86	0.07	−0.60	−0.53
Utilities	0.4	0.2	2.33	1.1	0.2	5.95	0.01	0.08	0.09
Construction	7.8	2.3	3.16	8.0	2.7	2.93	0.11	−0.07	0.04
Commerce	13.5	19.1	0.64	13.5	28.7	0.46	−0.47	−0.53	−1.00
Transport	7.7	3.3	2.12	10.0	4.5	2.19	0.18	0.03	0.21
Finance	1.5	0.2	6.76	5.6	0.2	24.70	0.04	0.47	0.51
Other services	21.4	8.2	2.37	24.3	13.7	1.75	0.75	−0.83	−0.08
Total	100	100	0.91	100	100	0.98	1.73	−0.77	0.96

Source: Author's calculation based on data from Haile (2018) – excerpts from text Table 3 and from Appendix Tables 1–3. The category 'Other services' includes public administration, education, health, real estate, renting and business activities, and community, social, and personal services. The data for GVA and employment (Empl.) are sectoral shares, in percentages; productivity levels (LP) are expressed in constant 2007 Communauté Financière en Afrique (CFA) franc (in millions)

On the GVA side, the table roughly confirms the conclusion of Table 2.1; that is, a recent drop in the share of agriculture, a slightly larger drop in manufacturing, and a continuous increase in services, with a surge in finance and to a lesser extent transport. The latter evolution is related to the surge in re-exports from Cotonou's port after 2011, as will be shown later. On the employment side, the most noticeable change is the huge drop in the share of agriculture essentially in favour of commerce, other services, and, to a lesser extent, transport. Equally noticeable is the extremely limited change in the employment share of the other sectors, especially manufacturing.

This reallocation of output and employment across sectors entails strong changes in terms of sectoral productivity relative to the overall productivity gain – which proceeded at an annual rate a little below 1 per cent a year. Agriculture has seen its share in both GVA and employment decline, but the latter more significantly so. As a consequence, its productivity has substantially increased, while remaining among the lowest across sectors. This probably means that the sector has shed its 'surplus workers', those with very low productivity.

Manufacturing has kept a stable, relatively minor share in total employment. As its share in GVA has fallen by 5 percentage points, its level of labour productivity has fallen too, possibly indicating a change towards lower-productivity activities. This decline of labour productivity in manufacturing is also observed in other West African countries, but it is more pronounced in Benin (see Haile, 2018). Furthermore, as can be seen in the left-hand panel of Table 2.2, the sector's absolute productivity went down in Benin at an annual rate of 3%. This significant downward trend is presumably due to a combination of factors, among which is insufficient competitiveness, possibly reflecting the lack of investment in physical and human capital noted earlier, as well as other constraints relating to the business environment and public infrastructure (see, e.g. Ministère de l'Economie et des Finances, 2019, pp. 28–33; see also Section 2.4).

The same major drop in labour productivity can be observed in 'commerce' and 'other services', which make up more than one-third of total GVA. As a matter of fact, labour productivity in the former sector had become lower than in agriculture by 2015, as if those surplus or low-productivity workers in agriculture who migrated towards commerce simply shared the value-added potential of this sector with the incumbents. The phenomenon is less pronounced in 'other services', which include the government sector where productivity is essentially assimilated to wages, higher than in the rest of the economy.

Outside agriculture, utilities, transport, and finance are the only sectors where productivity has not decreased. The latter two sectors most likely benefited from a surge in CBT with Nigeria and the re-export of imports arriving at Cotonou Autonomous Port. There is no doubt that this boosted the transport sector. It also boosted the finance sector through trade financing on the import side of re-exports to Nigeria.

The general picture that comes out of this evolution of the structure of output, employment, and productivity is rather worrying. While most of the limited overall productivity gain in Benin between 2006 and 2015 was due to labour leaving low-productivity agricultural activities to work in higher-productivity sectors, it has come at the cost of decreasing productivity in the latter. In other words, no sector could be really considered as a growth engine in Benin, except perhaps the financial sector, but with practically no impact on employment.

This view of economic growth in Benin appears fully consistent with the growth accounting exercise summarised earlier where TFP was found to be the main source of growth. It is clear that most of that TFP growth is attributable to net labour migration out of agriculture, with no autonomous productivity gains in the destination sectors.

The last columns of Table 2.2 show a decomposition of the aggregate productivity gain of the Beninese economy into two parts: first, the part attributable to changes in the structure of employment; and second, the part attributable to changes in within-sector productivity. The result is appalling and fully confirms the preceding conclusions. Per se, the reallocation of labour away from agriculture into commerce and other services contributed to an annual growth of overall productivity equal to 1.73 per cent. Yet, sectoral productivity changes contributed negatively, at an annual rate of –0.77 per cent to the change in overall labour productivity. While productivity increased in the agricultural sector, because of surplus labour leaving the sector, it decreased in other major sectors of the economy. Thus, the general picture is that of workers leaving the agricultural sector because there are better income opportunities elsewhere, but, as a matter of fact, essentially reducing income per capita in the destination sectors.

Benin's economic development until the mid-2010s can be summarised by a dismal rate of capital accumulation, and the total lack of a growth engine able to push the whole economy forward. Instead, the little growth that has taken place over the last few decades seems more consistent with some income gain from CBT with Nigeria or cotton exports fuelling limited growth in demand for domestic services. In any case, it is doubtful whether the agriculture-cum-service model that seems to be the pattern of Beninese growth over the last decades can be the source of sustainable development. Strong productivity-enhancing strategies are needed.

II LEADING REAL SECTORS: ACHIEVEMENTS AND CHALLENGES

Cotton and CBT are the two leading sectors of Benin's economy. Together they generate one-third of the country's GDP, 13 per cent and 20 per cent for cotton and re-exports, respectively.[4] Cotton also represents around 70 per cent of Benin's total exports, excluding re-exports. Cotton is mainly exported to Asia,

[4] These estimates are obtained from MAEP (2008) and Golub (2012a, 2012b) for cotton and CBT, respectively, although it will be seen shortly that the latter is probably overestimated.

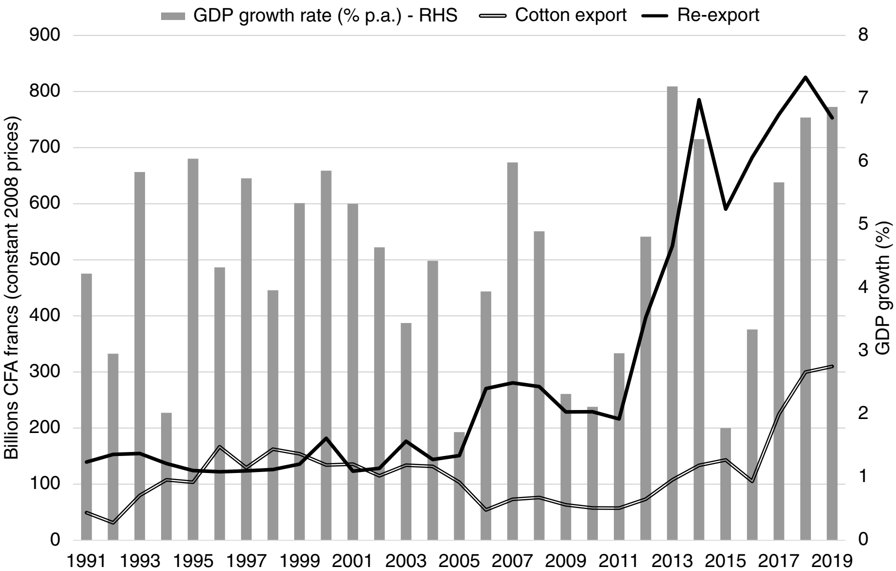

FIGURE 2.2 Benin's GDP per capita: exports of cotton and re-export of goods, in real terms, and GDP annual growth rates
Source: Author's calculation based on Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO, 2019) balance of payments data; WDI for GDP growth and Consumer Price Index (CPI) data used to estimate real trade data.

Europe, and the USA, whereas CBT involves importing goods from Asia and Europe through the harbour of Cotonou and later re-exporting them to neighbouring countries, in particular Nigeria. The leading role of cotton and re-exports is also evident from Figure 2.2, where a clear correlation emerges between GDP growth cycles and those in cotton exports and merchandise re-exports. Growth decelerates when cotton exports fall from 2000 until 2005, picks up temporarily when re-exports rise, before accelerating when both surge after 2011. A similar scenario can be observed with the 2015 recession and the following recovery.

Because of their crucial importance for Benin's economy, the two following subsections will be devoted to an in-depth discussion of CBT and cotton production. The deep institutional factors and political economy aspects that characterise each sector will be further examined and assessed in dedicated chapters in this volume.

A Cross-Border Trade with Nigeria

Nigeria is the main recipient country of Benin's CBT, accounting for more than 90 per cent of Benin's re-export activities. The intense trade between the two countries stems mainly from differences in tariffs, trade restrictions, and subsidies. On the one hand, Nigeria uses tariff and non-tariff barriers as well as exchange controls to protect domestic industries in a number of economic sectors, including cars, textiles, cigarettes, and food items (see, e.g. Igué and Soulé (1992); De Melo and Ugarte (2013); Golub (2012a) for further discussion). Prices for these goods are consequently higher in Nigeria than in Benin, which abides by the lower WAEMU tariff rates. On the other hand, Nigeria, an oil-producing country, subsidises domestic petroleum prices, which are thus lower than formal prices in Benin. These important price differentials between Benin and Nigeria for certain categories of products are a strong incitement to circumvent Nigeria's import tariffs and trade restrictions through smuggling operations across a long – and porous – border into Nigeria for Benin's re-exports, and into Benin for Nigerian petroleum and some other products.

The context within which this trade operates is thus intrinsically one of informality and illegality. The import process of the goods intended for the Nigerian market is itself fully formal and legal. It is operated by formal firms, which trade with local and international contractors, borrow from formal banks, and pay income taxes. Related infrastructure, both public (port, customs) and private (parking lots for used cars, warehouses for other products), has been set up in an open and regular way. The unofficial (illegal) aspect of CBT with Nigeria occurs at a later stage when goods that benefited from low customs duties and taxes, because they were declared either for domestic use or for transit to other (landlocked) neighbouring countries, are smuggled to Nigeria. On the other hand, the smuggling of goods bought in Nigeria into Benin is of course utterly unlawful.

The unofficial nature of an important part of the re-exports makes it very difficult to rigorously document their size and estimate their economic impact. The most frequently cited estimate by Golub (2012a) is based on unofficial trade in used cars, which represents a large part of the total unofficial re-export trade to Nigeria. Extrapolating from these data to the whole trade, Golub (2012a, p. 215, 2012b, p. 1159) estimates that the contribution of re-exports to GDP is about 20 per cent and that it directly involves 50,000 people. Such a large estimated contribution of CBT to GDP seems out of proportion with the estimated effects on employment, however. Based on rough approximations described in Appendix 2 to this chapter, we feel that a 10–12 per cent contribution to GDP would be a more reasonable range of estimate.

Since the unofficial CBT with Nigeria is very lucrative for the Beninese economy and since it generates significant tax revenues for the country, it is not only tolerated but even encouraged by the Beninese authorities. Yet, there are important downsides associated with it.

First, Benin has become very vulnerable to changes in economic conditions and trade protection policies in Nigeria. Concerning the latter, Nigeria has not only often changed import tariffs on protected goods, but has also recently closed its border with neighbouring countries, with dire consequences for the Beninese economy. Tellingly, almost half of the volatility of GDP growth in Benin is due to the volatility of the Nigerian economy, itself very much the result of the volatility of global oil prices. A regression of Benin's GDP growth on the growth of household consumption in Nigeria over the 1980–2017 period suggests that a one standard deviation shock in the latter – not an infrequent event – produces a 1.3 per cent change in Benin's GDP – a little less than half the standard deviation of GDP growth (see Appendix 3 to this chapter). This means that although Benin is not an oil-exporting country, it has acquired some of the features of the latter through its excessive dependence on trade with Nigeria.

Second, the smuggling of goods from Nigeria into Benin and the ensuing artificially low prices of these goods hamper the development of locally produced goods, like textiles and rice for example.

Third, the illegality inherent in most of the trade between Benin and Nigeria severely damages Benin's public institutions because of the corruption, tax evasion, and possibly government capture that it entails. This is true at every level in the public sector, but the scale at which the unofficial CBT is organised necessarily implies high-level political connections on the part of the bigger operators, in both countries. The risk of political capture is also strengthened by the illegal practices associated with re-exports, as is evident from the political infighting involving big CBT players.[5]

Finally, the permanent tolerance, instead of repression, of fraudulent activities by the authorities does worsen the general business climate because low standards of honesty, compliance with the rule of law, and respect for the country's institutions have spilled over to other sectors. Consequently, while illicit CBT benefits both countries, it also entails large costs and Benin needs to urgently rethink its development strategy, to make it less dependent on illicit CBT.

B Cotton Exports: Historical Heritage and Changing Organisational Structure

Cotton production is a major sector of Benin's economy and the livelihood of one Beninese out of three depends on it. Cotton does not only play a major economic and socio-political role in the countryside, but forms the basis of more than half of Benin's industrial production. It also accounts for about 60–70 per cent of export revenue (excluding re-exports) and 45 per cent of tax revenue (excluding customs revenue). Overall, cotton is estimated to account for 13 per cent of Benin's GDP (MAEP, 2008). This number seems rather large, however, and a contribution within the range of 7–10 per cent seems more reasonable. Indeed, using the average ratio of Benin's total exports relative to GDP of

[5] A telling example is Sebastien Ajavon, a leading importer of frozen poultry from France, where he has invested in chicken farming, into Benin. His firm COMON S.A. is the major player in the unofficial CBT of poultry into Nigeria, where this product is officially banned. He financed the campaigns of politicians close to his business interests before himself running as a candidate in the 2016 presidential election. See also Chapter 1 and Mensah (2018).

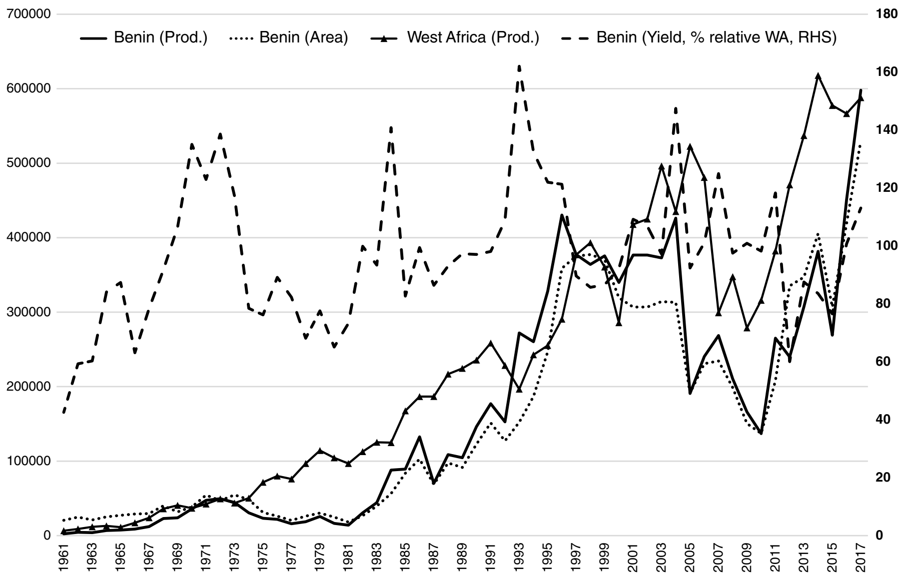

FIGURE 2.3 Performance of the cotton sector in Benin and West Africa
Sources: Author's calculation based on data from Food and Agriculture Organization (FAO) Corporate Statistical Database (FAOSTAT). Benin's data over the period 2016–2017 is obtained from INSAE and the Association Interprofessionnelle de Coton au Bénin (AIC) and is being updated in the FAOSTAT database. Note: West Africa (WA) is a simple average of data from Burkina Faso, Cote d'Ivoire, and Mali. Production is in tonnes, Area in hectares, and Yield is in percentage relative to the value of average yield in the other WA countries.

about 17.8 per cent in 1960–2016 and considering the 60 per cent share of cotton in Benin's total exports indicated earlier, we arrive at an estimated GDP ratio of 10.6 per cent. Furthermore, if we take into account that the share of cotton in Benin's total export revenue is probably overestimated and if we use instead the data from the Observatory of Economic Complexity (OEC, see https://oec.world), we find a ratio of cotton revenues to GDP of about 7 per cent, which is the value reported by the World Bank (2016).[6]

Beninese cotton production followed a bumpy expansion after independence until 1997, after which production plateaued for seven years. This period of stagnation was immediately followed by a sharp decrease in production in the years between 2004 and 2009, caused by a decreasing dollar price of cotton whose negative impact was further amplified by a persistent appreciation of the CFA Franc. As can be seen in Figure 2.3, this decrease has been particularly severe in Benin compared to its francophone neighbouring countries (Burkina

[6] However, potential indirect effects of cotton through the demand and supply sides of the economy are not taken into account in our estimates.

Faso, Cote d'Ivoire, and Mali), suggesting that other country-specific factors have exacerbated the effects of the shock in Benin.

Benin's cotton sector has indeed been characterised by excessive political interference since independence and has known long periods of instability, oscillating between private and public modes of governance. This instability was particularly severe after 1990, when the sector embarked on a failed process of liberalisation and privatisation. The causes of the failure are multiple: (1) political actors controlled the whole reform process and thereby made reforms vulnerable to regime changes; (2) liberalisation did not lead to competition, as officially intended, because the allocation of seed cotton was administratively decided and the procurement of seed cotton was not transparent; (3) the rules (e.g. about input quality assessment, input import and distribution, quotas of cotton seeds) were not considered credible since there were no clear enforcement mechanisms against those who violated them; and (4) the reforms were not appropriated or owned by the local authorities since they were undertaken at the behest of donors.

The huge instability of the cotton sector and the failure of reforms are further apparent from the high volatility and the lack of growth of cotton yields over time (Figure 2.3). The value of Benin's yield lags on average four basis points behind that of other countries.

C Non-cotton Agricultural Exports: An Ancillary Driver of Growth?

Besides cotton, there is a wide variety of other crops, including cassava, maize, cashew, pineapple, palm oil, rice, and vegetable, that could be the basis of a dynamic agro-industrial export sector and even become altogether an ancillary engine of growth, along with cotton. Among those the case of cashew is particularly interesting. Its share in export revenues more than quadrupled in the period between 1995 and 2018, reaching 16.9 per cent at the end of the period (OEC). As a result, cashew has become the second most important contributor to Benin's export revenue and accounts for 3 per cent of GDP.

Yet, different institutional shortcomings prevent Benin from fully capitalising on the rising world demand for cashew nuts (see www.nutfruit.org/industry) and utilising its natural advantage in cashew production in the central and northern parts of the country. Insecure land property rights (treated in depth in Chapter 7) and insufficient access to external finance have led to underinvestment, for example in the replacement of older trees. This is reflected in the low yields of cashew in Benin (356 kg/ha in 2019) compared to Nigeria (715 kg/ha) and Togo (1530 kg/ha) (FAOSTAT database).

In addition, high costs of electricity and the use of less advanced technology impair the competitiveness of processing firms. Coupled with poor organisation and integration of the actors operating in the sector, this has led to a situation where the bulk of raw cashew is exported essentially to Vietnam and India, instead of the markets of the buoyant advanced economies.

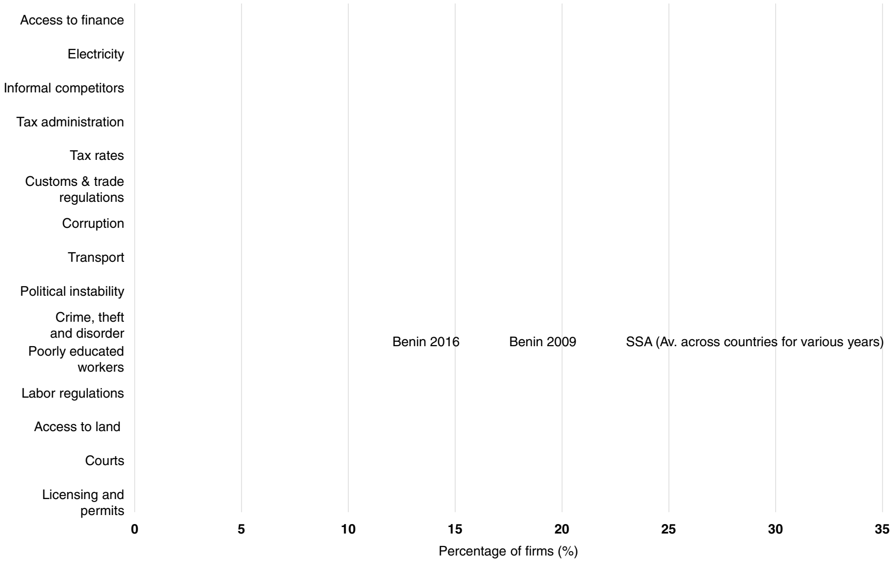

FIGURE 2.4 Major constraints to private firms in Benin and sub-Saharan Africa
Source: Author's calculation based on data from World Bank Enterprise Survey (various years).

D Obstacles to the Development of the Non-agricultural Business Sector

The non-agricultural business sector, excluding CBT with Nigeria, accounts for around 45 per cent of Benin's private sector. It has been characterised by slow growth over the whole period since independence. Four major growth constraints can be highlighted based on the two waves (2009 and 2016) of the World Bank Enterprise Survey data: (1) external finance constraints; (2) deficiencies in physical infrastructure; (3) informal competitors; and (4) difficulties firms face in dealing with public administration (taxes, customs, and trade regulations). Worryingly, these constraints are not only more severe in Benin than in the average SSA country, but they have also been increasing over time (Figure 2.4). This is particularly true for access to finance and electricity, which will be treated in more detail in the following two subsections.

1 Financial Constraints

The Beninese formal financial sector operates under the supervision of WAEMU and includes three categories of institutions: commercial banks, formal micro-finance institutions, and other financial institutions (e.g. pension funds and insurance companies). The informal system, on the other hand, does not have the capacity to finance any enterprise other than micro-businesses. It

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does so through numerous micro-finance institutions (MFIs), which altogether amount to a tiny share of the financial sector's assets.[7]

According to existing reviews of the financial sector by the IMF (2016, 2018a and 2019), the weak lending performance of Benin's banks could be explained by several institutional factors. The first relates to asymmetries of information and the poor management of credit risks, which increase borrowing costs. To alleviate this problem, a credit centralisation initiative was started by banks in 2013 to exchange information on borrowers, but this system does not function well.[8] Private credit bureaus were also authorised in 2017, but the system is not yet operating. Second, there are weaknesses in banking supervision and regulation that undermine risk management in financial intermediaries and their performance. In some cases, long delays in banking dispute resolutions (due to corruption or bureaucratic inefficiency, for example) allow underperforming financial intermediaries to remain active for long periods of time, wasting resources in operating costs and undermining credit supply. Finally, there are important concentration risks. Credit is structurally concentrated on a very small number of large business groups (with a majority of activities linked to CBT with Nigeria). As a result, negative shocks in the trading sector, often originating in Nigeria, cause an important rise in the share of non-performing loans (NPLs), which ultimately makes borrowing more expensive for small and medium-scale borrowers. For example, a 1 per cent decrease in the Nigerian growth rate is associated with a 0.79 per cent decrease in the bank provisions-to-asset ratio in Benin (IMF, 2019, p. 42). In addition, Benin's banks are indirectly much exposed to government's laziness in meeting its payment commitments to the private sector, which affects business credit risks and makes lending to the private sector more expensive.

In addition to the factors already identified, bottlenecks in the judiciary and property sectors tend to discourage access to finance.[9] On the one hand, serious flaws in the judiciary system, including low capacity in handling financial issues and complex and long litigation procedures, complicate contract enforcement and discourage access to credit for certain categories of borrowers. On the other hand, the poor quality of property titles – especially over land assets – due to uncertain status, long delays in registration, and the high cost of verifying property titles, constrains the use of land as collateral and thus reduces the use of bank credit.

[7] In 2016, for instance, there were 685 MFIs, accounting for about 5 per cent of the overall financial sector's assets. However, only about 15 per cent of these MFIs were officially authorised, 85 per cent being therefore informal (IMF, 2016). More generally on the informal financial sector see Tomety (1999).

[8] One explanation could be the concentration of the banking sector. The banking system is concentrated on four banks, which account for about 80 per cent of the credit and capital of the system.

[9] Besides, quantitative constraints on the deposit side may also impede banks' lending to the private sector. For instance, a limited amount of term deposit may contribute to explaining low bank credit supply.

The poor functioning of the banking sector has limited the banks' capacity to lend to businesses and explains why the difficulty of obtaining external financing is the top structural constraint reported by private firms in the country. One out of three small and medium-sized enterprises (SMEs) in the 2016 World Bank Enterprise survey declared themselves to be suffering from involuntary exclusion from external financing. Furthermore, more than one-third of these firms attributed this to a lack of the proper collateral required by banks. Worryingly, these constraints have increased in recent years (from 2009 to 2016), which is surprising given that the financial sector has very much expanded over the same period – see Table 2.2. This may suggest that this expansion was directed more towards very specific activities, especially those linked to CBT.

2 *Physical Infrastructure*

A key problem that shackles Benin's economic development is the dearth and low quality of transport, electricity, and telecommunications infrastructure. Following the IMF (2018a, pp. 31–32), Benin scores systematically below the average SSA country according to an indicator meant to measure the overall quality of infrastructure. It indeed lags the average SSA country in terms of access to electricity, use of internet, public health, education, and transport infrastructures. But Benin performs well and sometimes even slightly better than other SSA countries in terms of access to treated water, mobile access, and port infrastructure.[10]

Concerning the electrical energy infrastructure, only one-third of the total population has access to electricity, which is slightly below SSA averages, according to WDI data. Benin's energy consumption (KWh per capita) is well below the SSA's and lower middle-income countries, about one-fifth and one-seventh, respectively. Also, electricity rates are generally higher in Benin and the quality of services – for instance frequency of outages – is worse than in other African countries.[11] To circumvent the failures of the electricity network Beninese companies have resorted to private substitutes (e.g. generators) that put a strain on their costs.

The supply and use of the Internet remain low in Benin, with only 11 per cent of the population using the Internet in 2015 versus 21 per cent in SSA countries (WDI). Progress in the adoption of information and communication technologies (ICT) turns out also to be remarkably slow compared to other African countries. This low use of internet services in Benin can be explained by (1) the lack of telecommunications infrastructure, although this may be

[10] One should however note that considerable geographical disparities exist with respect to infrastructure (INSAE, 2016b). For example, in terms of access to electricity, the three departments ranking highest are all located in the southern part of the country, while two of the three departments with the worst supply are in the north. In terms of access to drinking water, of the three departments with the best supply only one is in the north, while of the three departments with the worst access only one does not belong to the north.

[11] See the Report on the Diagnostic Trade Integration Study (DTIS) Update (World Bank, 2015b).

compensated by easy access to the 3G and 4G mobile networks; (2) the low availability of new technologies; (3) the high costs of the various services; and (4) the low quality of the connection and related services.

The development of roads, water, and telecommunications is a critical factor for the competitiveness and growth of an economy. Following the most recent World Bank logistics performance index, the quality of Benin's trade and transport infrastructure is slightly above the averages for SSA and lower middle-income countries, and rose steadily from 1.89 in 2007 to 2.50 in 2018.

The structural and multifaceted deficits in physical infrastructure in Benin raise the question of the factors that could explain this situation: is it a deficit in the public investment effort or a lack of efficiency of the latter? This will be briefly taken up later when discussing public spending.

III THE FOREIGN TRADE CONTEXT

A word of caution is necessary before discussing external trade issues for Benin. As reported in the previous section, Benin has vibrant CBT with Nigeria that is for a large part illegal. These large informal flows are not recorded in Benin's official export and import data, making interpretation of the latter difficult since part of imports are re-exported and not used in the domestic economy. However, BCEAO has since 2019 updated external trade statistics for Benin that adjust official data in order to account for the 'unofficial' export and import flows.[12] We use these adjusted data to discuss the aggregate trade flows, but primarily focus on the official data to document the structure and composition of foreign trade flows.

A Parallelism between Exports and Imports

Figure 2.5a reports total (adjusted) exports and imports of goods and services, together with estimated re-exports and GDP growth for the 1990–2019 period. Three main points stand out:

First, there is a strong parallelism between exports and imports since the re-exports, official and unofficial, must necessarily have been imported in the

[12] BCEAO, which establishes WAEMU's balance of payments, estimates unofficial re-exports and imports using a methodology that rests on the reconciliation of WAEMU's intra-zone trade flows and on INSAE's estimates of Benin's unrecorded trade. Note that BCEAO's adjustment methodology has been significantly overhauled since 2015, in the wake of the new national account framework introduced by Benin in 2019 – and applied from 2015 on – to, among others, provide for a better inclusion of informal activities. The coverage of unrecorded trade flows has been much extended, both on the export and import sides. BCEAO's 2015 balance of payments data for Benin's exports of goods have been revaluated by 42 per cent, relative to those resulting from the earlier methodology, and those for imports of goods by 33 per cent (BCEAO, 2019, p. 16). As GDP has also been revaluated by 37 per cent, the effect of this change in methodology only marginally affects the export and import GDP ratios depicted in Figure 2.5a.

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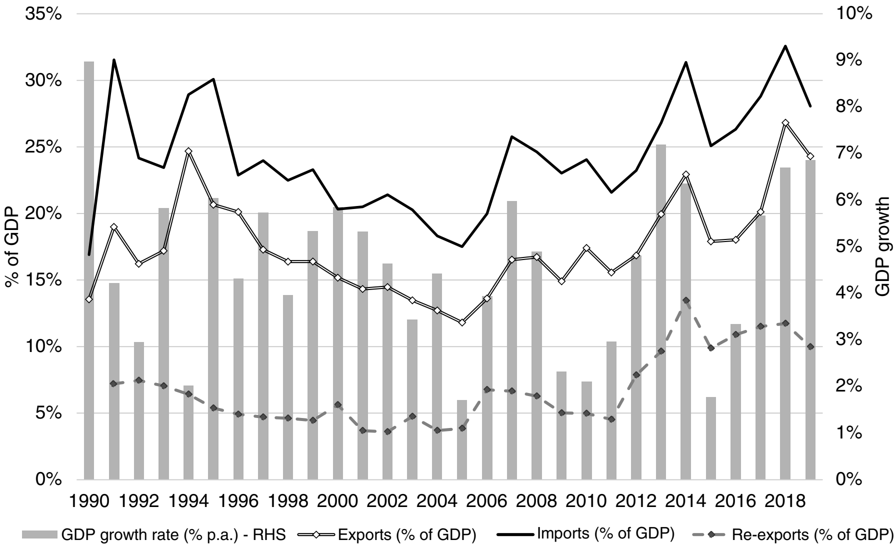

FIGURE 2.5a International trade and real exchange rates: Exports and imports of goods and services, re-exports of goods, and GDP growth
Sources: Author's calculation from BCEAO website for exports and imports (balance of payment data); WDI for growth.

first place.[13] The dynamics of exports are indeed strongly driven by re-exports, especially since the early 2000s (Figure 2.5a).

Second, there is relatively high volatility in the export and import GDP ratios. This can also be partly explained, since 2004 at least, by the characteristics of CBT and the dependence it entails on positive or adverse developments in the Nigerian economy, as noted earlier.

Third, the balance of goods and services shows a sizeable and persistent deficit throughout the period, with an average of 6.7 per cent of GDP. Despite strong growth in exports since 2004, no reduction in the gap was achieved. We return in the next section to the issues this raises for the sustainability of Benin's development.

B Composition of Exports and Imports of Goods and Services

The export and import data provided by BCEAO mostly combine official data with estimated unofficial re-exports and imports.[14]

[13] The correlation coefficient between export and import GDP ratios is 0.88 over the 1990–2019 period, and 0.67 between export and re-export GDP ratios.

[14] Since 2015 the coverage of unofficial trade activities has been extended, so that adjusted exports and imports go beyond activities of re-export and include other unofficial trade flows, also mostly with Nigeria. The latter represent sizeable amounts, but their detailed composition is not publicly available (see BCEAO, 2019, pp. 19 fn5, 61, 64).

Concerning the status of re-exports relative to domestically produced export goods, one could hold that, as these goods are all imported, they are of no major concern for the domestic economy. Indeed, if this activity only consisted of organising the transit of goods, it would not be recorded as merchandise exports and imports. However, re-exports involve significant value-added by domestic residents to the imported goods. This is especially the case in Benin, where CBT is a key driver of re-exports. The latter involve the supply of transport and warehouses, as well as of wholesale or even retail trade services, for an amount that is far from negligible even though not readily observable and imperfectly known, as discussed in Section 2.1. Under these conditions, it is indeed justified to consider re-export as the export of services originating in the domestic economy, with of course a huge import component.

Re-exports' value-added is however intrinsically much lower than that of Benin's other exports, for similar gross values, and focusing on the former's large share in total adjusted exports would not do justice to Benin's other (official) exports, and underestimate the latter's importance for the economy.

Cotton products (mostly raw cotton) dominate (official) merchandise exports, with a 57 per cent share in 2017–2018, followed by cashew nuts (14 per cent). Palm products, gold, meat, fruit, metal, and petroleum products, though less important (about 2–3 per cent each), contribute to diversifying Benin's export base.[15] The shares of exported products do however vary greatly from year to year.

Exports of services (other than re-export activities) also matter, accounting for an average of 3.4 per cent of GDP for 2010–2019. Travel represents slightly more than a third of export service receipts, indicating that tourism is also a potential driver of the country's development.[16]

As already mentioned, merchandise imports evolve, because of re-exports, in parallel with exports. This is reflected in their composition, dominated by food products (e.g. rice for re-export to Nigeria). Imports of services outweigh exports of services, mostly because of freight and insurance expenditures related to the import of goods though the port of Cotonou.

The contribution of net exports to growth is thus dependent on re-export activities whose large gross volume compensates for the low per unit value-added, on agricultural products, cotton and non-cotton, and on tourism. The growth contribution of net exports could be improved if the high potential of non-cotton agriculture and of tourism, which both account for high domestic value-added, could be exploited.

[15] Petroleum products, which are handled by the port of Cotonou, are an example of officially recorded re-exports (BCEAO, 2019, p. 19). Total re-exports are, however, mostly unofficial.

[16] WTO (2017, p. 140) reports that tourism is a major source of foreign currency, but that laws and regulations are ill-adapted to the sector's need, which explains its sluggish development. To improve the contribution of tourism to development, the Benin government launched in 2017 the World Bank-funded Cross-Border Tourism and Competitiveness Project.

C Real Exchange Rates

The last external trade issue that merits discussion is competitiveness. Although there are many facets to competitiveness, we focus on the relative price component and use the real exchange rate as an indicator.[17] Since Benin is on a fixed peg with respect to the Euro and since Benin is a price taker on the international market, its price competitiveness is heavily impacted by the exchange rate of the Euro vis-à-vis other currencies, especially the US dollar and those of Benin's Asian trade partners.[18] Note that price competitiveness with its WAEMU and Communauté Economique et Monétaire d'Afrique Centrale (CEMAC) African trading partners is not directly influenced by changes in nominal exchange rates as these countries are also on a peg with the Euro.

The multilateral index of Benin's real exchange rate indicates a real appreciation of the CFA Franc until 2008, followed by a continuous depreciation (Figure 2.5b). The appreciation period coincides with the long-lasting appreciation of the Euro against the US dollar (2001–2008), while the depreciation reflects both the reversal of the Euro–US dollar nominal exchange rate and the low rate of inflation that Benin managed to achieve relative to its main official trading partners.

As Benin is exclusively a price-taking economy, these changes in the Euro–US dollar exchange rate have led to ample fluctuations in local currency cotton prices and thus in producers' profit margins. Accordingly, the observed evolution of exports very broadly reflects the trend in the multilateral real exchange rate. During the period of continued real appreciation up to 2006, the GDP ratio of exported goods declined (see Figure 2.5a) before increasing again slowly in parallel with the real depreciation.[19]

But Benin's multilateral real exchange rate only imperfectly reflects actual changes in the country's price competitiveness, since it is based on official trade statistics and official nominal exchange rates, while a large part of Benin's trade is informal. We therefore decided to also analyse the real exchange rate between the CFA Franc and the Naira, Nigeria's currency.[20] The evolution of

[17] Two other components are the quality of products and trade policy. Concerning the former aspect, IMF (2018a, p. 18) reports that 'the product quality of Benin exports has remained relatively mediocre over time'. Benin has applied the Economic Community of West African States (ECOWAS) common external tariff since 2015. Nigeria, however, does not abide by ECOWAS rules, a situation that nurtures the informal CBT.

[18] Benin's peg was with the French Franc before 1999. It has only been changed once since 1948. This was the case in January 1994 when the foreign currency value of the CFA Franc was halved.

[19] The appreciation of Benin's multilateral real exchange rate actually goes back to 1994, building up progressively after the devaluation of the CFA Franc.

[20] To this end we also use consumer price indices. However, we do not rely on the official rate of the Naira, but use the bureaux de change (BDC) Naira exchange rates, which can be considered as a proxy, albeit an imperfect one, for the parallel exchange rate used in cross-border trade.

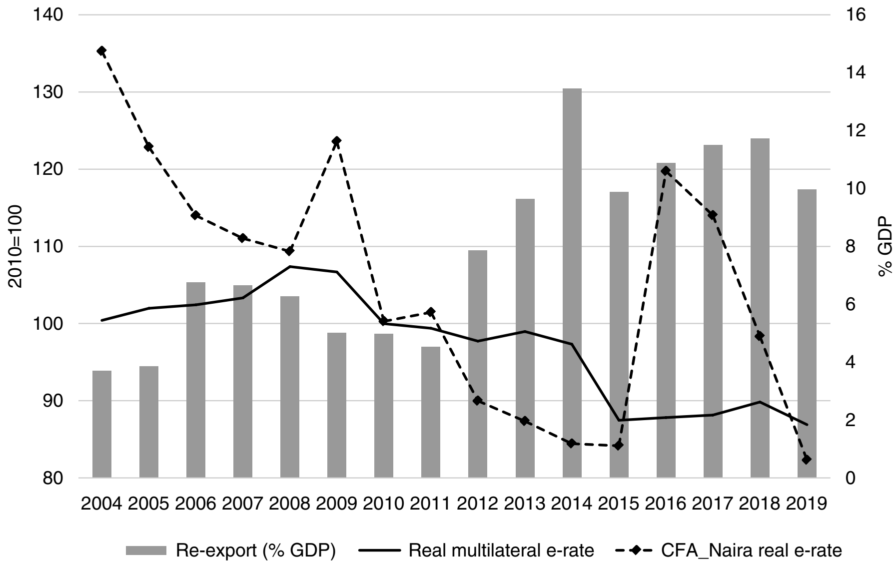

FIGURE 2.5b International trade and real exchange rates: Multilateral and bilateral CFA Franc–Naira real exchange rates
Sources: Author's calculation for the real multilateral exchange rate based on data from IMF that were retrieved from the Federal Reserve Bank of St Louis data bank; for the real CFA Franc–Naira exchange rate: Central Bank of Nigeria and Macrobond database.

the bilateral real exchange rate with Nigeria combines a trend of persistent real depreciation with, around this trend, several periods of large real appreciation shocks. The real depreciation trend is the result of Nigeria's CPI inflation being systematically higher than Benin's and a depreciation of the Naira–CFA Franc rate that falls short by about half of this differential. The short-term real appreciation shocks reflect episodes of large, and often sudden, depreciations of the Naira, mainly as a result of the abrupt fall in oil prices.

These large swings in the bilateral real exchange rate had a significant impact on Benin's economy. Re-exports declined by about 20 per cent during the two real appreciation shocks of 2009–2010 and 2015–2016. Whether, and to what extent, these declines are due to a loss of price competitiveness is difficult to assess. The drop in real incomes in Nigeria following the large depreciation shocks indeed had an additional, and probably stronger, demand-reducing effect. Accordingly, it appears that the declines in volumes can largely be attributed to the spill-over effect of the decrease in Nigerian demand, a result of the depreciation of the Naira and of the direct income effects of the oil shock. Price competition may probably matter more on the import side of the CBT, where Nigerian products directly, and intensively, compete with domestic ones. The 2015–2016 depreciation of the Naira, for example, led to massive exports of Nigerian products to Benin, at very competitive prices (Ministère de l'Economie et des Finances, 2016, pp. 20–21).

To conclude, as a price taker on international markets and as a member of a monetary and customs union whose external exchange rate is a hard peg, neither exchange rate nor trade policies are in the hands of Benin's authorities. This represents a key constraint on their policy options, a constraint reinforced by the vulnerability to exchange rate shocks originating from Nigeria, an important partner in official and unofficial trade. As a matter of fact, the only option for Benin to have some control of the competitiveness of its tradeable goods is to keep the evolution of its nominal domestic prices and wages in check. Given that, for low-income countries, wages in the public sector often play a leading role in the dynamics of wages and prices in the private sector, public wage policy may be one of only a limited number of instruments that the authorities can resort to.

IV FINANCING THE ECONOMY AND THE PUBLIC SECTOR

Benin has been structurally highly dependent on external resources. As documented in the preceding section, exports are far from permitting the Beninese economy to get even close to economic independence. Aggregate spending is systematically above national income. There is an overall – that is, private and public – propensity to consume averaging almost 0.9 over the last twenty years. As a result, a third of investment expenditures has to be covered by foreign resources. Domestic government revenues are sometimes insufficient to pay for recurrent expenditures, and still less for public investments. Private-sector savings and the flow of foreign direct investment fail to fully finance private capital accumulation. Without a sizeable volume of foreign aid, the Beninese economy would not be able to grow or even function.

This section goes briefly over these macro-economic issues, which directly determine the space for development and most crucially the sustainability of Benin's current development model. Three issues are considered in turn: the consumption bias in aggregate spending; the efficiency versus resource constraint in the public sector; and foreign assistance dependency.

A Consumption Bias in Aggregate Spending

Figure 2.6 shows total expenditures (absorption) relative to GDP since 1990, in agreement with the current 2015-based National Accounts methodology that implied some rescaling of aggregates before this date.[21] Total expenditures are

[21] Data for the 1999–2019 period are based on the 2015 national account methodology and are not fully comparable with the earlier series. WDI data rely on Benin's national account methodology introduced in 2015 and applied from that year on. Significant adjustments have also been made in the databases of international organisations for Benin's national account aggregates for

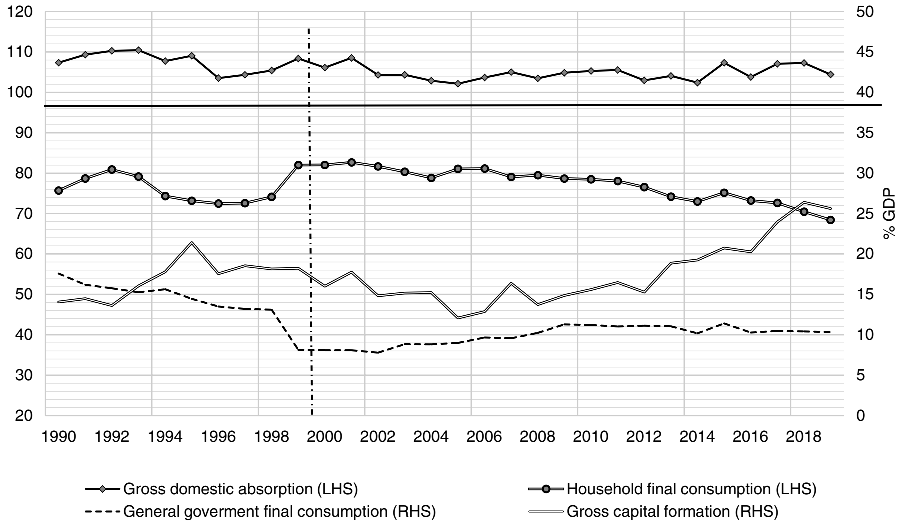

FIGURE 2.6 Structure of absorption, 1990–2019 (per cent of GDP)
Source: Author's calculation based on data from WDI; series in percentage of Benin's rescaled GDP.

the sum of domestic household consumption, of government final consumption, and of total, private and public, gross capital formation (investment). The first striking observation that highlights the acute dependency of the Beninese economy on foreign financing is that total *absorption* always significantly exceeded GDP (on average by 8 per cent over 1990–1998 and 6 per cent over 1999–2019). The three successive SAPs Benin underwent over the 1989–1999 period tamed absorption for several years – it was at 128 per cent of GDP in 1981 – but the effect did not last, and absorption surged again towards the end of the 1990s and remained high thereafter.

Considering the composition of absorption, the first noticeable feature is the relative size of household final consumption expenditures, which remained close to 80 per cent from 1999 until 2006, before sliding down to 68 per cent in 2019. This raises two questions: why such a high propensity to consume; and why the slide?

A country comparison indicates that the Beninese consumption ratio over GDP has in general been higher than in the average low-income or SSA country over the last twenty years. It is however difficult to find a convincing

the 1999–2014 period. Relative to the data series based on the earlier methodology, nominal GDP data have been systematically revalued retroactively by 36.7 per cent for the 1999–2014 period. GDP ratios have been adjusted upwards for private consumption and absorption and downwards for public consumption and investment, implying significant increases, and respectively decreases, for the corresponding nominal aggregates.

explanation for this beyond that of differences in national account methodologies for measuring household consumption, an aggregate whose measure is often particularly imprecise.[22] In line with this, the three available household surveys do indeed report an average per capita real consumption that is about 30 per cent lower than the national account data.[23,24] One can however expect that the evolution of the consumption ratio reasonably describes actual trends in consumption patterns.

A second feature of the absorption picture is, precisely, the slide in the household consumption ratio.[25] Various factors could explain the decline in the household consumption ratio since 2006. First, the deep deflationary shocks in Benin in 2008–2009 and 2015–2016 caused by the reversal in oil prices and its effect on the Nigerian economy may have increased precautionary savings and thus participated in the decline of the consumption ratio.[26] It is however doubtful that this argument can explain the persistent decrease of this ratio over the whole period since 2006. A more fundamental factor may be at play. As further discussed in the last part of this chapter, inequality has been

[22] In most SSA countries, household final consumption is computed as a residual (IMF, 2018d, p. 14), i.e. as the difference between the sum of aggregate value-added and imports on the one hand and the other components of aggregate demand (exports, government final consumption, and private and public investment) on the other hand. This was the case for Benin, at least for the period under discussion. The new national account system introduced by Benin in 2019 integrates household survey data (INSAE, 2019).

[23] According to average per capita consumption as reported in the World Bank's PovcalNet database for the 2003, 2011, and 2015 surveys. Of course, this difference could, at least partly, be due to the surveys missing consumption data of high-income households, as a result of a too narrow focus or of under-reporting.

[24] An additional imprecision in the measure of household final consumption in Benin's national accounts could result from inaccurate recording of imports of consumption goods. As indicated previously, goods imported by Benin that have Nigeria as their final destination are often channelled through customs, not as goods in transit or for official re-export, but as goods intended for the domestic market. To the extent that this is not fully taken into account in estimating household consumption, some overestimation of household consumption expenditures and absorption (as well as an underestimation of exports) occurs.

[25] Combining PovcalNet estimates of per capita consumption and GDP per capita data for the three survey data points indicates the following changes in the consumption-to-GDP ratio: an increase between 2003 and 2011 from 52.4 to 54.2 per cent, followed by a decrease to 49.8 per cent in 2015. INSAE reports data from 2007, 2009, 2011, and 2015 household surveys. While INSAE and PovcalNet surveys provide similar results for 2011 and 2015, INSAE's 2007 estimate of per capita consumption (INSAE's first survey) seems out of line with the result of the later surveys, as it would imply a way too large (16 per cent) decline of per capita real consumption between 2007 and 2011. INSAE's 2009 survey does however allow us to date the decline in the consumption ratio back to 2009 (INSAE, 2016a).

[26] Additional shocks can also be factored in, like price shocks on items with a significant weight in the household consumption basket, e.g. the reduction in gas subsidies in Nigeria, which generated a 50 per cent increase in fuel prices in Benin between 2011 and 2012. The latter price shock is the result of Benin's huge dependency on illegal imports of fuel for its domestic consumption. See World Bank (2014).

on a rapidly increasing trend in Benin. Increased inequality in income distribution and its effects on aggregate consumption patterns is most likely one of the factors behind the observed fall in Benin's household propensity to consume.

Government consumption has reached a largely constant 10 per cent share of GDP since the mid–2000s, after a downward adjustment in the 1990s. This level is in line with those observed for most WAEMU members, slightly higher than for the average SSA country – once Benin's recent rescaling of national accounts has been accounted for.

The share of *gross capital formation* in GDP has exhibited marked changes over the last thirty years. After a strong rise in the early 1990s following the transition back to a market economy, the ratio steadily declined until 2006, before clearly picking up again from 2013 on, reaching a 25 per cent average over the last years. Taken over the whole period, Benin's investment-to-GDP ratio of 17 per cent was not only below what was observed elsewhere in the region but, most importantly, it proved too low to prevent the capital-to-labour ratio from declining, endangering the growth of per capita income, as discussed earlier. The strong rebound of investment over the last seven years is thus a welcome positive development. Given the significant structural change Benin is confronted with, a sustained level of both public and private investment is indeed a sine qua non for improving growth performance through increased productivity.

The combined high-level consumption of households and government in Benin for a time coincided with a retreat of capital expenditures, up to the late 2000s. These trends have been reversed since, consumption receding in favour of investment. These structural changes in absorption have been eased by Benin's access to external financing. Not only has past investment been less constrained by consumption expenditures thanks to external financing, but the recent rise in investment could also be financed despite an insufficient increase in domestic savings. The extent to which this persistent, and seemingly easy, access to external finance has provided Benin with the indispensable resources to redeploy its economy, and not invited or sustained excess spending, is a legitimate but delicate question. To gain some insight about it, we focus next on two closely related aspects: how constrained resources are for the public sector and how efficiently they are managed; and which financing channels could Benin mobilise to sustain this structural recourse to external financing.

B Efficiency versus Resource Constraint in the Public Sector

With total spending close to 15 per cent of GDP (17 per cent in the last five years) and a large proportion of formal employment, the Beninese government is a major economic actor.[27] However, it is an actor that does not have the

[27] In 2015, 89 per cent of employment was in the informal sector, 6 per cent in the formal private sector, and 4 per cent in the public sector, according to the EMICoV 2015 survey (INSAE, 2016a, p. 35).

TABLE 2.3a *Benin's domestic and external accounts, 2002–2019 (per cent of GDP): Government revenue, expenditures, financial balance, and debt*

% of GDP	2002–2004	2005–2007	2008–2010	2011–2013	2014–2016	2017–2019
Direct taxes	2.7	2.6	2.5	2.3	2.7	2.6
Indirect taxes	7.9	8.1	8.9	8.6	7.5	7.6
of which: VAT	4.4	4.5	4.9	4.7	4.1	4.7
of which: Customs duties	2.6	2.8	2.9	2.9	2.7	2.1
Total taxes	10.6	10.7	11.4	10.9	10.1	10.2
Social contributions	0.0	0.2	0.3	0.4	0.4	0.4
Non-tax revenue	0.6	1.1	0.7	0.6	1.4	2.7
Total domestic revenue (excl. grants)	11.2	11.9	12.4	11.9	11.9	13.3
Recurrent expenditures	9.1	9.6	10.0	9.3	12.1	11.3
Savings (excl. grants)	2.1	2.3	2.4	2.5	−0.1	2.0
Investment expenditures	4.0	4.4	4.8	4.6	4.2	5.4
Budget deficit (excl. grants)	1.9	2.1	2.3	2.1	4.4	3.4
Grants	1.1	1.6	1.5	1.2	0.5	0.9
Total revenue	12.3	13.6	13.9	13.1	12.5	14.2
Total expenditures	13.1	14.1	14.8	14.0	16.3	16.7
Budget deficit (incl. grants)	0.8	0.5	0.9	0.9	3.8	2.6
Government debt	25.2	16.5	19.4	20.0	29.7	40.6

Source: Author's calculation based on data from IMF Government Financial Statistics, World Economic Outlook, and Regional Economic Outlook for SSA databases; WDI; United Nations University – wider government revenue database for revenue categories up to 2013. For later period, World Bank (2018, Table 2, p. 17) and author's own estimates based on data from Ministry of Finance. The information on statutory tax rates is taken from IMF (2018b) and World Bank (2018).

means for the crucial role it is expected to play. On the one hand, the observed imbalance between government domestic savings and investment translates into a recurrent budgetary deficit and thus a strong public finance constraint. On the other hand, Benin's mobilisation of domestic resources appears to be low, and both government revenue and spending exhibit significant inefficiencies. These latter come at a high cost at a time when foreign grants and loans are trending downwards, even raising the issue of sustainability of basic public services.

Table 2.3a provides an overview of the government's resources, spending, and deficit financing over 2002–2019.[28]

[28] All data in the table are expressed as shares of GDP, with the latter rescaled over the whole period according to Benin's 2015 revision of national accounts. As a result, all Benin's public finance data expressed as shares of GDP have been reduced by a factor of 1.37, relative to those based on the previous GDP series. This complicates comparisons between Benin and other countries. We take this factor as much as possible into account in our discussions.

1 Revenues

Tax revenues are in the range of 10–11 per cent of GDP, globally constant over the 2002–2019 period, notwithstanding the 2016–2017 weaker performances and the recent recovery. Benin's tax-to-GDP ratio was assessed by the IMF as below that of comparable developing countries, including SSA countries.

Indirect taxes represent the bulk of tax revenues, with direct taxes representing only 24 per cent of the total, broadly in line with WAEMU and low-income SSA countries and a direct consequence of the degree of informality of the economy. Value-added tax (VAT) represents the largest part of indirect taxes, followed by custom duties. The latter are proportionally higher in Benin, possibly as a reflection of the oversized imports for re-export[29] On the contrary, revenue from excise taxes are proportionally lower, largely a consequence of the loss of tax revenue due to the fraudulent import of Nigerian fuel products.[30] Property taxes and other taxes on goods and services also account for only small parts of tax revenues.[31]

Foreign grants have represented quite a variable share of total government revenue over the period and are on a decreasing trend. This makes the issue of enhancing domestic resource mobilisation all the more acute for Benin. Such a policy can a priori be pursued by raising tax rates. Yet, the uniform VAT rate applied by Benin (18 per cent) is already the maximum rate allowed by WAEMU. Furthermore, while excise tax rates are lower than in WAEMU, custom tariffs are constrained by the common external tariff imposed by Benin's membership in the ECOWAS customs union. Statutory corporate tax rates are also already relatively high (30 per cent in 2018), and the progressive personal income tax system features marginal tax rates up to 45 per cent.[32] In short, increasing statutory tax rates is not really a viable option for Benin, as it would in addition reinforce the incentives for tax evasion. However, enlarging the tax base and enhancing the efficiency of tax collection have the potential to unlock a significant amount of resources and should therefore be given a high priority on Benin's authorities' policy agenda.

Various studies concur in pointing out that Benin underperforms in raising domestic tax revenues, relative to comparator countries. Following the World

[29] It should be noted that the reported share of international trade taxes underestimates the total amount of taxes Benin derives from its re-export activities. Indeed, as noted earlier, part of the imports declared at customs as intended for the domestic market, and therefore subject to VAT, are in fact unofficially re-exported to Nigeria. VAT collected on these re-routed goods also significantly contributes to the fiscal benefits derived from the re-export trade, although to an extent that is difficult to assess.

[30] Golub et al. in Chapter 8 of this book report a fiscal loss due to smuggling of petroleum products from Nigeria that is estimated by government sources at about CFA Franc 20 billion for 2018, amounting to 2.2 per cent of total tax revenue. Ndoye (2015, pp. 8–9) finds a loss of the same order of magnitude based on 2011 data.

[31] Non-tax revenues other than grants do not contribute much to total revenues in Benin, which is not a country rich in natural resources.

[32] This information on statutory tax rates is taken from IMF (2018b) and World Bank (2018).

Bank (2018), Benin's VAT C-efficiency ratio[33] (41 per cent) was below the regional average in 2014 and started to decline afterwards, reaching a low 31 per cent in 2016. The C-efficiency ratio for corporate income tax is also particularly low (10 per cent). Both indicators point to huge scope for improving tax revenue. However, such straightforward efficiency measures can only offer a relatively blunt assessment, as they do not take into account the structural factors that shape a country's capacity to collect taxes.

Caldeira and Rota-Graziosi address more thoroughly these efficiency aspects of Benin's domestic resource mobilisation in Chapter 6 of this book. They find that several factors account for the unsatisfactory level of VAT revenues: the high degree of informality in economic activity, weak compliance and fraud encouraged by insufficient audit capacity of the fiscal administration and amplified by corruption, and large tax exemptions, VAT exemptions alone representing 61 per cent of total tax expenditures in 2016.[34]

2 *Expenditures*

Total government spending has averaged 14.8 per cent of GDP over 2002–2019, with about two-thirds devoted to current expenditures and close to one-third to public investment. Recurrent expenditures have stayed broadly constant, around 9.5 per cent of GDP until 2014, before experiencing a rise in the recent period. The wage bill is the largest item (44 per cent on average), followed by current transfers (32 per cent), expenditures on goods and services (17 per cent), and interest on debt (6 per cent). Current transfers comprise spending on education and social services, pensions and scholarships, transfers to local authorities, as well as subsidies to government agencies and state enterprises.[35] Many of these transfers also finance wages, making public wage and employment policy a key determinant of current expenditures. The latter

[33] The C-efficiency of VAT is defined as the ratio between actual VAT revenue and potential VAT revenue, the latter being estimated as the product of statutory VAT rates and private consumption expenditures.

[34] The efficiency of the tax collection process has at times also been weakened by political interference. This has, for example, been the case for the Beninese customs administration, with the back and forth of the government in privatising crucial tasks of customs control. In 2011, the *Programme de Vérification des Importations* (PVI), designed to improve the procedures for assessing the correct value of imported goods and applying the correct tariff and tax rates, was tendered to a private Beninese firm, Benin Control, despite strong opposition by customs agents and private operators (IMF, 2013, p. 9). The privatisation was politically motivated and tainted by conflicts of interest. Subsequently, the PVI was suspended in 2012 because Benin Control performed badly and charged excessive prices, threatening the competitiveness of the port of Cotonou. In 2017, however, Benin Control was reinstated by the government of the newly elected president, Patrice Talon, who also had been the successful tenderer for the PVI in 2011. The opacity about the task involved in the new contract, and the extent of fiscal exonerations provided, raised public outrage.

[35] For 2018–2019, pensions and scholarships make up about 10 per cent of recurrent expenditures, subsidies to public agencies and enterprises about 8 per cent, and other transfers 13 per cent.

policy, however, has suffered from significant inefficiencies. A telling sign of this is that the public wage bill has most often been proportionally higher than the average WAEMU country (Lundgren, 2010; Ndoye, 2015). Since 2008 at least, it has also systematically been above the WAEMU convergence criterion.[36] A weakly controlled public wage bill threatens the sustainability of public finances and/or risks a crowding out of needed spending on social transfers or of capital expenditures. Recent steps have been taken by the authorities to mitigate these risks by improving control over the wage bill.[37]

Public investment in physical infrastructure is a key factor of development, not least because it is complementary to private investment. As has already been seen, Benin faces in this respect significant infrastructure gaps, in terms of both availability and quality. Public investment has averaged 4.6 per cent of GDP in 2002–2019, with some variability. It accounted for a third of total government expenditures, with a large part (40 per cent) of it financed by external sources. According to the IMF (2020a), Benin's public investment, relative to GDP, was on average higher that in WAEMU and SSA countries over 1990–2015. Yet, as documented by this IMF study, Benin's stock of public capital significantly decreased between 2000 and 2015, a result of a lack of new investments and insufficient maintenance of existing infrastructure. It is therefore the inefficiency of investment more than its volume that is at the root of Benin's low quality of infrastructure. The IMF (2020a) study also points out that the efficiency of investment is substantially limited by institutional weaknesses in the evaluation and selection of investment projects. Improving governance relating to the public investment cycle is an important challenge, especially given the government's recent move towards significantly scaling up public investment, through budgetary funding and through partnerships with the private sector.

3 Financial Balance

The Beninese government's domestic resources were insufficient to cover its expenditures year after year over the 2002–2019 period (see Table 2.3a). The budget deficit excluding grants averaged 2.7 per cent over the period. Grants, on a declining trend, were never sufficient to avoid a globally negative financial balance and the public debt thus increased over the whole period, bringing the total central government debt-to-GDP ratio from 19 per cent in 2013 to 42 per cent in 2019. Most of the increase in debt has been financed at

[36] Source of data in this section: Ministère de l'Economie et des Finances, Bénin: Tableau des Operations Financières de l'Etat (TOFE), www.dge.finances.bj/slug/tableau-des-operations-financieres-de-letat-tofe.

[37] IMF (2018c, p. 7) reports that, starting in 2016, the wage bill has 'been rationalised without reducing the number of civil servants or lowering their base salary'. This included removing ghost workers from the payroll, eliminating selected non-wage benefits, and switching from cash to bank transfers for salary payments.

non-concessional terms, mostly on the domestic and regional markets, thus involving enhanced interest rate and refinancing risks.[38]

To contain the risks resulting from unfavourable debt dynamics, Benin needs to improve domestic resource mobilisation and keep its public expenditures in check. As discussed in the two preceding subsections, this can be achieved without sacrificing development goals by giving strong priority to increasing the efficiency of both tax collection and expenditure management.

C Foreign Assistance Dependency

The external position of Benin is described with some detail in Table 2.3b. This essentially combines saving and investment expenditures of the private sector and the government and shows how the observed gap between domestic savings and investment is financed by the rest of the world.[39]

Investment expenditures systematically exceed domestic savings for the government, but also for the private sector. The latter is responsible for the largest part of the overall imbalance between 2002 and 2013, while the government takes the largest share in the deficit over 2014–2019 as a result of increased spending. Migrant remittances and foreign grants significantly reduce Benin's total domestic savings imbalance, but the current account deficit (item 4 Table 2.3b) remains significant, 5.4 per cent of GDP on average.

The contribution of foreign direct investment towards closing the financing gap is a modest 1.5 per cent of GDP on average. To cover the remaining funding needs, Benin has thus to rely on capital transfers from donors and on external borrowing. The former represented a rather constant resource flow of 1.5 per cent of GDP, except in 2006 when a large public debt write-off was recorded.[40] External borrowing amounted to about 2 per cent of GDP.[41]

[38] The additional debt has been mostly financed by bonds issued in domestic currency (CFA Franc). Recently, Benin also issued, following the lead of other sub-Saharan countries, Eurobonds, for which the exchange rate risk is minimal (or nil, if one abstracts from a presently unlikely CFA devaluation scenario). The IMF assesses Benin's overall risk of debt distress as moderate, characterising it as allowing a 'limited space to absorb shocks', but points to the need for medium-term fiscal consolidation in order to maintain debt sustainability (IMF, 2020b, p. 1).

[39] The table combines national account and balance of payments data, which refer to different statistical frameworks and may each reflect specific reporting difficulties. In Table 2.3b, inconsistencies between both sources are reflected in the data for gross domestic savings, both for the private sector and the economy's aggregate, as both series are computed as residual items.

[40] Benin qualified in 2000 for the Highly Indebted Poor Countries (HIPC) debt relief initiative and reached its completion point in 2003. It also qualified in 2006 for the Multilateral Debt Relief Initiative (MDRI) when a large part of its multilateral debt was written off. The latter is recorded as a capital transfer, with a reduction in external liabilities as its counterpart. A debt write-off does not provide new current financing but frees future domestic resources from the servicing obligations of the debt written off.

[41] 2002–2019 average, after excluding the 2006 debt write-off amounting to 13.8 per cent of GDP.

TABLE 2.3b *Benin's domestic and external accounts, 2002–2019 (per cent of GDP): Financing flows of the economy and external debt*

% of GDP	2002–2004	2005–2007	2008–2010	2011–2013	2014–2016	2017–2019
(1) Gross domestic savings	8.6	6.7	7.2	10.4	13.6	19.9
(a) Private sector	6.5	4.4	4.7	7.9	13.7	17.9
(b) Public sector	2.1	2.3	2.4	2.5	−0.1	2.0
(2) Gross domestic investment	15.1	13.8	14.7	16.9	20.1	25.3
(a) Private sector	11.1	9.4	10.0	12.3	15.9	19.9
(b) Public sector	4.0	4.4	4.8	4.6	4.2	5.4
(3) Income from abroad (net, primary, and secondary)	1.5	2.7	1.6	1.3	1.3	1.2
(4) External funding needs [(2) + (3) – (1) = current account deficit]. (4) External funding sources [(5) + (6) + (7)]	4.9	4.4	5.9	5.1	5.2	4.3
(5) Capital transfers (net inflows)	1.3	6.5	1.2	1.8	1.4	1.4
of which: Debt forgiveness	0.5	5.3	0.1	0.0	0.0	0.0
(6) Foreign Direct Investment (net inflows)	0.7	1.6	1.6	1.8	1.6	1.3
(7) Other financial liabilities (net, increase) and use of reserve assets	2.8	−3.7	3.1	1.5	2.2	1.5
Memo items						
(8) External debt stocks	30.9	14.8	13.6	16.3	18.0	24.9
(9) Official development assistance (net flows)	5.8	5.6	6.9	5.4	4.2	4.5

Source: Author's calculation based on data from IMF Balance of Payments data for items (3)–(7); WDI for items (2), (8), and (9). Items (1b) and (2b) from Table 2.3a. Items (1) and (1a) are deducted as residuals, to insure consistency between funding needs and sources.

Most borrowing abroad is in the form of public or publicly guaranteed debt. External non-guaranteed private-sector debt is minimal.

The increase in borrowing has resulted in a progressive increase in the external debt-to-GDP ratio over the last years up to its 2019 level of 27 per cent. At first this level might not appear alarming compared to its previous crisis level of 87 per cent in 1994 and given that almost all external debt is currently at concessional terms with multilateral development agencies or bilateral lenders.[42] Yet, Benin's external dependency should not be minimised, since future

[42] In contrast to domestic public debt, which has increased at a faster pace and is issued at non-concessional terms (see Section 4.2.3). Interest payments on external debt represented a modest 0.2 per cent of GDP in 2018. In 2019 Benin also issued Eurobonds, which carry, like its domestic debt, non-concessional interest rates but have benefited from favourable market conditions. The Eurobonds represented 16 per cent of Benin's external debt at end 2019 (IMF, 2020b, Table 3).

official development assistance (ODA) might not be as forthcoming as in the past. Indeed, ODA clearly appears to be on a declining trend.[43] At around 5 per cent of GDP over the last ten years, it is well below the 10–15 per cent levels witnessed in the 1990s. Should this trend persist, Benin would face increased external financing constraints. Current account deficits at levels observed in the past would then need to be financed at non-concessional terms, at higher and possibly fast-increasing costs – assuming of course that access to international financial markets could be maintained.

Benin's development policy should thus give the highest priority to guaranteeing the sustainability of its external debt and, more broadly, to decreasing its foreign financing dependency by curtailing its current account deficit, grants excluded. In this respect, crucial future challenges include expanding the export base, cutting or rationalising public spending, increasing public investment, and tax collection efficiency.

V BENIN'S SOCIAL CHALLENGES

Benin is confronted with a number of social challenges that hinder the improvement of the well-being and quality of life of its population, including demographic pressures, poor health care and quality of education, as well as persistent poverty and inequality.

A Demographic Pressure

As emphasised in Section 1, population growth is still very high in Benin, on average 2.8 per cent per year in 2005–2018. While it is not significantly different from that of other SSA countries, it is largely above the growth rate of other developing regions. This high level of population growth can be explained by the high fertility rate, which was still at five children per woman in 2018. Poverty and low education levels appear to be the main driving forces behind that rate.

High population growth poses a number of challenges for Benin's economic development. First, it requires the private sector to create more jobs in order to absorb a growing labour force, especially given the high proportion of young people, typical of a fast-growing population. Current economic growth trends would imply that the majority of newcomers would have to turn to low-productivity jobs in the informal sector. Poor-quality jobs for a high proportion of the youth may have a high social and even political cost, as they may lead to increasing inequality and grievances. Avoiding this outcome requires increasing the volume and/or the efficiency of investment so as to put the level of physical

[43] ODA combines grants and concessional loans. It is also impacted by donor-financed debt relief operations on ODA debt and on non-concessional debt. Recorded ODA flows can thus not be construed as financing a current account deficit, and are therefore presented as a memo item in panel (b) of Table 2.3b.

capital per worker on a positive trend. Second, high population growth puts pressure on the government to scale up public services in health and education.

B Persistence of Poverty and Rising Inequality

1 Poverty Incidence

The incidence of poverty at the national level is high: the poverty headcount ratio (the percentage of population unable to cover their basic food and non-food subsistence needs) exceeds 40 per cent, the exact value differing between institutions depending on the value they set for the poverty line.[44] Also, their assessment of the evolution of poverty over time is contradictory. Following the World Bank (2017), poverty declined between 2010 and 2015, whereas INSAE's estimates indicate the opposite, again reflecting differences in poverty lines and methodology. In both cases, however, the change is limited. On the other hand, more recent estimates by INSAE suggest a slight drop by 2019 (see INSAE, 2020).

The infrequency of household surveys measuring poverty is responsible for the relative ambiguity of available evidence on poverty and prevents us figuring out the long-run trend of poverty. For the 2010–2015 comparison it turns out that 2015 was an exceptional year during which Benin experienced a severe recession because of the drop in oil prices and its consequences for the Nigerian economy and CBT activity. On that basis, we would thus expect poverty to be more pronounced during that year. At the same time, GDP per capita remained 9 per cent above 2010, the year of the previous household survey. These two opposite circumstances explain why the change in poverty has been limited during that period and why different methodologies lead to different conclusions about the direction of the change. Poverty would probably have been lower in 2015 if not for the recession. That the change between 2015 and 2019 is also limited is more worrying, as precisely the opposite bias should have been observed. This suggests that recent economic growth in Benin has not been very inclusive.

The preceding remark on the somewhat exceptional role of the 2015 recession in explaining a poverty headcount lower than what could have been expected raises another point. This is that the country does not have well-established safety-net systems that can be rapidly activated in times of crisis.[45]

In contrast with monetary poverty indicators, the headcount of non-monetary poverty[46] slightly decreased over the period 2011–2015 (INSAE, 2018). It is

[44] Following INSAE the poverty headcount ratio was 40 per cent in 2015, which is lower than the one obtained from the World Bank's Povcalnet database (47 per cent).

[45] One problem, however, with such a programme is that it is very expensive.

[46] The headcount of non-monetary poverty focuses on a set of material household deprivations including lack of access to education or health care, rather than the value of household consumption expenditures.

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also smaller than the monetary poverty headcount. In both cases, the explanation of the difference is that non-monetary poverty includes several deprivations that do not change or even keep improving in times of recession. This would be the case for instance for school attendance, child mortality, and the presence of some assets in the household.

2 *Inequality*

Income inequality in Benin is both high and increasing. In a little more than ten years between 2003 and 2015, the Gini coefficient is thought to have surged from 0.39 to 0.48, a very high level even by SSA standards and a very large jump. This casts some doubt on the comparability of the household surveys behind these measures. Even though such an increase remains consistent with the limited upward or downward changes in the monetary poverty headcount discussed earlier, it would suggest that the severity of poverty has enormously increased, with the bottom 40 per cent of the population seeing their real expenditures per capita plummeting by around 20 per cent.[47] Although it is not to be excluded that poverty became more severe, it is difficult to imagine that such a fall would not cause major social and political turbulence.

Thus, even though probably much overestimated, inequality has escalated since the turn of the millennium. Therefore, it can be confidently said that growth in Benin has not been inclusive, to put it mildly: the gains from growth have disproportionately accrued to the top of the living standard distribution. This is confirmed by the most recent estimate of monetary poverty that found little change between 2015 and 2019, although based on a different source (see INSAE, 2020).

C Literacy and Education

1 *Literacy*

Benin's record of literacy achievements is close to catastrophic, as it ranks today among the worst performers in the world (World Bank WDI). Literacy rates in Benin are much lower than those estimated for SSA (30 in Benin vs 63 in SSA in 1979). This reflects primarily the low priority that was long put on education, a situation that fortunately changed some time ago (a literacy rate of 61 in Benin vs 76 in SSA in 2018). Even though the first results of these changes have become apparent in the last decades, the gap with the average SSA country remains large: around 15 percentage points whatever the population group being chosen, even the youth.

If it ever were needed, this last observation shows the utmost importance for Benin of enhancing its education system, both by broadening its population

[47] This figure is obtained from the decile shares reported by the World Bank's Povcalnet database. The consumption expenditure share of the bottom 40 per cent of individuals would have fallen from 17.9 to 12.9 per cent, whereas the mean for the whole population increased by only 8 per cent.

coverage and by improving its performance. Also worth noting is the significant and persisting gender gap in literacy achievements, although this gap has somewhat decreased for the youth in recent years (82 for males vs 52 for females in 2018).

2 Primary Education

The situation regarding primary school enrolment differs from the situation for literacy. In this area Benin's progress has been impressive, at least if one concentrates on the enrolment rate. The latter has increased from 40 per cent in 1990 to 96 per cent today, overtaking the SSA average.[48]

The question must nevertheless be raised as to whether rapid growth in enrolment and even completion rates[49] has been obtained at the price of a deterioration in the quality of schooling. Benin does indeed lag significantly behind other SSA countries regarding the pupil–teacher ratio[50] and the proportion of repeaters among enrolled primary school pupils.[51] More worryingly, learning outcomes are low, not to say dismal in some cases, and have shown no significant improvements since 2005.[52] Taken together, these findings may explain the still relatively high proportion of illiterate people among the youth.

It was to be expected that quality would be affected by the surge in enrolment. Yet, Benin has already for several years been close to universal enrolment and it is time for quality to catch up.

3 Post-Primary Education

Progress in secondary education enrolment over the last years has been still more impressive and, to some extent, a consequence of higher primary completion rates. The enrolment rate has doubled since 2004 to reach 59 per cent today, compared to only 43 per cent on average in SSA.

As the number of students who are completing primary education increases, so does the pressure on secondary, vocational, and tertiary education. Yet, it is noticeable that it is not the same for boys and girls, the latter lagging

[48] Source: World Bank, Education Statistics Data Base. Note that the SSA average may be affected by a few atypical countries – typically conflict countries (South Sudan, Somalia, etc.). Moreover, the adjusted net enrolment rate in primary education reflects the number of students of the official primary school age group who are enrolled in primary or secondary education, relative to the corresponding population. The statistic is, however, affected by the repetition rate of students, so that a rate of 100 per cent does not necessarily imply that the universal primary education goal has been achieved.

[49] Benin achieved for 2015 a completion rate of 80 per cent (vs 70 per cent for the rest of SSA).

[50] In 2015, it stood at 45.0 in Benin in comparison to 37.5 for SSA as a whole.

[51] 11 per cent in Benin compared to 8 per cent in SSA.

[52] An assessment carried out in 2011 on a sample of 167 public primary schools and three private primary schools showed that only 12 per cent of fifth-grade (CM1) students from public schools and 42 per cent from private schools were literate, while 11 per cent and 38 per cent, respectively, had mastered the curriculum in mathematics (World Bank, 2015c). The most recent PASEC tests, an external evaluation of primary school competencies, in ten Francophone African countries report similar shortfalls (PASEC, 2015, pp. 36, 50).

significantly behind when moving up the education ladder. Furthermore, as in primary education, quality does not follow. Rapid expansion of enrolment strains resources and negatively affects the quality of education.

The situation is comparable for tertiary education. Enrolment rates have roughly doubled since the early 2000s to reach 10 per cent today, which is significantly above the SSA average. An additional issue in the case of higher education is the relevance of the curriculum, together with the fields of knowledge covered. There is a huge enrolment imbalance in favour of social sciences over technical curricula. This creates a mismatch between the competencies of candidates for a job and those actually required by employers.

4 *Education-Sector Reforms*

The low quality of basic education and its considerable variation between different parts of the country (particularly between the north and the south) are clearly matters of serious concern. If bringing most kids to school may reasonably come before improving quality, unfortunate policy decisions in educational matters were taken in the past that were detrimental to educational outcomes. In particular, teacher training schools in Benin were discontinued at some stage during the 1990s, causing a severe, long-lasting shortage of teachers in many parts of the country, particularly in the north. There, outsized classes (reaching up to 120 pupils), teacher absenteeism, and substitution of poorly trained teachers for the missing qualified staff attained unprecedented levels, with all the adverse long-term effects that can be easily imagined.

How could such a deterioration occur while an ambitious structural reform of the education sector, initiated in 1989, was under way?[53] This was not so much because the reform proved inconsistent with the fiscal restraint imposed by the macro-economic adjustment. Rather, it was due to the lack of training and upgrading of government staff made necessary by the reform (African Development Bank, 2003, pp. 13–14, 17).[54] Paradoxically, at a time when money available for education had been reduced and efforts should have been directed to more efficient use of it, the lack of teaching staff caused the allocated budget not to be fully used – the utilisation rate was lower than 60 per cent at the end of the 1990s. It was in this already difficult context that President Boni Yayi introduced reforms in 2000–2008 to lower/suppress tuition fees at the various levels of education. These reforms caused an explosion of enrolment, leading to a further erosion of the teacher-to-student ratio and further deterioration in quality.

[53] This reform was implemented as part of the SAPs monitored by the World Bank and the IMF throughout the 1990s. The reform in education (and health) was aimed at restructuring the Ministry of Education, providing textbooks to pupils and students, encouraging parent/teacher associations and their recruitment of contract teachers, and allocating better teachers across urban and rural areas.

[54] More specifically, the voluntary retirement programme and the freezing of recruitment into the civil service had the effect of causing an ageing of the administration, which was already suffering from a lack of training, a dearth of competent staff, and an acute shortage of senior-level officers.

D Health-Care Issues

Even though it was halved in the last thirty years, neonatal and infant mortality remains very high in Benin. The neonatal mortality rate was still 32.5 and the infant mortality rate 63.1 per 1,000 live births in 2016, somewhat above the SSA average. Malnutrition among children under 5 (stunting) not only remains higher than elsewhere in the region, but has worsened over the past thirteen years (DHS, 2013). As would be expected, stunting and wasting are of greater concern in rural areas.

The overall quality and efficiency of health-care delivery systems clearly need to be improved. The World Bank (2015a) notes that the government's food and nutrition reform programme has suffered from weak institutional arrangements, reflected in various disjointed, small-scale sectoral components housed in the Agriculture, Health, and Family Affairs ministries. It is also striking that, in 2016, doctors' wages were higher in Benin than in other SSA countries with better-performing health-care systems (Prady and Sy, 2019).

VI CONCLUSION

Benin faces several crucial economic and social challenges. They are the result of multiple factors that have hampered its development.

The challenges Benin is facing are as follows:

1. *Benin's GDP per capita growth has been unsatisfactory* over the last decades. The high population growth rate, which is expected to persist for several years, requires much higher and sustained growth. The nature of structural change that has occurred in Benin until now does not, however, bode well in this respect. It has mostly been characterised by a passive adjustment to the decline of the agricultural sector, with labour moving into informal activities or being absorbed by low-productivity sectors, mostly by (petty) commerce. The within-sector productivity growth has also been generally low, even regressing in the manufacturing and services sectors. Globally, capital deepening has been absent. As a result, aggregate productivity growth has been weak.

   Low within-sector productivity growth is due to poor factor accumulation, both in terms of human and physical capital, misallocation of resources implying efficiency losses, and slow technological change. For instance, much of the recent educational progress in Benin has been in the form of rising gross school enrolment. The quality of education was not raised and may even have deteriorated. Moreover, there is a large mismatch between the supply of higher education and the skill requirements of formal enterprises that could raise overall productivity. In the same way, compared to most SSA countries, Benin displays large infrastructure and efficiency gaps in key sectors, like electricity, transport, health, and telecommunications. Private capital accumulation is

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also discouraged because of low returns on private activities caused by an inadequate and unreliable business environment, whether for formal firms or informal producers, including family farms. The last few years have seen an acceleration of growth, some capital deepening, and some productivity increase. Yet, no clear sign of a change of regime in the development of the economy is visible, so that this change may be the result of particular external circumstances.

2. *Benin's economy is poorly diversified and concentrated on risky activities*, either subject to short-run price fluctuations or offering uncertain long-run growth perspectives. Indeed, its agriculture is heavily focused on cotton exports, making the economy vulnerable to swings in international commodity prices and in real exchange rates. Growth in the cotton sector has also been constrained by institutional instability and political interference. Efforts to develop non-cotton agricultural exports have not yet resulted in sizeable trade flows. The other key opportunity exploited by Benin has been re-exports, with Nigeria, its giant neighbour, as the main focus. The aim was to capture this country's huge, oil-rent-financed, domestic demand for goods subject to Nigeria's tariff and non-tariff barriers. This strategy has developed into a mostly unofficial and illicit CBT activity, operated by a network of informal operators present on both the re-export and the import-smuggling fronts. This CBT activity served Benin well, contributing to about 10–12 per cent of its GDP, according to our estimates. It has, however, clear downsides. It nurtures not only informality but also corruption, tax evasion, and political capture, as evidenced by the involvement of a few well-connected big actors in this trade. This activity also distorts incentives to develop legal domestic and more productive activities and crowds out resources that could be invested in them. Last, but not least, it is vulnerable to – and in some way hostage to – changes in Nigeria's trade protection policies as well as border control practices, as evidenced by the recent closing of the border unilaterally decided by Nigeria. Benin is thus clearly in need of a sustainable export development strategy, one that is focused on a diversified export base and can foster formal trade networks.
3. *Benin's high degree of informality in economic activities acts as a strong constraint* on its development strategy. Informal firms are on average less productive as they use less capital and operate on a lower technology level. Informality deprives the public sector of valuable fiscal resources, putting a drag on valuable economic and social public expenditures. Because informal firms operate outside a legal framework, the resulting lack of a level playing field also hampers the emergence of a dynamic network of formal firms.
4. *Benin's public-sector performance is below its potential*. This is the case for its domestic resource mobilisation. Inefficiencies in tax

collection, a consequence of several institutional weaknesses (informality, corruption, lack of transparency, poor enforcement…), deprive the public sector of much-needed resources. The management of public expenditures also suffers from inefficiencies, resulting in low quality of investments in key infrastructures or in misallocations of resources in spending on, for example, education and health. The persistent gap between total government resources, grants included, and total expenditures could be reduced by improving the efficiency of revenue collection and expenditure management, without sacrificing development goals, with the benefit of keeping the build-up of public debt in check.

5. *Benin displays a persistent and extensive need for foreign resources, ODA in particular*. The sustainability in the medium and long term of such structural dependency on external concessional financing is a major concern, particularly when access to the latter at past levels is not necessarily guaranteed for the future, especially at a time of 'aid fatigue' among donors. This is all the more true for an economy that has not yet really started carrying out the structural transformation that would significantly reduce this dependence. It is also vital for Benin to keep open access to external funding as an insurance in times of duress, when it is hit by external shocks affecting its two leading sectors, cotton and re-exports, the more so because monetary policy is limited, with Benin being a monetary union member with a fixed peg to the Euro. A key challenge is thus to guarantee the sustainability of its external debt by reducing its structural dependence on foreign financing, particularly on costly non-concessional flows.

For an economy without extractive resources, Benin needs a re-orientation of its development strategy: towards activities that offer better returns than traditional activities based on raw agricultural products, and towards viable long-term trade relations that fully exploit the country's regional comparative advantages, instead of keeping the focus on the illicit and informal CBT with Nigeria. To achieve this re-orientation, Benin needs to deal with the different, but very much intertwined, challenges already noted. Various policies can be figured out to address them. However, the question is not so much the nature of these policies as whether the most adequate ones will actually be adopted by the political decision system, and whether they will then be effectively implemented. Both issues in turn depend upon the institutional context of policy making and management.

The characteristics of these institutions, and their strengths and weaknesses in addressing Benin's development challenges, will be investigated in depth in the remainder of this volume. Before this, however, it will be useful to look at what is known about precisely these institutional strengths and weaknesses.

APPENDIX 1

Growth Accounting

A straightforward exercise of growth accounting for Benin is performed in Table 2.A.1 over subperiods of ten years, starting in 1970.

The following results stand out:

- Growth of GDP per capita was subdued during the first two decades, but much more dynamic during the 1990–2000 period of economic reform, as the economy recovered from the 1980s crisis period. Growth in 2000–2010 slowed again, before picking up during the most recent period.
- After rising in 1970–1980 – the period of heavy public investment under the socialist regime – the capital-to-labour ratio continuously decreased during the next thirty years, weighting negatively on labour productivity growth during these years. It is only in the most recent period that the ratio picked up again.
- Total factor productivity (TFP) contributed positively to GDP growth during each subperiod, except during the socialist experience. From 1980 to 2010, TFP allowed labour productivity to grow despite the thirty-year decline in the capital-to-labour ratio. It is probably not a coincidence that the most significant contribution of TFP to growth occurred during the 1990s–2000s, the period during which structural adjustment and reforms were carried out. During the other subperiods, its contribution to growth is relatively constant, at about 1 per cent per annum.

TABLE 2.A.1 *Growth accounting*

% per annum	1970–1980	1980–1990	1990–2000	2000–2010	2010–2017
Growth rates					
GDP	2.69	3.23	4.62	3.87	4.57
Labour (L)	2.47	2.96	3.27	2.97	2.82
GDP per capita	0.22	0.27	1.35	0.90	1.75
Capital (K)	3.38	1.14	1.53	2.55	4.50
K/L	0.91	−1.82	−1.74	−0.42	1.68
GDP growth: contrib. of					
K	1.32	0.45	0.60	0.99	1.76
L	1.51	1.81	1.99	1.81	1.72
Total (K+L)	2.83	2.25	2.59	2.81	3.48
TFP	−0.14	0.98	2.03	1.06	1.09
Labour productivity growth	0.22	0.27	1.35	0.90	1.75
of which due to K/L	0.36	−0.71	−0.68	−0.16	0.66

Source: Author's calculation based on data from WDI and Feenstra et al. (2015); the share of capital to GDP is set at 0.39; population is used as a proxy for labour, as a factor of production.

APPENDIX 2

Contribution to Benin's GDP of Re-exports to Nigeria

Golub (2012a, p. 215, 2012b, p. 1159) estimates that re-export activities to Nigeria contribute to 20 per cent of Benin's GDP. Golub et al. (in Chapter 8 of this book) report a slightly lower figure of 18 per cent. Their estimates for employment effects range from 50,000 people directly involved (and possibly up to 100,000 people when those indirectly involved are also taken in account). These estimates on employment effects represent for the year of estimation (2005) about 8 per cent of employed workers in the three sectors susceptible to contribute to this trade – that is, commerce, transport, and finance – and 2 per cent of total employment in the economy.

To assess the consistency between the GDP and employment estimates, we reason in the following way. Estimated tax receipts from CBT are about 30 per cent of tax receipts (World Bank, 2009), which translates into an average of 4.5 per cent of GDP. Using 2006 data, we net out this share of GDP from the estimated global 20 per cent contribution to GDP and compute the net contribution in terms of gross value-added at factor costs. The resulting ratio is 17 per cent. We assume that this net contribution to value-added at factor costs originates 65 per cent in the commerce sector, 30 per cent in the transport sector, and 5 per cent in the finance sector. Using the respective productivity data reported in Table 2.2 (Haile, 2018), we obtain an effect on employment amounting to 450,000 individuals, or 18 per cent of total employment in the economy. This huge effect on employment reflects to a large extent the low productivity in the commerce sector, which was noted in Section 1.2. It actually implies that about 80 per cent of people employed in this sector are supposed to be involved in CBT. Using 2015 data for the same scenario implies that the 20 per cent of GDP contribution of CBT represents an employment effect of 27 per cent of total employment (87 per cent of employment in the commerce sector). Again, the decrease in productivity in the commerce sector between 2006 and 2015 explains this difference. Using actual sectoral productivity data thus shows that the estimates of the contributions of CBT to GDP and to employment are inconsistent. It also shows that the 20 per cent of GDP estimate appears to be really excessive, when its implications for employment are assessed with realistic productivity levels.

As an alternative, we use the same approach, based on sectoral productivities, and reverse it. We explore a scenario in which we start from a specific hypothesis on sectoral employment in unofficial CBT. We arbitrarily assume that 25 per cent of workers in commerce, 20 per cent in transport, and 5 per cent in finance are active in unofficial CBT, this representing about 150,000 workers and 5.5 per cent of total employment in 2006. We obtain, under this hypothesis, a total contribution of unofficial CBT to GDP (i.e. indirect tax receipts included) of about 9.1 per cent in 2006. Repeating the exercise for 2015 we get 10.3 per cent. One could, however, argue that the national account

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productivities used in these calculations underestimate actual productivities in the informal trade. Because the latter involves a multiplicity of intermediaries and gives rise to specific costs, which includes bribery, the value-added per employee in this business can be expected to be larger. Assuming therefore that productivities are, say, 30 per cent higher in this specific informal trade than those reported in the national accounts, we obtain an estimated contribution of unofficial CBT to GDP of 10.4 per cent in 2006 and 12.1 per cent in 2015. All in all, a range of 10–12 per cent for the contribution of unofficial CBT to GDP thus seems a reasonable estimate.[55]

APPENDIX 3

Effects of Shocks in Nigeria on Benin's GDP

To quantify the short-run effects of aggregate demand shocks in Nigeria on Benin's GDP, we focus on household consumption in Nigeria as a driving factor for Benin's growth, using national account aggregates. Nigeria's household consumption is better suited than Nigeria's GDP as a driving factor, as a large part of the CBT of Benin with Nigeria originates in Nigerian domestic consumption spending. We run a regression between Benin's GDP growth and the growth of household consumption in Nigeria over the 1980–2017 period.

The regression includes one lag of each variable and uses the longest period for which data on household consumption are available in both countries in the WDI database. The estimated coefficient of contemporaneous Nigerian household consumption is 0.08 and is significant at the 1 per cent level. Although significant, the coefficient appears to be small in economic terms. However, one needs to take into account that the volatility of household consumption growth in Nigeria is much higher than that of Benin's GDP: their respective standard errors for the 1980–2017 period are 16.0 per cent and 2.9 per cent, respectively. A negative shock of one standard error in Nigerian household consumption – statistically not that improbable for the Nigerian economy – would decrease Benin's GDP by 1.3 per cent, an estimate with a 95 per cent confidence band of 0.4 per cent and 2.2 per cent. The regression results also indicate that the impact occurs contemporaneously, the one-year lagged effect of the Nigerian shock being quite small and insignificant.

These results confirm that a significant shock to the growth rate of household consumption in Nigeria, similar to those not infrequently witnessed there, can have a sizeable effect on Benin's contemporaneous GDP growth rate. This economically significant effect is confirmed by a variance decomposition

[55] Extensive surveys, along the lines of those already undertaken by INSAE (2011), could help getting more reliable estimates. Also, indirect multiplier effects on aggregate demand could be taken into account in a global assessment of the contribution of unofficial CBT to economic activity.

analysis performed with a bivariate structural vector auto-regression (SVAR) model with the same two variables and over the same period. This attributes about 22 per cent of the variance of the model's forecast error for Benin's GDP growth to shocks in Nigerian household consumption.

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3

Quality of Institutions

Lessons from Quantitative and Qualitative Evidence

Romain Houssa and François Bourguignon

This chapter aims to identify the institutional areas that most constrain Benin's economic development, relying on expert opinion as it appears in databases that provide international comparisons of institutional and related indicators, or as can be gathered locally through a dedicated survey. Section I of this chapter is devoted to systematic comparisons of Benin with other countries. Section II describes the survey carried out for the present study with a selected sample of decision makers in various areas and occupations in Benin. Section III synthesises the main lessons to be drawn from the preceding exercises and examines their degree of consistency with the conclusions of several growth diagnostic studies recently conducted on Benin.

I BENIN'S INSTITUTIONAL QUALITY IN AN INTERNATIONAL PERSPECTIVE

Three international databases will be used to compare Benin's institutional quality with that of other countries. The first is the Quality of Government (QoG) database (Teorell et al., 2018). This is probably the most complete database available related to institutions. It comprises more than 2,000 indicators from more than 100 sources. Many fewer indicators are systematically available for low-income or lower middle-income countries – which are those that can be used as meaningful comparators for Benin. Nevertheless, there are still close to 200 indicators for such countries. In a previous use of that database (Bourguignon and Libois, 2018), a clustering analysis has been employed to summarise this set of indicators into six synthetic indicators, based on the proximity of the inter-country profile of the original indicators they comprise.

The second database is the Worldwide Governance Indicators (WGI). This also relies on a wide collection of original databases. Instead of using a statistical method to aggregate all the individual indicators present in those databases, the aggregation is done a priori by broad governance areas and then the first principal component is extracted from country observations, which makes it possible to summarise the differences across countries in a single indicator of the quality of governance in that area (Kaufmann et al., 2010). Six indicators covering different governance areas are derived in that way.

The third database is simply the Country Policy and Institutional Assessment (CPIA) indicators gathered annually by World Bank staff, re-aggregated in five broad clusters.[1]

Benin's institutional quality, as described by these three sets of synthesised indicators,[2] is compared against two groups of developing countries: neighbouring countries in Central and West Africa, and a group of countries that have performed better than Benin in terms of gross domestic product (GDP) per capita over the past decades despite being initially at a comparable level.[3] Ideally, the comparison of institutional quality should refer to that initial stage, to see whether countries that initially had better governance overall did better in a subsequent period. Such a historical comparison is possible (although somewhat problematic) with the WGI database, but not with the others.

A Benchmarking Benin against Neighbouring Countries

Benin shares direct borders with four countries, namely Togo, Burkina Faso, Niger, and Nigeria. We were, however, unable to include Niger and Togo in our comparison due to lack of data. We instead included other countries in the same geographical area: Cameroon, Côte d'Ivoire, and Ghana. Figures 3.1a–3.1f compare the institutional performance of Benin and its neighbouring countries using the three databases described earlier, and at different points of time for WGI and CPIA.

Even though the synthesised indicators constructed based on the three databases often have similar names (Figures 3.1a–3.1f), they do not necessarily

[1] These five clusters are out of the twelve basic ratings appearing in the World Development Indicators (World Bank, 2017a).

[2] Other well-known databases like Transparency International or Polity IV could have been used independently of the preceding sources, but there would have been some redundancy in doing so, as they are already included in the QoG and WGI databases.

[3] Analysis could also have included countries that were poorer than Benin before 1990 but have now become richer (e.g. Botswana and China). Another comparator group could be defined to include countries with income levels comparable to that of Benin in 2016 (the most recent year for which data that allow international comparison are available). It turns out they would not have delivered different conclusions for Benin.

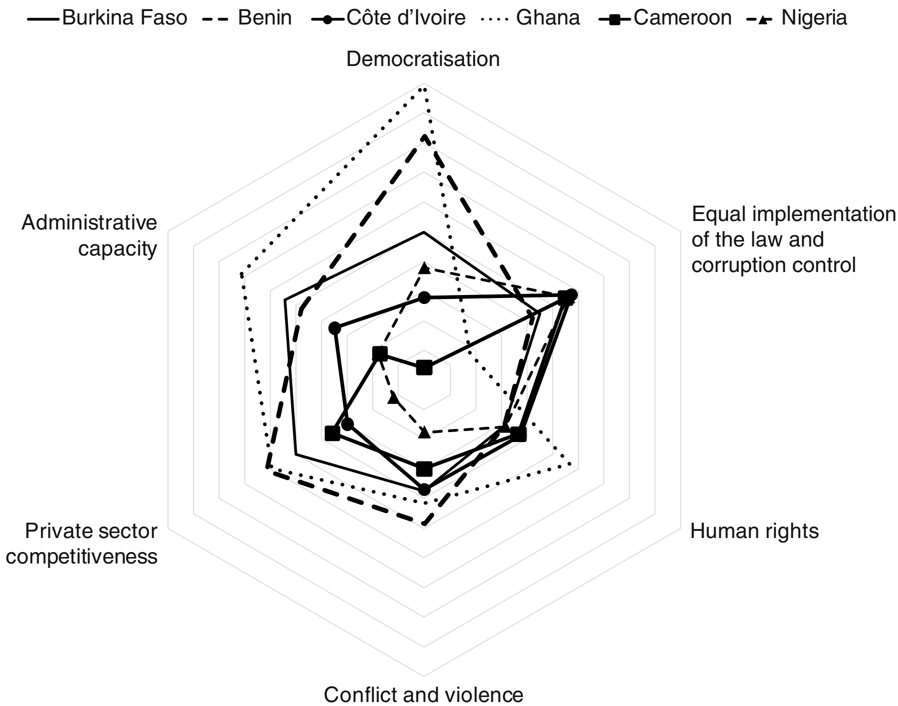

FIGURE 3.1A Governance synthetic indicators: Benin and its neighbours, 2015–2016. The reported figures represent simple averages of the scores for each country for the QoG indicators in 2015 and 2016
Source: Author's calculation from QoG database.

cover the same concepts. This would be the case for the indicator entitled 'control of corruption'. In the QoG database, this indicator is combined with the equal implementation of the law, which is part of the 'rule of the law' in the WGI and the CPIA. Likewise, human rights in the QoG refer to personal liberties, but also to the provision of public services to individuals, including education, health care, or social assistance, something that is behind the 'people' label in the CPIA database. Other indicators are conceptually closer to each other even though they have not been given the same name. This is the case for 'business environment' (CPIA), 'regulatory quality' (WGI), or 'private-sector competitiveness' (QoG). This is also the case for 'government effectiveness' (WGI), 'administrative capacity' (QoG), and 'public management' (CPIA). The same can be said of 'democratisation' (QoG) and 'voice and accountability' (WGI).

With the precaution required by this heterogeneity of indicators attached to different databases, we now examine the kind of differences in the

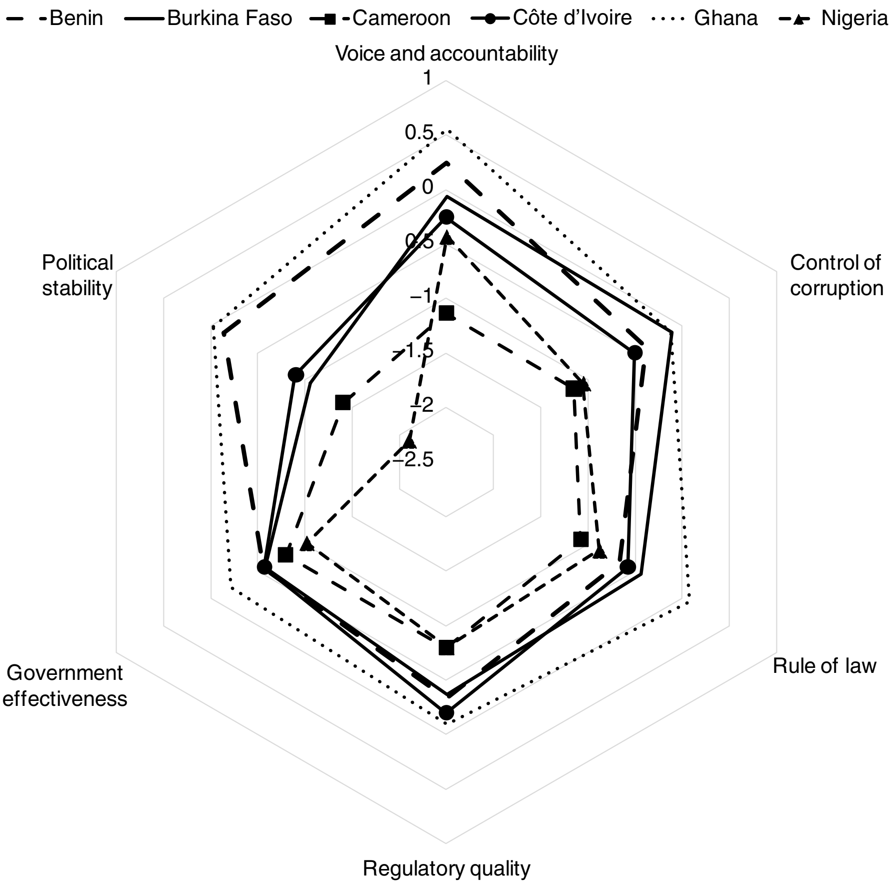

FIGURE 3.1b Governance synthetic indicators: Benin and its neighbours, 2018. The reported figures represent the score for each country for the WGI in 2018
Source: Author's calculation from WGI database.

quality of institutions they suggest exist between Benin and neighbouring countries.

The convergence across databases is stronger than may be apparent at first sight. Three synthetic indicators appear at least twice as relative weaknesses in the 2015–2016 data: business environment (QoG and CPIA), government effectiveness (QoG, CPIA), and control of corruption (QoG and WGI). On the side of the relative strengths of Benin, voice and accountability and human rights are unanimously better than in the comparator countries, the same being true of political stability in WGI or the absence of conflict and violence in the QoG.

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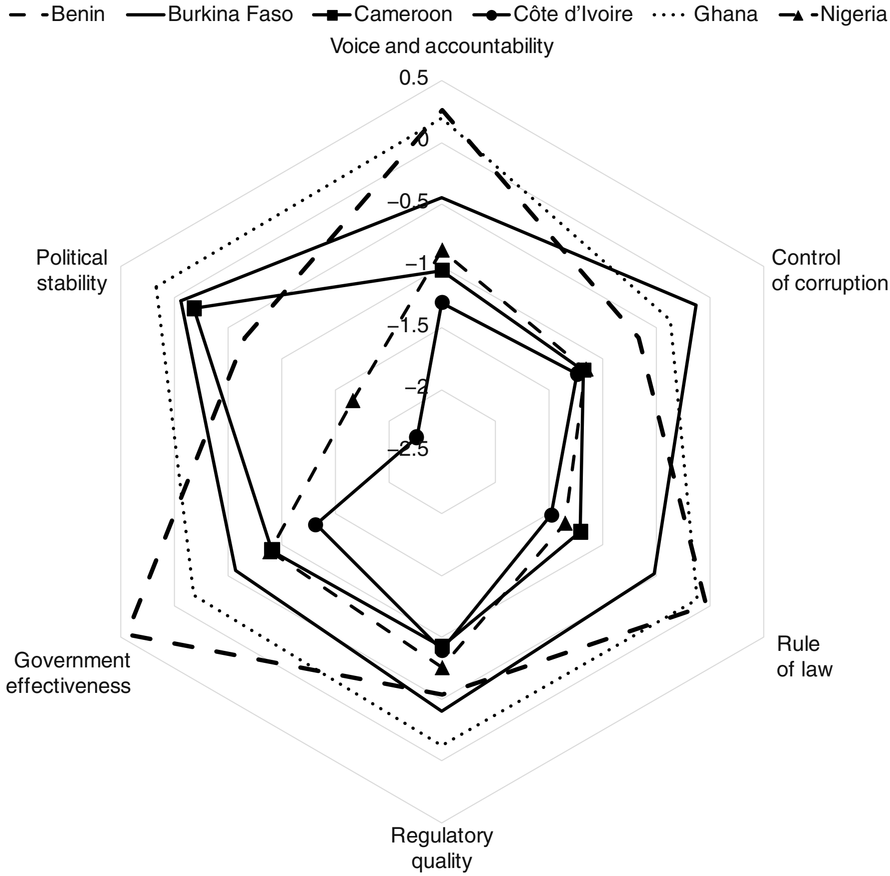

FIGURE 3.1C Governance synthetic indicators: Benin and its neighbours, 2005. The reported figures represent the score for each country for the WGI indicators in 2005
Source: Author's calculation from WGI database.

The lack of full convergence in areas that seem to be well defined across the three databases may seem surprising. As mentioned earlier, however, the concepts behind the corresponding synthetic indicators may differ. For instance, new policies to control corruption may be praised in the CPIA corruption indicator, whereas other databases focus on the fact that the level of corruption remains unchanged. Likewise, some indicators may stress structural obstacles in 'doing business', like insufficient infrastructure, whereas others will put more emphasis on the government's attitude towards business. The cost of relying on synthetic indicators is precisely that it is not possible to get into this kind of detail, this being the reason why an institutional diagnostic must necessarily go beyond this kind of aggregate analysis.

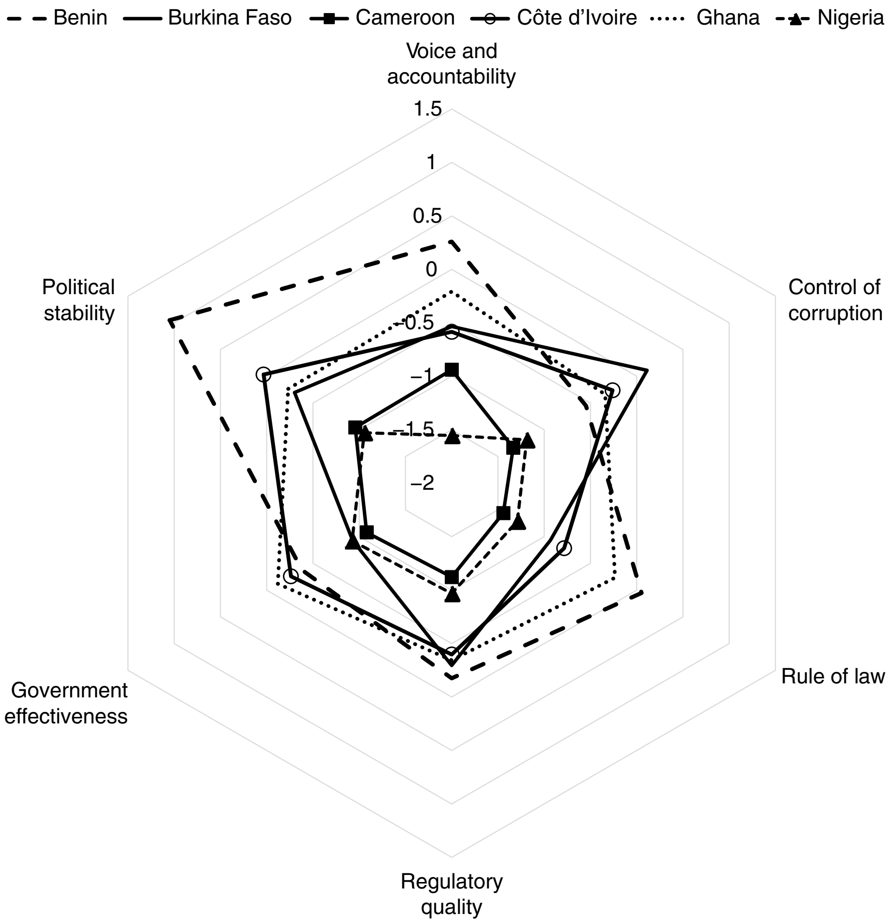

FIGURE 3.1d Governance synthetic indicators: Benin and its neighbours, 1996. The reported figures represent the score for each country for the WGI in 1996
Source: Author's calculation from WGI database.

The comparability over time of the WGI is somewhat uncertain because the number of databases used to build them has substantially expanded over the last two decades. Yet, the relative position of countries along the various indicators should not be too greatly affected by this problem. From that point of view, no noticeable change in the ranking of Benin took place over these two decades, except for 'regulatory quality' (i.e. business environment), where Benin tends to progressively lag behind Ghana and Burkina Faso over time.

The comparability over time of the CPIA governance quality indicators is probably better than for WGI because they are supposedly based on a

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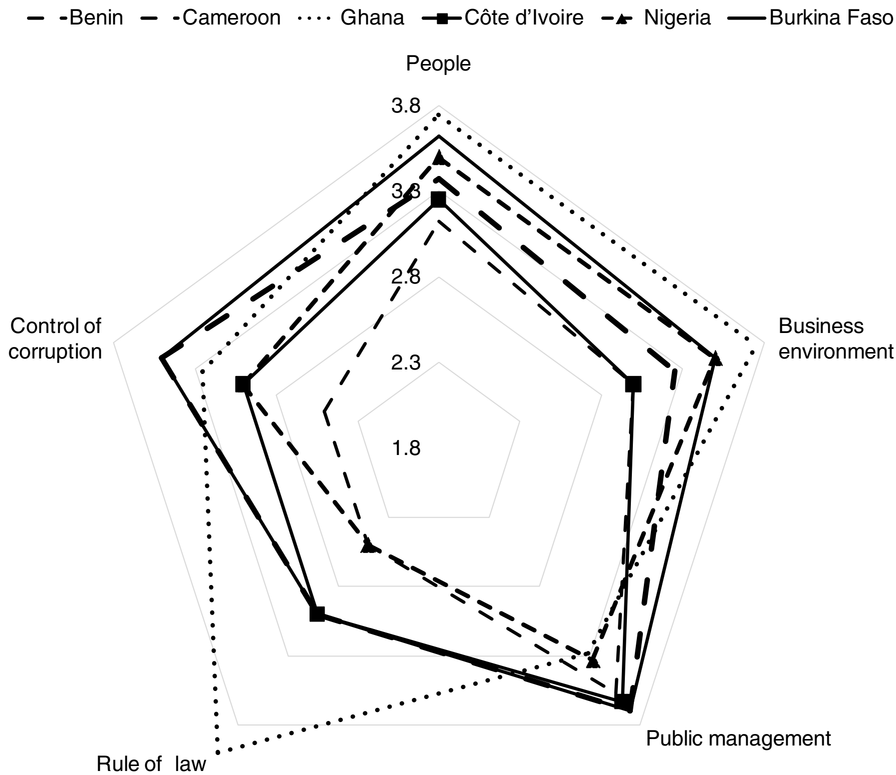

FIGURE 3.1E Governance synthetic indicators: Benin and its neighbours, 2016–2017. The reported figures represent simple averages of the scores for each country for the CPIA indicators in 2016–2017
Source: Author's calculation from CPIA database.

homogeneous methodology. There, the most noticeable change is again the worsening of the business environment both in absolute terms and relatively to neighbouring countries.

Overall, the appraisal of the quality of institutions in Benin through aggregate indicators and the comparison with neighbouring countries points to three weaknesses: the control of corruption, the business environment, and public management. Benin does not exhibit the worst performance in these areas at any point in time, as Cameroon and Nigeria most often lie behind it. However, it is generally the case that Benin does not do as well as Ghana, which dominates all the other countries in 2015–2016 according the WGI, or as well as Burkina Faso. Over time, moreover, it would seem that regress rather than progress is observed in the business environment.

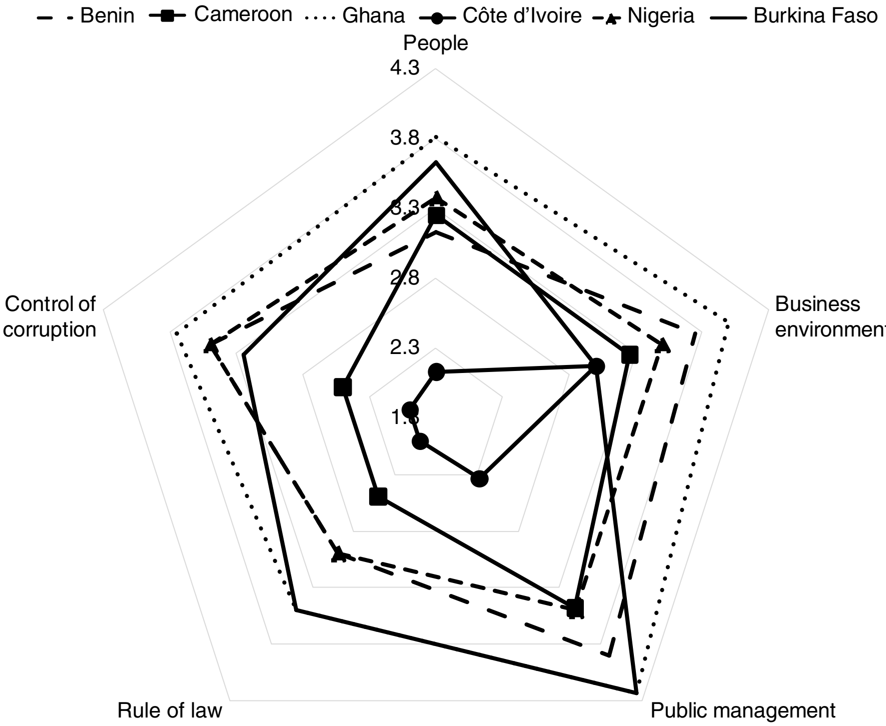

FIGURE 3.1f Governance synthetic indicators: Benin and its neighbours, 2005. The reported figures represent simple averages of the scores for each country for the CPIA indicators in 2005–2006
Source: Author's calculation from CPIA database.

B Benchmarking Benin against Better-Performing Developing Countries

We now compare Benin with five developing countries whose level of economic development was similar to Benin in the early 1990s, but that have had higher per capita GDP growth rates over the past twenty-five years and have now become substantially richer than Benin. These are Bangladesh, Cambodia, Lao, Vietnam, and Tanzania. Figures 3.2a–3.2f present the comparison using the same three sets of indicators in the same periods as in Figures 3.1a–3.1f. Of course, the profile of Benin in all radar charts is the same. What matters now is how Benin compares to those countries that were able to grow faster, both today and in the past at a time when all of the countries were at a comparable level of GDP per capita.

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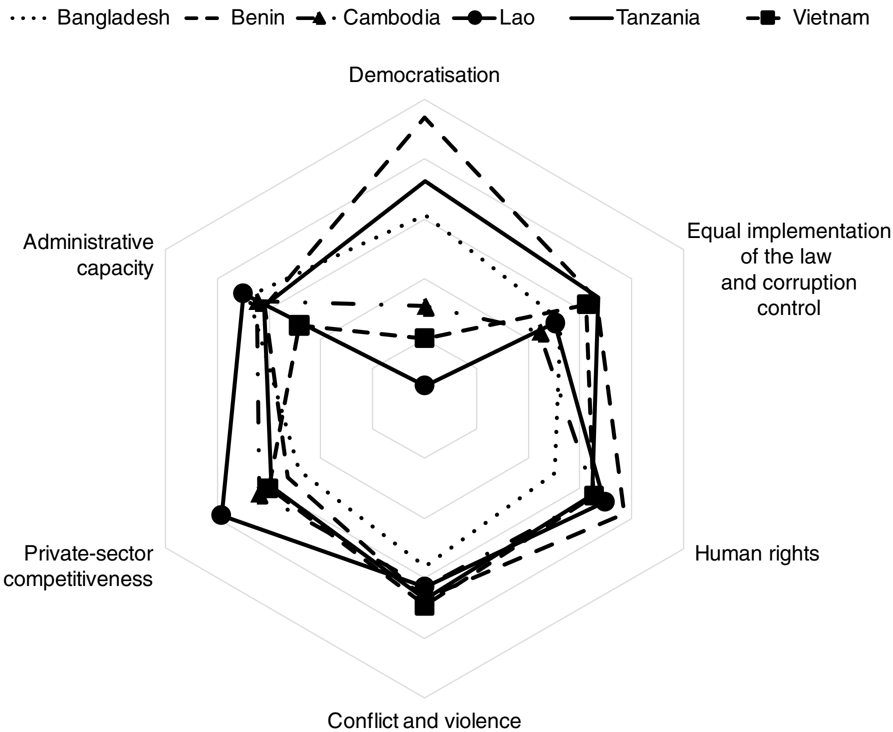

FIGURE 3.2a Governance synthetic indicators: Benin vs better-performing countries, 2015–2016. The reported figures represent simple averages of the scores for each country for the QoG indicators in 2015 and 2016
Source: Author's calculation from QoG database

Looking first at the three radar charts in Figures 3.2a–2c, the common feature is that, in comparison to these better-performing countries, Benin does not do well in public management and private-sector competitiveness. Except for this, Benin turns out to be quite comparable to the other countries when considering the WGI. It even performs relatively well on corruption. The latter advantage is still more pronounced with respect to the CPIA indicators. Overall, it would thus seem that, paradoxically, better-performing countries do systematically worse than Benin on that account.

Things are a bit different with the QoG database. There, Benin's control of corruption appears to be among the worst. In the QoG database neighbouring countries' control of corruption are also worse than they appear according to the WGI and CPIA indicators, confirming the different understandings of the concept of 'corruption control' in the various databases. The same is true

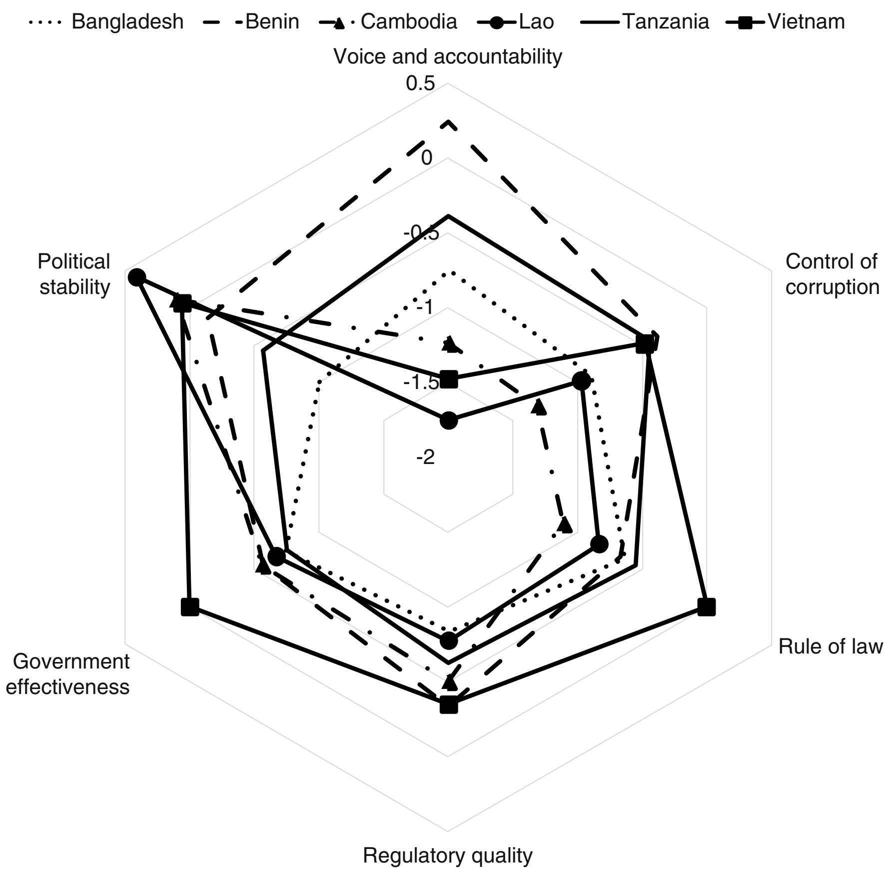

FIGURE 3.2b Governance synthetic indicators: Benin vs better-performing countries, 2018. The reported figures represent the score for each country for the WGI in 2018
Source: Author's calculation from WGI database

of business environment in the QoG database, where Benin performs rather worse than comparator countries, whereas it ranks at or close to the median in the other databases.

Another somewhat surprising result is the underperformance of Benin according to the 'people' indicator in the CPIA database. The point here is that, under the general heading of social inclusion and equity, that indicator puts a great weight on education. The interpretation to be given to the gap observed for Benin is therefore that fewer or lower-quality public efforts are devoted to human capital accumulation. Better-performing countries have invested more than Benin in that institutional aspect of development. This was not systematically the case when the comparison was with neighbouring countries.

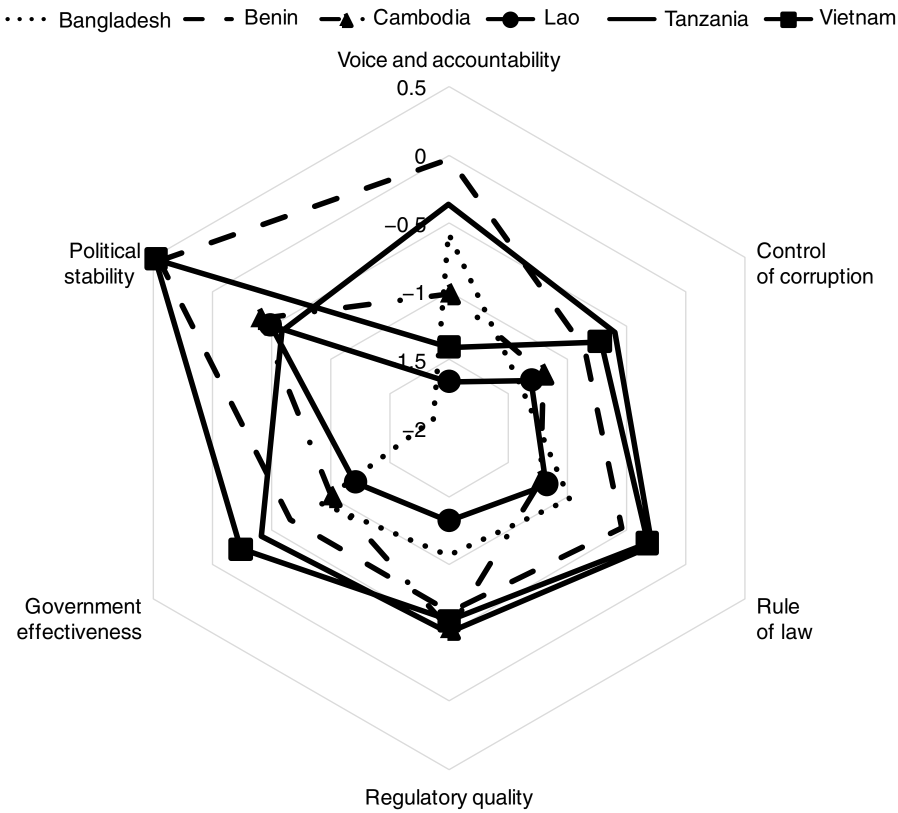

FIGURE 3.2C Governance synthetic indicators: Benin vs better-performing countries, 2005. The reported figures represent the score for each country for the WGI in 2005
Source: Author's calculation from WGI database

Looking now at the radar charts for earlier periods, Benin's human capital gap is fully confirmed on the CPIA for 2005. It is also noticeable that over the last decade or so Benin has lost the comparative advantage it initially enjoyed in its business environment relative to better-performing countries. This finding raises the issue of whether initial institutional advantages, as measured by the kind of synthetic indicator used here, are responsible for the faster development of these countries, or whether it is their development that created such advantages.

One reaches the same conclusion when looking at the three WGI charts. Clearly, Benin was, roughly speaking, doing better than other countries in 1996. In particular, its radar profile dominated that of Bangladesh, Cambodia, and Tanzania in all areas. If it had not been for corruption, it would also have dominated Lao and Vietnam. Paradoxically, however, all of these countries grew much faster than Benin in the subsequent twenty years.

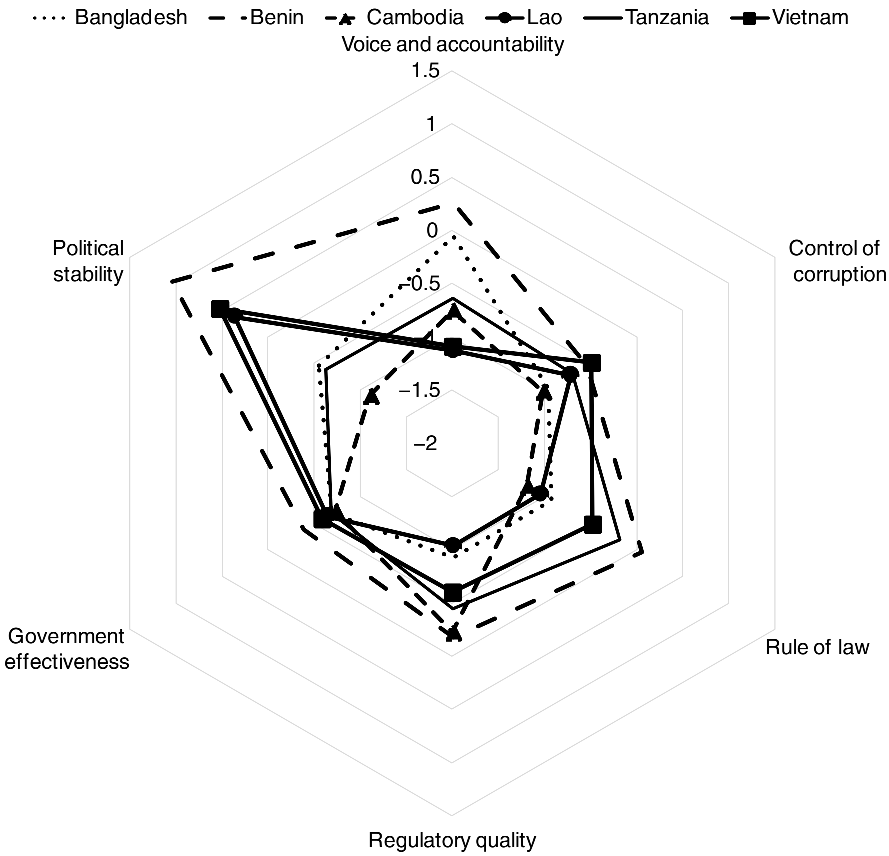

FIGURE 3.2d Governance synthetic indicators: Benin vs better-performing countries, 1996. The reported figures represent the score for each country for the WGI in 1996
Source: Author's calculation from WGI database

C Conclusion on International Comparison

What lessons may be drawn from this review of available international governance and institutional synthetic indicators? The first must be the lack of convergence of indicators from different databases that are nevertheless supposed to cover comparable areas. This discrepancy can only be explained by heterogeneous conceptual definitions, but it also casts some doubt on the true meaning of any single synthetic indicator of the type so frequently used in the cross-country development literature. Being analytically more rigorous would require using much more precise indicators, but this would increase the number of indicators to be used and would add to the inconclusiveness of the analysis.

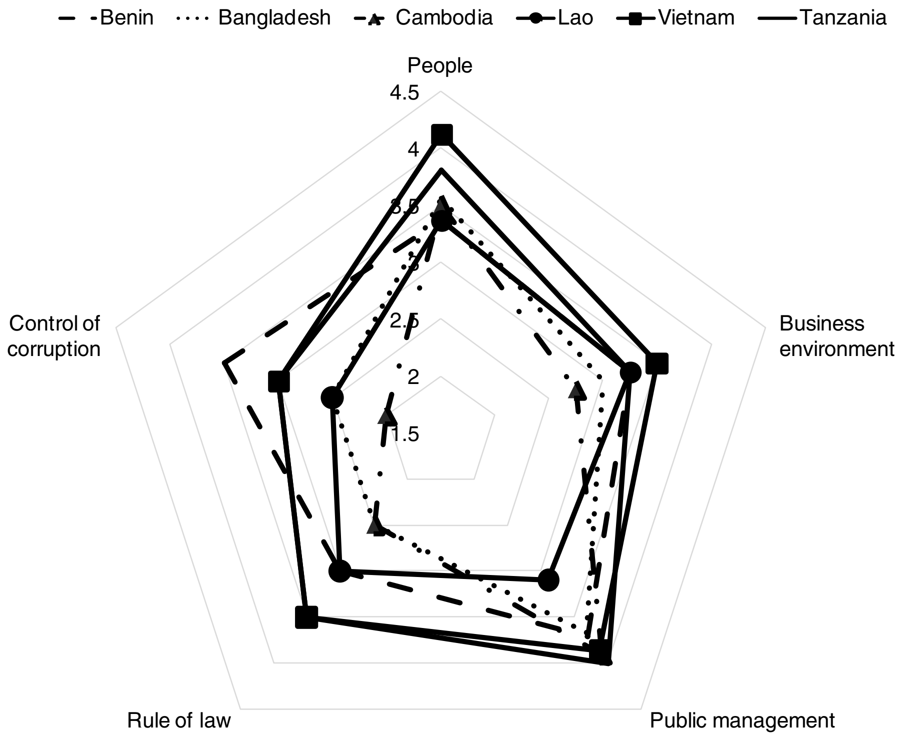

FIGURE 3.2e Governance synthetic indicators: Benin vs better-performing countries, 2016–2017. The reported figures represent simple averages of the scores for each country for the CPIA indicators in 2016–2017
Source: Author's calculation from CPIA database

Second, concerning Benin, the three potential sources of institutional weakness revealed by the analysis are the control of corruption, a business environment that is possibly less favourable than that in other countries, and efficiency issues in public management (although cross-country differences were rather small on that latter account). Another important weakness seems to lie in the public investment in 'people', most likely due to an underperforming educational system.

These are extremely general conclusions and, therefore, of limited use for policy makers. Remedying this would require getting into more detail to try to identify what exactly is making the business environment unfavourable or public management ineffective. As mentioned earlier, however, multiplying the number of dimensions of this type of international comparison would quickly render any results impossible to interpret. Other approaches must be developed to make use of the general indications delivered by the preceding analysis.

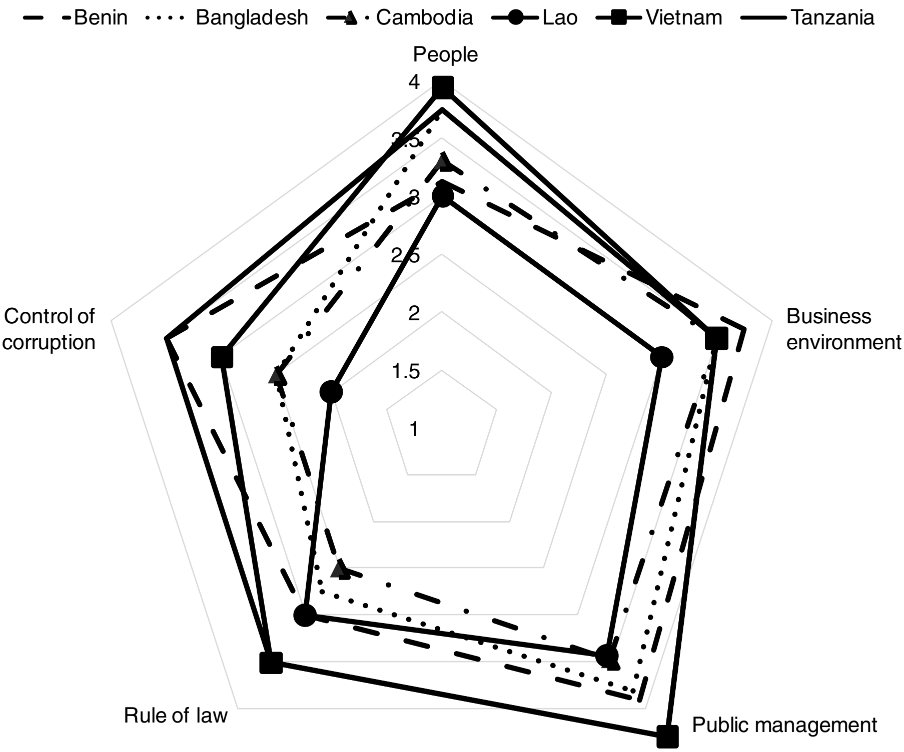

FIGURE 3.2f Governance synthetic indicators: Benin vs better-performing countries, 2005. The reported figures represent simple averages of the scores for each country for the CPIA indicators in 2005–2006.
Source: Author's calculation from CPIA database

Such approaches are pursued in the rest of this chapter and the accompanying chapters of the diagnostic.

II A SURVEY OF EXPERTS' OPINIONS ON BENIN'S INSTITUTIONAL QUALITY

The goal of this section is to derive further insights about the quality of institutions in Benin on the basis of opinions obtained from decision makers in the private and public sectors, as well as from civil society, who are directly exposed to these institutions. An opinion survey has been conducted with a sample of such people. The questionnaire was adapted from the one applied in a similar study in Tanzania to fit the reality of Benin. In the following paragraphs we first describe in some detail the methodology of this survey, before analysing its results and then underlining the lessons to be drawn in terms of institutional strengths and weaknesses of development in Benin.

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A Methodology

The survey of experts' opinions about Benin's institutional performance was developed in collaboration with Analysis for Economic Decisions, a Belgian consultancy, and a local team led by the director of Benin's National Institute of Statistics and Economic Analysis, under the close supervision of the authors of the present chapter. The methodology included three main steps: questionnaire, sampling, and survey implementation.

1 The Format of the Questionnaire

The questionnaire was adapted from a similar survey carried out in Tanzania – see Bourguignon and Libois (2018), after translation into French and modifications required by the Benin context. Questions that were irrelevant to Benin were excluded, and new questions were added based on insights from the first chapters of this volume and a workshop with key decision makers that took place in August 2017 in Cotonou. A number of questions were also reformatted so as to facilitate communication during interviews. Finally, the questionnaire was coded into Survey CTO, allowing it to be implemented on tablets.

The format of the questionnaire is somewhat original. It was initially conceived to cover most economic, political, and social institutional issues. As it was too long for a single respondent, and because all respondents would not be knowledgeable in all areas, a flexible format was adopted, where respondents would choose the areas they would focus upon. By doing so, however, they would reveal at the same time their opinion about the strength of the institutional constraints on development in the various areas they could choose from.

Practically, the questionnaire consists of ten subsets of questions, each one corresponding to a broad institutional area: political institutions, law and order, ease of doing business, public administration, and so on. The list of areas appears in the working paper version (Houssa and Bourguignon, 2019). First, respondents were asked to indicate which three of the ten institutional areas they saw as including the most constraining factors for Benin's economic development. Second, they were asked to give a relative weight to these three critical institutional domains, where a high value assigned to an area indicated that it is more detrimental to Benin's economic development. Then, respondents had to answer those questions in the questionnaire that came under each of their three critical area headings, plus a fourth area chosen randomly in order to make sure that all questions in the questionnaire would be answered a minimum number of times.

2 Sampling

The survey team developed a sampling strategy that relied on a demand-side/supply-side approach to analysing institutions. First, public or private entities – firms, public administrations, agencies, political parties, trade unions, and so on – were identified, some of them being involved in setting or managing

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TABLE 3.1 *Overview of the sample*

Category	No.	%	Category	No.	%
Public sector: total	131	33	Members of parliament	23	6
Public administration	92	23	Members of other constitutional bodies (supreme court, auditor general, ...)	27	7
Agriculture, commerce, industry	19	5	Trade unionists	3	1
Energy, water, mining	6	2	Donors	9	2
Economy, finance, development	19	5	Civil society	24	6
Education	11	3	Academics	10	3
Health	9	2	Think-tanks and charitable organisations	4	1
Infrastructure, transport, communications	14	4	Media	10	3
Sport, culture, tourism	8	2	Private sector	170	43
Foreign relations	6	2	Formal private firms	82	21
Law and order	15	4	Large firms and their associations	49	12
Judiciary	7	2	Medium firms	10	3
Military	4	1	Small firms	6	2
Police	4	1	Micro firms	17	4
Other administrations	24	6	Finance	12	3
Executive	7	2	Banks and their associations	6	2
Retired ministers	11	3	Micro-finance institutions	6	2
Local administrations (départements)	6	2	Informal firms	76	19
Political institutions	62	16	Total	396	100
Local politicians (communes)	9	2			

Source: Author's calculations.

institutions, whereas others were simple users of those institutions in their customary activities. Then, respondents were selected within these entities, preferably among senior managers or deputies.

The sample comprises 396 respondents across five key groups of entities/experts, summarised in Table 3.1: public administration, judiciary, executive and legislative bodies, donors, civil society, and the private sector. Each group was further divided into subgroups with possibly a different relationship to similar institutions. For instance, the private-sector group includes three subgroups: formal firms, informal firms, and financial institutions; and public administration includes sectors like education, health, or utilities.

Two methods were used to select entities in each subgroup: an arbitrary selection and a random sampling approach. Arbitrary selection was used to select entities in official sectors; that is, public administration, political institutions, civil society, or donors. Geographical diversity (départements and communes) was also taken into account as much as possible.[4] A random sampling approach was implemented to select entities within the private-sector subgroups – except for the financial sector, where specific executives were arbitrarily selected, for the same reason as in the public sector; that is, the reduced number of entities to be considered.

Two specific strategies were used to randomly select formal and informal private firms. On the one hand, a database (*Déclarations Statistiques et Fiscales*, which includes 5,361 firms) was used to randomly select around eighty formal firms according to firm size, after stratifying the universe by size, but irrespectively of economic sector of activity. On the other hand, seventy-five informal firms were randomly selected after stratifying by sector of activity and geographical area. The random selection was made by enumerators who had been assigned a location and a field of activity.

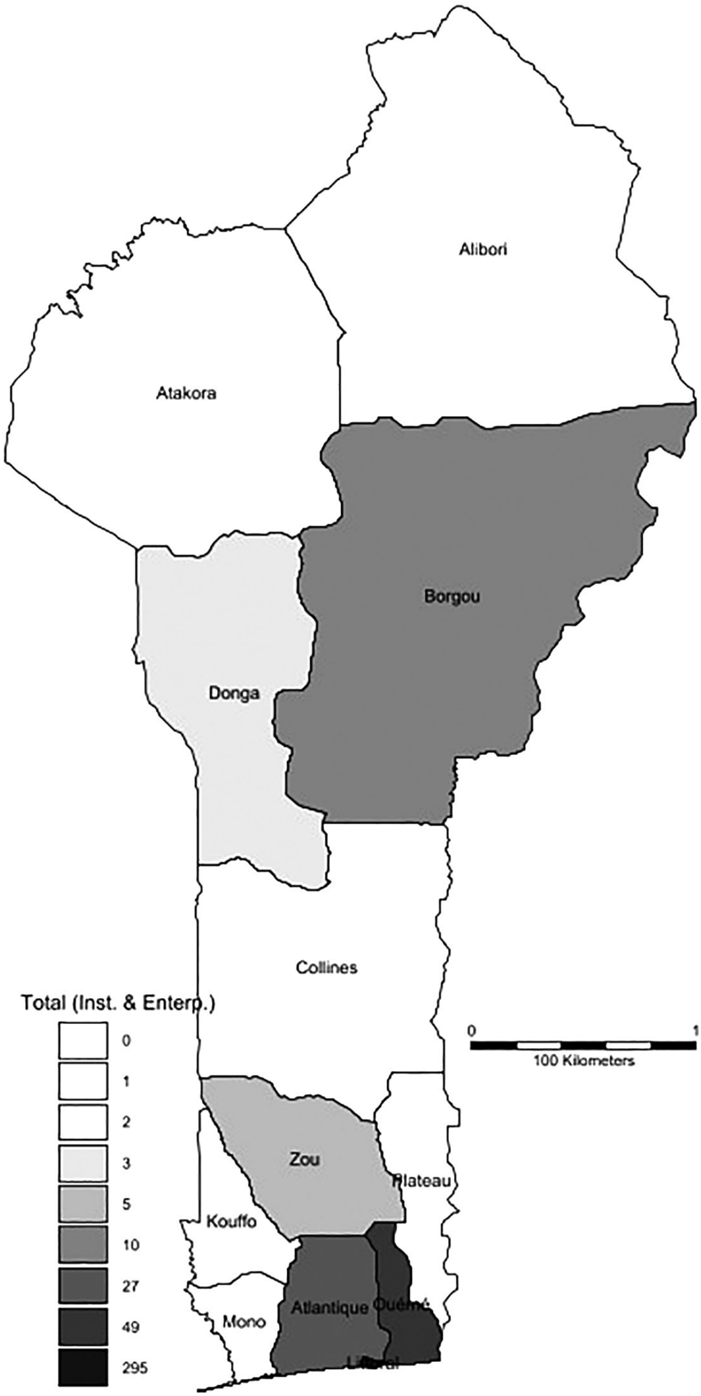
3 Survey Implementation

The survey was implemented between December 2017 and early February 2018. Map 3.1 displays the locations of respondents' entities.

The map shows that respondents are spread across the country. However, it turns out that the Atacora département is not represented in the sample. Also, there is an over-concentration of respondents in the southern (Ouémé, Atlantique, and Littoral) and north-eastern (Borgou) parts of Benin – the départements where most of the arbitrarily selected entities are located. In particular, the city of Cotonou in the département of Littoral is home to many of the firms and governmental entities. It must be kept in mind, however, that the objective of the survey is to poll not the Beninese population, but people with some knowledge and experience of the way various types of institutions function in Benin.

The stratification by type of occupation and geographical areas reflecting this choice does not necessarily fit the geographical distribution of the population. The sample of respondents is not representative of the Beninese population. In the sample, 84 per cent have a university degree and 27 per cent have studied abroad. They are in their mid-40s on average, and most of them have a family. Perhaps because of the education bias, Christians are overrepresented in comparison with the whole population. If there is no strong bias in terms of ethnicity, there is in terms of gender: the sample is strongly dominated by males (82 per cent). This feature reflects the gender distribution among senior managers in Benin. As a matter of fact, the only sector where a gender balance holds is among respondents operating in the informal sector (see more detail in Houssa and Bourguignon, 2019).

[4] The 'département' is the highest-level administrative unit in Benin, followed by commune, arrondissement, and village. Benin has twelve départements and seventy-seven communes.



MAP 3.1 Geographical origins of respondents' entities
Source: Authors' calculations

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TABLE 3.2 *Broad institutional areas by perceived weaknesses*

	Total			First choice		Second choice		Third choice	
	No.	%	Rank	No.	%	No.	%	No.	%
A. Political institutions	201	16.9	2	170	42.9	17	4.3	14	3.5
B. Law and order, justice, and security	126	10.6	4	40	10.1	63	15.9	23	5.8
C. Public administration	230	19.4	1	76	19.2	110	27.8	44	11.1
D. Ease of doing business	133	11.2	3	32	8.1	53	13.4	48	12.1
E. Dealing with land rights	127	10.7	4	29	7.3	48	12.1	50	12.6
F. Long-term and strategic planning	85	7.2	7	12	3	38	9.6	35	8.8
G. Market regulation	83	7	7	15	3.8	39	9.9	29	7.3
H. Security of transactions and contracts	21	1.8	10	2	0.5	8	2	11	2.8
I. Relations with the rest of the world	63	5.3	9	6	1.5	9	2.3	48	12.1
J. Social cohesion, protection, and solidarity	119	10	6	14	3.5	11	2.8	94	23.7
Total	1188	100		396	100	396	100	396	100

Source: Author's calculations.

B Empirical Results

This section summarises the information derived from the expert opinion survey. This is done into two steps. First, we analyse responses to the question that three broad institutional areas, among the ten areas listed in Table 3.2, are the most constraining for the development of Benin overall. Second, we gain a deeper understanding of the reasons behind those choices by analysing the responses to the specific questions that come under each broad area heading.

1 Perceived Institutional Constraints by Broad Areas of Functioning of Institutions

The 'total' row in Table 3.2 reports the number of times each broad institutional area appeared among the three most critical areas for Benin's development mentioned by respondents. Two areas strongly dominate the others: the functioning of *public administration*, followed by the functioning of *political institutions*. Together, they account for one-third of all opinions. Some way after them comes a group of four other areas that each account for about 10–11 per cent of the total choices: *law and order*, *justice, and security*; *ease of* *doing business*; *land rights*; and *social cohesion, protection, and solidarity*. The four remaining areas – *market regulation*, *long-term and strategic planning*, *security of transactions and contracts*, and *relations with the rest of the world* – seem to be less critical. This may be because they are seen as corresponding to more technical aspects of institutions, and therefore were probably more distant from the preoccupations of respondents.

Equally interesting is the order of appearance of each institutional area in the choice of three areas by the respondents. It can be seen in Table 3.2 that *political institutions* was mentioned by 43 per cent of the respondents as their first choice, followed by *public administration*, which also dominates the second choice. The third choice is dominated by *social cohesion, protection, and solidarity*. This result must be interpreted negatively, though. Indeed, that area (*social cohesion, protection, and solidarity*) appears to be of less importance in comparison with areas (e.g. areas B, D, and E) that have more or less the same total number of mentions, but that were mentioned more frequently as the first and second choices.

The preceding ranking is changed only marginally when the weights respondents associated with the institutional areas they selected are accounted for. *Political institutions* and *public administration* remain strongly dominant. As a matter of fact, the average weight given to the institutional areas by those respondents who mentioned them as an obstacle to development is quite uniform, except, interestingly, for *political institutions*, which again dominates the others. The same results were obtained when respondents were asked to reveal their willingness to pay for improving those institutions they found most critical for development (see more detail in Houssa and Bourguignon, 2019).

Respondents are expected to have heterogeneous views about institutional weaknesses. In order to gain insights into this issue, a number of mechanical regressions were run where a dummy variable defined by whether a broad institutional area was seen as critical or not was regressed on some characteristics of respondents, namely being a Beninese national; being a woman; managing a large, medium, or small firm; and being employed in a financial institution.

These regressions are shown in Table 3.A.1 in the Appendix to this chapter. Among the noteworthy results is the fact that large and formal firm operators tend to have less distrust than other respondents with respect to *political institutions* – perhaps because they know better how to deal with them. The other side of the coin is that, more than others, they find that the *business environment*, including *market regulation* or the *security of contracts*, is an impediment to development. This attitude is still more prevalent among respondents working in financial institutions. More surprisingly, women also share this view; that is, they place less emphasis on *political institutions* and more emphasis on *business*, possibly because they tend to be over-represented among small and micro entrepreneurs. As far as nationality is concerned, it is not clear that the distinction is meaningful given the tiny minority of foreigners in the sample. Not surprisingly, foreigners overvalue the *business environment* whereas nationals give more importance to *land rights*.

2 *Interactions between Formal and Informal Institutions*

In a society where tradition very much matters, it was considered interesting to ask respondents about whether traditional institutions could be a good substitute for imperfectly working formal institutions, particularly those institutions dealing with business relationships, for instance security of contracts (Dhillon and Rigolini, 2011). In this regard, respondents had to choose out of five informal institutions those they considered to be a good substitute for imperfectly working formal institutions: religious leaders, traditional authorities, networks, other personal relations, and cultural masking traditions established during the pre-colonial period and backed by spiritual forces.[5]

The responses suggest that the dominant informal response to institutional weaknesses are not the traditions inherited from pre-colonial times, but essentially private networks and, to a lesser extent, traditional and religious leaders. This result was not unexpected given the rather high average educational level of the sample. Yet, the fact that a significant proportion of respondents mentioned traditional and religious leaders is evidence that formal institutions regulating interpersonal economic relationships are not fully established in Beninese society, possibly because of the survival of traditional means of solving this kind of problem.[6]

3 *In-Depth Perceptions of the Quality of Institutions in Benin*

We now go one step further by exploiting the detailed questions asked of the respondents in connection with the three broad areas they chose, and a randomly selected one. The full list of questions may be found online.[7] For the sake of simplicity, however, we shall not deal with these questions directly. We shall rather list the main lessons that can be learned from the answers. Before doing so, however, we must address some methodological issues in the identification of weaknesses and strengths revealed by the answers to the questionnaire.

The response to all questions was coded on a Likert scale ranging from 0 to 4: 0 defined as 'not at all', 1 as 'little/low importance', 2 as 'neutral', 3 as 'a lot', and 4 as 'extremely'. In addition, respondents were allowed to reply with 'I do not know' when they could not provide relevant answers to a question. Note that some questions were asked in a negative way – for example, 'To what extent does corruption constrain business?' – whereas others were asked in a positive way – for example, 'How well do you think local communities

5 Zangbeto, Guelede, and Egoun. Given their spiritual nature, we would expect these traditions to play important roles in conflict resolution and mediation.

6 Briones Alonso et al. (2016) present evidence of the coexistence between traditional and modern institutions for fisheries management in Benin.

7 https://researchportal.unamur.be/fr/publications/questionnaire-used-in-chapter-3-the-quality-of-benins-institution.

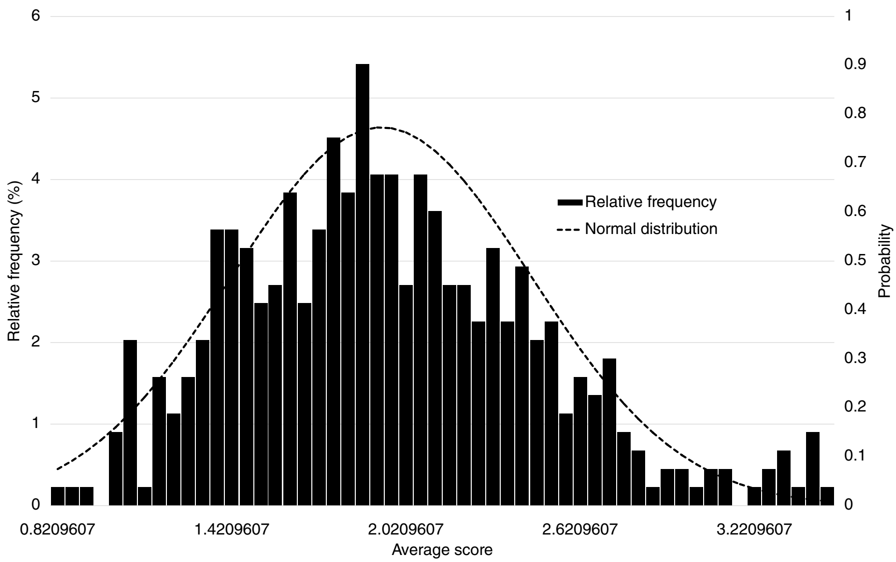

FIGURE 3.3a Average scores: Distribution of average scores
Source: Author's calculations.

understand aspects of the land law that concern them?' To make responses comparable across the questions, the answers were re-coded to the negative, so that all low response values can be interpreted as institutional weaknesses, and high values as strengths.

The full questionnaire is very rich, as it includes more than 400 questions – even though the typical respondent had to answer roughly half of them; that is, those in the areas he/she chose. To synthesise the answers, a number of methodological choices have to be made.

Weaknesses and strengths are defined by average Likert scores below 1.5 for the former and above 2.5 for the latter. These cut-offs were defined on the basis of the distribution of average scores across all questions shown in Figure 3.3a, which exhibits discontinuities at these values. Note, however, that relying on average scores raises the issue of how to interpret responses with neutral opinions; that is, those with scores equal to 2.[8] Is it a truly 'neutral' response or a quick way to get rid of a question one cannot really answer? To take this ambiguity into account, questions were ranked in accordance with both their average score and that score after eliminating the 2-scores. However, the difference between the two rankings was marginal. The same was found when considering only the proportion of scores strictly below 2 for weaknesses and strictly above 2 for strengths.

[8] The response 'no opinion', i.e. responses with a score value of 99, were removed before the average values were estimated. We report the number of cases where the value of 99 was used.

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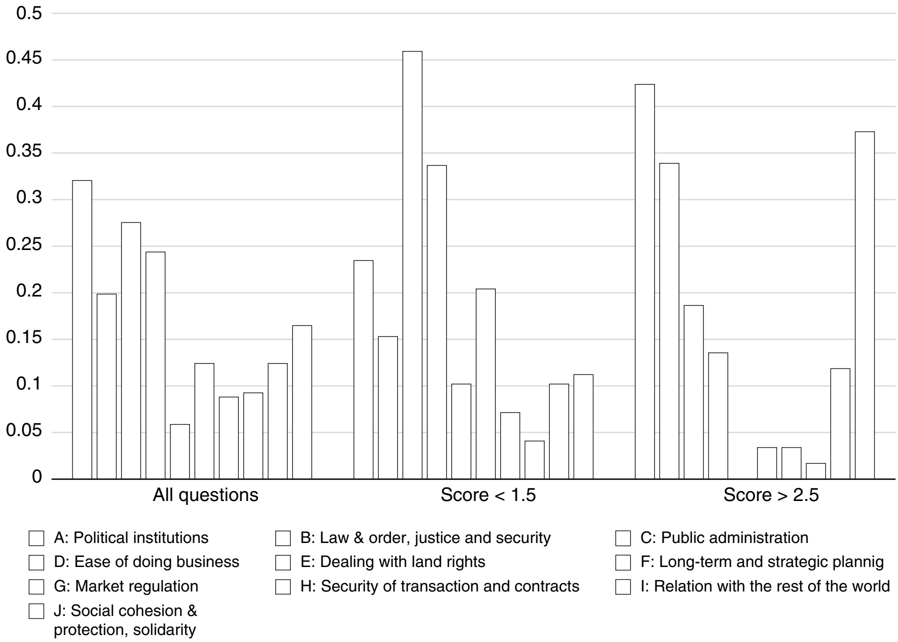

FIGURE 3.3b Average scores: Frequency of questions by score levels
Source: Author's calculations.

A first consistency check of this methodology of handling the answers to the various questions in the questionnaire consists of checking whether the scores of the questions under the heading of the ten broad institutional areas fit the average ranking done by respondents in the first part of the interview. This is done in Figure 3.3b.

The first block on the left-hand side of Figure 3.3b simply shows the relative frequency of questions across broad institutional areas in the questionnaire. For instance, about 30 per cent of all questions fall under the heading of 'political institutions'. However, it must be kept in mind that some questions appear under various headings. For instance, a question on the corruption of tax collectors would appear under both *public management* and *ease of doing business*.

The two other blocks of the right-hand panel of Figure 3.3b are more interesting. They show the same frequencies, but now restricting the universe to questions whose average score is below 1.5 (i.e. weaknesses) in the middle block and above 2.5 (strengths) in the right-hand block. What is interesting here is that the relative weakness of the broad areas is now slightly modified in comparison with the direct ranking operated by the population of respondents.

It is still the case that *public management* is considered to be the weakest area, since the frequency of questions with an average score below 1.5

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is higher than the frequency of all questions in that area – and of course the frequency of questions with scores above 2.5 is lower. Yet, the second weakest area now appears to be the *ease of doing business*, for which the same pattern holds. By contrast, *political institutions*, which were considered practically as bad as *public management* in the direct ranking (i.e. when no detail was given to the respondents about what precise issue this area was covering), now would be more on the positive side: this area shows relatively more questions with high scores and fewer with low scores. This means that asking people about institutional weaknesses and strengths without first making them aware of what each area actually covers may be misleading. In the case of Benin, there are of course severe weaknesses in the way the *political institutions* work, but respondents also point to very positive aspects, so that, overall, their opinion is certainly not as negative as when asked whether '*political institutions* work well or badly' without further detail. This is not true, however, of *public management* and *doing business*, which are still considered to be major institutional weaknesses.

Three other areas show some reversal of opinion when detailed aspects of the institutional area are given to respondents. The first is *social cohesion, protection, and solidarity*, where questions with high scores strongly dominate, and *long-term planning*, where the opposite is the case. In the former, the problem may come from the fact that the title of the area comprises different concepts and it is not clear which one dominated in the mind of respondents when first confronted with it. It is possible, for instance, that they may have put more emphasis on social protection, which they consider to be a weakness, and then realised when faced with the detailed questions that this area was also about traditional solidarity among people, which they considered to be a strength. For '*long-term and strategic planning*', it is also probable that the understanding of that label was modified when respondents realised what it referred to. The third area that appears weaker than it was initially is *land rights*, where the frequency of low-score questions is twice that of questions about land rights overall.

In summary, the more detailed questionnaire showed some change in the ranking of broad institutional areas by relative weakness or strength. The main weaknesses revealed by the questionnaire are *public management* and ease of *doing business*, but, of course, it is now necessary to obtain deeper insights by focusing on individual questions and examining in more detail those with the lowest and highest scores. This is done in the next sections, which look successively at the revealed institutional weaknesses and strengths.

4 *Perceived Weaknesses of Institutions*

Instead of analysing one by one all the questions in the questionnaire that received an average score of less than 1.5, we list in what follows the main lessons that can be learned from them. Because the questions address a large range of issues, this approach allows for a more detailed diagnostic of institutional

TABLE 3.3a *Selected examples of detailed institutional performance: weaknesses*[a]

Questions on weaknesses	Average score
To what extent is corruption an obstacle to business development?	0.73
Do you think the Haute Cour de Justice is able to impose the respect of the constitution?	0.76
What is the degree of corruption linking the media and politicians?	0.82
What is the degree of political corruption (vote buying, illegal campaign funding, bribes)?	0.83
Does the government discuss the budget seriously with the civil society?	0.87
To what extent do land transactions involve corruption in local communities?	0.9
How much would you say the press and the media are independent from political influence?	0.96
Do you trust the Haute Cour de Justice to impose the legal rules of the game on the main political and economic actors?	0.98
To what extent are public procurement procedures fair and transparent?	0.98
In your view, is poverty reduction a priority for political parties?	0.99
What is the degree of corruption in the relationship between public administrations and Beninese companies?	1
To what extent is the reliability of economic aggregates like GDP growth, the current account balance, or inflation discussed in parliament, in the media, and in the civil society?	1.15
How seriously are public accounts audited?	1.18
To what extent are political dissensions obstacles to the implementation of public policies and reforms?	1.22

Source: Author's calculations.

[a] Recall that scores are redefined depending on the question, so that a low score denotes an institutional weakness. For instance, if the answer to the first question 'To what extent is corruption an obstacle to business development?' is 'very much so', and thus a Likert score of 4 is applied, it is redefined as 0 in agreement with the fact that this denotes a major obstacle to development. The reported score is the average 0/4 Likert scores after eliminating scores equal to 2.

weaknesses than simply ranking broad institutional areas, as was done earlier. Tables 3.3a and 3.3b report the results for institutional weaknesses and strengths, respectively.

Without doubt, corruption is the theme that appears most frequently among the questions that obtained the lowest average scores among respondents. It affects practically all aspects of political and economic life in Benin: the political system, the relationship between business and the public administration (rigged procurement) or the judiciary system, the electoral system (vote buying), land rights, or complicity between politicians and the media. Corruption is seen as responsible for several key dysfunctions in the political, judicial, and economic spheres.

TABLE 3.3b *Selected examples of detailed institutional performance: strengths*[a]

Question on strengths	Average score
Does the state discriminate among citizens in regard to accessing administrative services, justice, security, public school, health-care centres, etc.?	3.6
To what extent is the army or the police involved in politics?	3.29
In your opinion, is wage discrimination with respect to religion or ethnicity frequent in the private sector?	3.17
How free do you feel people are to form associations of a religious, ethnic, professional, or political nature?	3.11
Did the one-stop shop policy recently implemented in public administration improve doing business?	2.91
In view of religious, traditional, or ethical norms, how free is the Benin state about policies and reforms in education, health, social services, and economic policy?	2.9
How strong is the national sentiment in Benin?	2.87
Are traditional solidarity links effective in supporting people in need in rural areas?	2.8
How repressive do you feel the Benin state is?	2.74
Do you think that present reforms in the anti-corruption policy will lift constraints on development?	2.7

Source: Author's calculations.

[a] Recall that scores are redefined depending on the question, so that a low score denotes an institutional weakness. For instance, if the answer to the first question 'Does the state discriminate among citizens in regard to accessing administrative services, justice, security, public school, health-care centres, etc.?' is 'very much so', and thus a Likert score of 4 is applied, it is redefined as 0 in agreement with the fact that this denotes a major obstacle to development. The reported score is the average 0/4 Likert scores after eliminating scores equal to 2.

Another problem that is frequently mentioned, which also relates to corruption, or more exactly the difficulty of controlling it, is that the official rules of the political game, namely the constitutional rules, may be violated without the entities supposed to punish such behaviour taking action. The Constitutional Court, the Supreme Court, and the Haute Cour de Justice, whose jurisdiction is the illegal behaviour of the executive, are generally found to be permissive or passive, the same being true of the parliament. It is quite possible, however, that this opinion among the respondents was strongly influenced by the debate at the time the survey was taken about several decisions by the incoming president, which some felt were in contradiction with the constitution (see for instance Hessoun, 2017).

The lack of transparency of state decisions and state action is another theme that attracts low scores. For instance, the criticism is made that no public discussion takes place about the execution of the budget or National Accounts, that the financial results of public and semi-public companies are not made public and not debated, that most decisions by the executive are taken in an opaque way, and that few evaluations are made of policies.

A theme that is of importance is the understanding that citizens have of the law and the rules of the game. There was a single question addressing this issue in the questionnaire and it referred to land law. The general opinion in this respect was that local communities have a poor understanding of the law and cannot use it to protect themselves against illegal practices that would take the control of some land away from them.

Concerning state-owned companies, their efficiency and management were severely criticised by respondents. This was especially the case for the company responsible for the production and distribution of electricity.

Two additional points that are apparent in the responses to the questionnaire are worth stressing. The first is the low average score for the question about whether poverty reduction could be considered as the main objective of policy making in Benin. The second is the view that dissension does exist within the executive itself. Here again, however, it may be the case that the low score for that question was influenced by some specific event that took place during the time of the survey or a little before – despite the fact that respondents were explicitly asked to base their answers on the way they saw politics, economics, or the working of the administration over the ten years preceding the survey, rather than basing it on current events and debates.

Reported development bottlenecks also include the dominant informal sector, Benin's dependency on Nigeria, labour market nominal wage rigidity, and the frequent strikes in the public sector. All these constraints generate high costs for businesses and undermine competitiveness. However, it is not clear that they refer to institutional weaknesses strictly speaking.

5 Perceived Strengths of Institutions

Strengths are supposed to be revealed by questions with a score above 2.5; that is, a majority of respondents having selected the top value on the Likert scale. The main points that arise from reviewing these questions are the following.

High levels of respondent satisfaction mostly centre on five domains, which are not always fully consistent with perceived institutional weaknesses. These are (1) civil liberties; (2) a sense that the state enjoys some autonomy in policy making; (3) some trust in recent reforms; (4) a feeling of improvement in the ease of doing business; and (5) national pride.

On civil liberties, respondents expressed satisfaction with respect to the freedom given to people to form associations in practically all areas, from religion to politics. Equally important was the feeling of limited religious, ethnic, and political discrimination in recruitment and wage practices in the private sector. The lack of discrimination in access to public services – schools, health facilities, justice, or security – was also highly valued. Consistent with these civil liberties, the lack of state repression was also stressed by respondents.

The autonomy that respondents feel the Beninese state enjoys with respect to social, traditional, ethnic, and religious norms, or with respect to the army and the police, is certainly an advantage over some other countries. Yet, this feeling may not be fully consistent with the importance of corruption so strongly emphasised among key institutional weaknesses. In other words, autonomy does exist with respect to some norms and some specific actors, but it is probably more limited when dealing with big business or some other vested interests.

The prevalence of corruption among the perceived institutional weaknesses of Benin was such that it is somewhat surprising that respondents tend to trust announced anti-corruption reforms. Or is it precisely because corruption has reached such a critical level that experts tend to agree on the need to fight it effectively? The confidence expressed in the positive impact of aid, or at least on the absence of the crowding-out effect of aid on domestic savings, is also unexpected at a time when aid effectiveness is increasingly open to doubt. Yet, one may understand why such a point of view prevails in an economy where aid represents between 6 and 8 per cent of gross national income.

Recent reforms seem to have improved the way business feels about the business environment, even though it was seen earlier that there were still many causes of dissatisfaction. The one-stop window for formalities and the shortening of registration delays were sources of satisfaction for business-oriented people among the respondents. The low probability of violent events or worker strikes in the private sector was also felt to be a positive aspect of the business environment.

Finally, the feeling of belonging to a national community may not be easily related to the broad institutional areas that have been discussed in this chapter. That it appears with a strong score in the questionnaires despite the ethnic diversity of the country is a positive sign: the probably of conflict and violence is therefore reduced, which should be favourable to business and long-term public planning.

6 Perceived Opinion on Recent Reforms

Several reforms were recently initiated by the Talon administration, some of them with the ambition of improving the institutional framework of Benin's development. Respondents were initially asked to answer questions based on their knowledge and experience over the preceding ten years, which is mostly before the Talon administration came to power. This was done in order to have a picture of expert opinion on Beninese institutions that would not be biased by the debate about the most recent reforms. Because of this, it seemed interesting to ask the experts briefly about these reforms, to check whether their views would differ.

Four types of reform were launched by the new administration. The first consisted of moving activities initially under the responsibility of civil services to agencies formally outside the public sector. Their mission is the same, but they escape some of the constraints of operating in the public sector, thus

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making them potentially more effective. For instance, agencies were created to manage the construction of schools and health centres, and others were created to replace the public company Société Nationale pour la Promotion Agricole (SONAPRA), which was responsible for agricultural promotion, rural development, and price stabilisation; another agency was created to manage water projects, and so on. These are potentially major reforms. It is of course too early to evaluate the reforms' impact, but it is interesting to note that survey respondents were essentially either neutral or ambivalent with respect to them. Indeed, the average score for the questions about these reforms was very close to 2, and roughly 40 per cent of respondents either reported 2 or did not answer the question.[9]

On a more positive side is the recent law that strengthens the land reform undertaken over recent years, and in particular the land titling operation launched in 2013 with the help of the US Millennium Challenge Account programme. One problem with the ongoing reform, however, is that a land title does not provide a definitive right until after five years, and it may be contested during this entire period. Indeed, several such contestations have taken place, and financial institutions that use land for collateral have experienced losses. As a result, they have become reluctant to accept land with temporary rights as collateral. To address this issue, the Talon administration passed a new law in late 2016 that gave landowners definitive rights. Survey respondents supported this reform, more strongly it should be said than they considered land rights to be an obstacle to development.

The present administration is implementing several actions against corruption. With an average score above 2.5 – and with less than 25 per cent neutral or undecided responses – respondents perceived these actions to potentially have a positive impact. Such an attitude is fully consistent with the emphasis put by respondents on the very negative influence of corruption on development.

Another action that gathered approval among the survey respondents was the reform of the power sector and the likely unbundling of the activity of the state monopoly in this area, Société Béninoise d'Energie Electrique. This, again, is in agreement with the negative opinion of respondents about the management of state-owned companies.

7 Response Heterogeneity

To complete the analysis, we now examine whether average scores in the population of respondents hide strong differences across specific groups, in which case the conclusions just obtained should be somewhat qualified. The way to proceed is simple. It consists of testing the statistical difference between the answers of different groups of respondents. To be consistent with the strategy used earlier, the emphasis is put on those cases where strengths and weaknesses,

[9] That proportion is generally below 25 per cent for the questions reported in Tables 3.3a and 3.3b.

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TABLE 3.4 *Top issues with significant differences between men and women*

Question	Average score for women	Average score for men	T-stat
How truthfully and seriously is economic policy (e.g. fiscal policy, taxation, trade, etc.) debated within the government and in parliament?	1.97	2.73	3.87
To what extent do you think that the Haute Cour de Justice, the Constitutional Court, and the Supreme Court effectively enforce compliance with the formal rules of the constitution?	1.53	2.57	3.73
How reliable (in terms of realism, consistency, coverage, degree of detail, coherence) is the budget?	1.35	2.19	3.28
To what extent do you share the view that foreign aid improves the quality of economic policy	0.96	1.74	3.22
To what extent are trade unions autonomous vis-à-vis majority political parties?	0.83	2	3.16
How familiar are you with Beninese land law, i.e. the Land Acts?	0.92	1.5	3.13
To what extent do parliament and the executive function according to the constitution?	1.32	2.21	2.97

Source: Author's calculations.

as defined by an average score, respectively, above 2.5 or below 1.5, are present in particular groups of respondents but disappear when considering the whole population. This analysis is performed on three subgroups: women vs men, formal firm managers vs other respondents, and financial managers vs other respondents.

Table 3.4 illustrates the procedure for the women/men dichotomy (for results on other subgroups se Houssa and Bourguignon, 2019). Questions appearing there are ranked according to the degree of statistical significance of the difference in average scores between the two groups. Two situations arise. The first case is where men are strongly positive in their answer and women much less so, so that the general average scores are in the neutral interval (1.5, 2.5). This is the case for the confidence that men seem to have in political institutions like the Supreme Court or in the discussion of the budget in the parliament. The other case is women being strongly negative but men being neutral, so that, again, the overall average score is in the neutral interval. This occurs for the question on the autonomy of trade unions, for instance, or the question on the constitutionality of some government actions. Of course, there are also cases where the difference between men and women is significant but on the same side, so that the overall average score is little affected. This is the case for the question on familiarity with land laws, for which both men and women were negative but to varying degrees.

The question does arise as to why opinions may differ between men and women on such crucial issues as whether political actors behave according to constitutional rules. A possible explanation is that many women in the sample of respondents operate in the informal sector of the economy and may not have the same familiarity with this kind of issue. Also, they may not have the same level of education as other respondents. If this explanation is correct, then the constitutionality of political action in Benin should be added to the list of the country's institutional strengths.

The same analysis with respect to formal firm or financial institution managers also reveals clear differences in information sets. For instance, financial managers had more concerns than other respondents about issues related to land and involving formal companies in urban areas, or about the ability of the judiciary system to resolve corruption problems. Not surprisingly, they were more satisfied with banking regulation. Formal firm managers, on their side, were more sensitive to the lack of government transparency on subjects related to economic policies and the budget. Except for this, differences with other respondents were more a matter of intensity than direction, the same being true of financial managers.

C The Main Lessons from the Opinion Survey: Summary

Although corruption cannot be considered an 'institutional area', it clearly appears in the opinion of the respondents as a major cause of institutional weaknesses across the board. It is certainly behind the low opinion expressed in the survey about public management, the dissatisfaction with the business environment, and the doubts expressed about the functioning of the political system. Corruption is felt to be present everywhere in the economic and political system.

This emphasis on corruption illustrates the fact that the kind of opinion survey undertaken for this study of Benin's institutions, like the international comparisons based on synthetic indicators in Section I of this chapter, provides more information on what people and experts feel works well or not so well, than on the dysfunctions or the positive role of institutions per se. Corruption is certainly a plague in Benin, but its effects are not necessarily well identified.

Concerning the broad institutional areas, public administration is found to be the weakest link in the functioning of the Beninese economy and society, without it being completely clear what does not work there, except for the deleterious effect of corruption. For instance, no strong opinion was expressed on civil servants – except for their frequent strikes – or the organisation of the whole sector. What is clear, however, is the way this perceived weakness of the public administration is behind the dissatisfaction with the business environment, which is another strong message of the survey. As far as political institutions are concerned, answers to the questionnaire show some ambivalence, with respondents expressing some confidence in the way the system works and in current reforms, while at the same time, here again, pointing to the harm done by corruption.

Other weaknesses stressed by the opinion survey include the lack of transparency with regard to state actions. This may be the reason why no clear view about the state's dysfunctions was expressed in the survey responses. Opacity makes evaluation difficult, except perhaps when results are directly apparent, as is the case with state-owned companies – in the power sector in particular.

On the positive side, there was broad agreement on civil liberties and the state being free of the influence of religion or traditional culture. Such circumstances doubtlessly should be favourable to private initiative and unbiased policy making. Yet, there is some lack of consistency here between this perceived autonomy of the state, on the one hand, and the sense of the detrimental effect of corruption, on the other.

Overall, the expert opinion survey is a bit disappointing in the sense that it does not point to well-defined obstacles to development arising from the working of institutions in Benin. A possible reason for this may lie in the heterogeneity of opinions depending on where respondents stand in the workings of the economic and political system. This is apparent when comparing the answers of formal firm or financial organisation managers and those of other respondents. Strong perceptions in opposite directions by different groups of respondents may tend to neutralise each other. Table 3.A.1 in the Appendix to this chapter illustrates that heterogeneity by showing how the direct choice of critical broad institutional areas in the first stage of the survey differed across selected groups of respondents.

III INSTITUTIONAL IMPLICATIONS OF 'GROWTH DIAGNOSTICS' AND SIMILAR EXERCISES

To end this review of insights into the way institutions in Benin may create obstacles to the country's development, we now briefly review the potential institutional implications of 'growth diagnostics' exercises that have been conducted in Benin in the spirit of the Hausmann et al. (2005) methodology over recent years.

Two studies of this type have been completed over the last ten years or so: the first by Ianchovichina (2009) for the World Bank and the second for the International Monetary Fund by Barhoumi et al. (2016). The former is rather complete but a bit old, as it essentially refers to the period 1996–2006. The latter is more recent, but less complete. A related report was released more recently by the World Bank (2017b); this presented a Systematic Country Diagnostic for Benin built upon a different methodology than growth diagnostics. We summarise the main findings of these studies in the following paragraphs, insisting on the points that are directly related to the working of institutions. We also complement them with some of the results of the World

Bank (2009, 2016) Enterprise Surveys based on a sample of firms operating in Benin, as these provide further interesting evidence on some of the points raised in the preceding studies.

A The World Bank 2008 Growth Diagnostic

The growth diagnostic approach relies on a simple model of optimal growth leading to a set of key determinants of growth performance. Considering these determinants one by one, the objective is then to determine the extent to which they are constraining the development of a country in a given time period.

Referring to the decade ending in the mid-2000s, Ianchovichina (2009) identifies three sets of binding constraints.

1 Poor Quality of Infrastructure

As of 2008, Benin displayed infrastructure deficiencies in different areas. Notably, power supply (in quantity and quality) was the leading constraint on business, as most firms had to bear the cost of installing their own power-generation capacity. In the same way, poor services in railway and roads undermined Benin's geographical advantage to serve landlocked countries (Burkina Faso and Niger) to its north. Moreover, lack of adequate rural roads, poor logistics in transport and storage facilities, as well as deficiencies in water management and irrigation impeded progress in agriculture and the agrobusiness industry.

2 High Risks on Return Appropriation: The Tax Issue

In the Investment Climate Assessment of 2004, used in the World Bank growth diagnostic, firms reported difficult challenges in dealing with the tax administration: a complex tax system coupled with high tax rates, a heavy bureaucratic burden, and corruption. In the same way, they reported serious problems in the judicial administration: long and costly litigation procedures in resolving conflicts, especially in land and financial markets, and, there too, a high level of corruption. These were considered as strong deterrents to business dynamism.

3 Poor Quality of Human Capital

Although the availability of skilled labour did not appear to be a binding constraint in 2008, it was noted that Benin was lagging in terms of the quality of education, so that it was felt that human capital could become a constraint in the future. This is still the case today. A recent comparative analysis among ten francophone African countries[10] shows that primary school pupils in Benin are performing worse in reading and mathematics than those in peer countries

[10] Benin, Burkina Faso, Burundi, Cameroon, Côte d'Ivoire, Republic of Congo, Senegal, Chad, Togo, and Niger.

(PASEC, 2014).[11] Moreover, significantly low learning competencies are found for children in rural areas, as well as those from poor families. This limits inclusive growth and has certainly contributed to the rise of inequality over the past years.

The World Bank 2008 growth diagnostic also noted that, by 2005, the pressure on land was mounting. If the utilisation rate of land was still well below full capacity in the north of the country, this was not the case in the south. For instance, the utilisation rate of cultivable land in the département of Ouémé was reported to be 96 per cent.

As can be seen, several of these binding – or potentially binding – constraints identified in 2008 are related to institutional issues that have been mentioned in the opinion survey completed for the present study.

B The 2016 IMF Growth Diagnostic

The Barhoumi et al. (2016) study, completed ten years later, is not as comprehensive. It focuses on the way investment may be scaled up in Benin. The binding constraints that it identifies echo those identified by Ianchovichina (2009) and the opinion survey analysed earlier in this chapter. Of special importance in that study are the infrastructure constraint, especially in the power sector, and the tax system, which is seen as being responsible for lower tax revenues and therefore an impediment to the scaling-up of investment. Concerning the tax system, the diagnostic insists both on the complexity of the system, but also on the inefficiency of the tax collection apparatus, which leads to many firms simply not paying taxes, either legally through loopholes or illegally through corrupt practices. The reason why the tax/GDP ratio of Benin is comparable to that in other sub-Saharan African countries is essentially because of the relative importance of customs duties on re-exports in the direction of Nigeria.

C The World Bank 2017 Systematic Country Diagnostic

The Systematic Country Diagnostic (World Bank, 2017b) replaced the old Country Assistance Strategy documents in the relationship between the World Bank and low-income countries. It is the analytical background document for the preparation of the Country Partnership Framework (CPF). In the case of Benin, the last CPF was signed in 2018, for the 2019–2023 period.

The Systematic Country Diagnostic 2017 identified the following areas of weakness for the development of Benin, and therefore pathways of action within the CPF: infrastructure, with emphasis this time on transport and logistics in order to capitalise on the port of Cotonou; informality, caused by the illegal nature of cross-border trade with Nigeria; service delivery, especially in the education

[11] Poor development of learning outcomes at higher education levels, especially at university, was also highlighted during the workshop with the decision makers.

sector; and the need for developing more effective social safety nets. In addition, the Government of Benin committed in the final version of the CPF to enhancing its efforts in improving public management, and governance more generally.[12]

Again, several of these areas match some of the conclusions derived from the opinion survey carried out for the present study, especially those concerned with public management, infrastructure, and, implicitly, corruption, since this is what is behind the commitment to better 'governance'. From that point of view the Systematic Country Diagnostic and CPF are quite clear – it is said in the opening remarks:

> The political economy [of Benin] is characterised by a concentration of powerful interests and a resulting uneven playing field, weak institutions, poor governance, and incidents of corruption. As elaborated in the SCD [Systematic Country Diagnostic], Benin's potential for achieving the twin goals [i.e. poverty reduction and shared prosperity] has faltered for several reasons, including those related to political economy: low levels of trust between economic agents, weak institutions, and poor governance. (World Bank, 2018, p. 3)

If such an official document, endorsed by the government, is so clear, it may be surprising that the respondents to the survey analysed in the preceding section were shyer in their evaluation of Benin's institutions. The reason has probably to be found in the mechanical format of the questionnaire, which in some cases did not allow respondents to express their deep convictions.

D The 2009–2016 World Bank Enterprise Surveys

Although there was no diagnostic attached to them, it seems interesting to check the Enterprise Surveys carried out by the World Bank, to see whether their findings match the binding constraints identified by the preceding growth diagnostics. The answer is that they do. In the various types of information collected by these surveys, the largest differences between Beninese firms and firms in other sub-Saharan African countries appear under the following headings:

- *Corruption*: bribery incidence declined between 2009 and 2016 and is lower in Benin than in other sub-Saharan African countries, but Benin very much dominates other countries in terms of gifts given to get government contracts, construction permits, or a favourable judgement in court.
- *Infrastructure*: power supply is much lower and outages are more frequent in Benin than in other sub-Saharan African countries; moreover, the situation has been getting worse since 2009.
- *Informality*: seen as a major source of unfair competition by formal firms, again more in Benin than in the rest of sub-Saharan African. The same applies to tax rates and the tax administration.

[12] See Tables 2–4 in World Bank (2018).

Summing up, the growth diagnostic exercises conducted in relation to Benin over the last decade or so are rather convergent in pointing to several key weaknesses that have clear institutional roots: intense corruption, inefficient public management (including infrastructure, service delivery and, especially, the tax administration), and a high level of informality.

IV CONCLUSION

This chapter reviewed expert opinions on the quality of institutions in Benin and the way this could affect the country's development performance. Three types of evidence were considered: synthetic indicators available in cross-country databases; a specific opinion survey carried out among local decision makers of different types and engaged in different activities; and analysis of the institutional implications of binding economic constraints identified in several recent growth diagnostic exercises. These various sources converge in pointing out several institutional weaknesses that impede the acceleration of development in Benin, even though they may not always agree on the severity of these institutional constraints.

Corruption is unanimously seen as the most serious impediment to the good functioning of institutions and a favourable development context. Corruption is found to affect practically all sectors of the economy at all levels of responsibility. This is recognised by both the respondents to the opinion survey and the authors of growth diagnostic exercises. Comparison with other countries in the region or countries that have outperformed Benin over the last decades is less conclusive. If Enterprise Surveys find that, from the point of view of business, the situation in Benin is substantially worse than in the average sub-Saharan African country, country-by-country comparison leads to different conclusions. The degree of corruption in Benin, as can be appraised through synthetic indicators, turns out to be roughly comparable to that in neighbouring countries. Corruption might be even less serious than in several countries that grew faster than Benin over the last twenty years, this being true today as well as ten or twenty years ago. Such findings may reflect the conceptual imprecision of synthetic corruption indicators, but they also call for a more nuanced analysis of the effects of corruption on the development of a specific country.

Weak public management is the second unanimously recognised source of hindrance in the process of development. Of course, this may partly be the consequence of corruption. Here too, the cross-country difference in synthetic indicators of the quality of public management across countries is not strongly unfavourable to Benin. Yet, some sectors are singled out as particularly weak by survey respondents and analysts. Three of them are repeatedly singled out. The tax system is found to be complex and the tax administration grossly inefficient in collecting tax revenues, with clear adverse consequences

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for the dependency of Benin on foreign finance. The power sector, run by a state-owned monopoly, is found to perform badly due to weak or ineffective regulation. Finally, if the delivery of social services, especially education, is found to have made progress in quantity, this is not the case for quality. Benin underperforms in relation to other sub-Saharan African countries by a wide margin and, from that point of view, lags very much behind the countries that grew faster, from roughly the same initial level of income, over the last twenty years.

The *opacity of government policy making* to the public, very much stressed by survey respondents, is probably to be imputed to weak public management, but it is also a sign of *deficient political institutions*, generally regarded as weaker than in other sub-Saharan African countries. From that point of view, however, survey respondents are somewhat ambivalent. On the one hand, many of them tend to trust constitutional institutions and are confident of the success of some current reforms. On the other hand, most also agree that the whole system is deeply corrupt and, because of this, often dysfunctional. Such a severe judgement even appears in the opening remarks of the official CPF, a document signed between the Government of Benin and the World Bank.

Available statistics show that *informality* is more developed in Benin than in the average sub-Saharan African country. Growth diagnostic analyses suggest that informality has a cost in terms of tax revenues, job precariousness, and lack of control over the economy. This is not a point that appears strongly in the opinion survey, perhaps because of the presence of a substantial group of informal firm managers in the sample. It is not a dimension of institutions that appears explicitly in the synthetic indicators provided by international databases. Yet, the reason why informality is more developed in Benin is clear: it is more the result of the importance of the illegal cross-border trade with Nigeria than it is the result of some specific institutional failure. However, its consequences for the functioning of institutions are serious.

A last area deserves mention, even though it was not prominent as such in the opinion survey and was not explicitly covered by the synthetic indicators: it is the way land allocation is managed. One of the growth diagnostic studies mentions that land is becoming scarce in the southern part of the country, so that managing it efficiently will become more and more crucial in the future. As in other sub-Saharan African countries, land operations raise difficulties in Benin because of the uncertain status of ownership and the legacy of customary practices. A reform was passed in 2013 that, according to the opinion survey, is complex and does not really resolve the sources of land conflict. Land laws and their implementation reveal institutional weaknesses whose economic consequences may be considerable in the future, especially in a country with a comparative advantage in agriculture.

APPENDIX

TABLE 3.A.1 *Institutional choices across selected groups*

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	(10)
Groups	A	B	C	D	E	F	G	H	I	J
Beninese nationality	0.1 (−0.124)	−0.159 (−0.115)	0.177 (−0.122)	−0.325*** (−0.116)	0.335*** (−0.115)	−0.0216 (−0.102)	−0.15 (−0.101)	−0.0061 (−0.0557)	−0.203** (−0.0903)	0.253** (−0.113)
Female	−0.162** (−0.0648)	−0.0664 (−0.0607)	−0.0988 (−0.0643)	0.167*** (−0.0611)	0.0154 (−0.061)	−0.0586 (−0.0535)	0.100* (−0.0529)	0.00309 (−0.0293)	0.0941** (−0.0475)	0.00617 (−0.0599)
Formal firms	−0.117* (−0.0619)	−0.109* (−0.0576)	−0.0558 (−0.0613)	0.176*** (−0.058)	−0.0046 (−0.058)	−0.0861* (−0.0509)	0.0894* (−0.0504)	0.102*** (−0.0274)	0.0762* (−0.0453)	−0.0714 (−0.0569)
Large	−0.160** (−0.0761)	0.00953 (−0.0713)	−0.0573 (−0.0754)	0.199*** (−0.0716)	−0.0632 (−0.0713)	−0.0586 (−0.0627)	0.0869 (−0.0621)	0.0792** (−0.0341)	0.0281 (−0.0559)	−0.0635 (−0.0701)
Medium	−0.0078 (−0.161)	−0.224 (−0.149)	−0.0829 (−0.158)	0.168 (−0.151)	−0.0212 (−0.15)	−0.015 (−0.132)	0.298** (−0.13)	−0.0544 (−0.0719)	0.042 (−0.117)	−0.103 (−0.147)
Small and micro	−0.0311 (−0.153)	−0.245** (−0.143)	−0.0166 (−0.15)	0.0589 (−0.142)	0.121 (−0.14)	−0.136 (−0.126)	−0.0379 (−0.124)	0.174*** (−0.0689)	0.154** (−0.113)	−0.0421 (−0.142)
Financial institutions	−0.266* (−0.146)	0.0156 (−0.137)	−0.255* (−0.144)	−0.0885 (−0.139)	0.185 (−0.137)	0.122 (−0.121)	0.214* (−0.119)	0.0313 (−0.0658)	0.00781 (−0.107)	0.0339 (−0.135)
Observations	396	396	396	396	396	396	396	396	396	396

Source: Author's calculations.
Standard errors in parentheses. *** $p<0.01$, ** $p<0.05$, * $p<0.1$.

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PART II

A DEEPER INVESTIGATION OF SOME KEY SECTORS AND INSTITUTIONS

Introduction to the Thematic Studies

François Bourguignon

The first part of this volume provided a thorough description of where Benin stands in terms of economic, social, political, and institutional development. Chapter 1 briefly reviewed the country's deep historical legacies and reviewed its recent political history, insisting on the implications of the tipping-over from the Marxist–Leninist period to the present liberal political and economic regime. Chapter 2 summarised Benin's main economic development challenges, especially the limitations of the two current major activities, cotton exports and cross-border trade with Nigeria, as potential development engines, the lack of dynamism of the rest of the economy, and the heavy dependence on foreign financing. Benin has underperformed against other sub-Saharan countries, in terms of growth and poverty reduction, over the last twenty years. Given the growth of the population, the prospects for improving Benin's standard of living and providing decent jobs for newcomers to the labour force in the next twenty years look dim. Chapter 3 focused on the quality of institutions, implicitly seen as an important determinant of the development potential of a country. It reviewed the perceptions held by different types of experts regarding the way institutions work in Benin, pointing to several major weaknesses, most notably a high level of corruption, a dysfunctional public management system, and an excessive degree of informality.

The main points made in those three chapters are closely related. The binding constraints identified in Chapter 2 and in other growth diagnostic exercises have clear roots in existing institutional weaknesses, and the state of institutions is strongly dependent on the political economy of policy making and institutional reform. The three chapters in Part I of this study provided a thorough description of those three aspects of development in Benin, without, except occasionally, really getting into the mechanics that closely link them together. It is now time to do this, in order to establish later on a diagnostic of how the way institutions work in Benin hinders development, and to explore possible directions for reform.

Such an analysis of the complex three-way relationship between political economy, institutions, and economic development cannot be conducted at the aggregate economic level – it would be extremely artificial. Institutions affect economic development through their role in the functioning of sectors or activities, public or private, that are key for economic development. In turn, it is the revenue from these activities and the way it is distributed among actors, whether individual or collective, as well as the relative political power of these actors, that lead to institutions being maintained as they are, or to attempts to reform them. The aim of Part II of the institutional diagnostic aims precisely to understand better this relationship and the central role of institutions in it, through deep-dive analyses of specific economic sectors and political economy practices.

Five thematic studies were undertaken with this objective in mind. The selection of themes was very much guided by the descriptive analysis in the preceding chapters and the major development challenges that it uncovered. Quite naturally, these themes include the functioning of the two major sectors of activity in Benin: cotton production and exports, and the illegal cross-border trade with Nigeria. As far as public management or state capacity is concerned, the choice has been to focus on the tax administration, singled out in many studies as particularly inefficient despite its key role in generating revenues for public investment. The reform of land laws launched in 2013 provides an opportunity for studying an attempt at modifying a key traditional institution in a country with an agricultural comparative advantage and a strong urbanisation drive. Finally, the political economy aspect of economic management, whose crucial importance has been stressed on various occasions in the previous chapters, is approached through a rather original study of the financing of electoral campaigns by the business sector and the rewards offered by politicians to their private sponsors.

The thematic studies are authored by Beninese or foreign scholars with a deep knowledge of Benin. Each study is complemented by a discussion by another scholar, with the aim of broadening the reflection and often bringing to it some knowledge and experience that go beyond Benin.

4

Campaign Finance and State Capture

Rafael Ch Duran, Matthias Coffi Hounkpe, and Léonard Wantchekon, with Discussion by Cesi Cruz

1 INTRODUCTION

A large number of studies show that patron–client relationships between politicians and voters deter democratisation and development (Bardhan and Mookherjee, 2017; Gallego et al., 2018; Robinson and Verdier, 2013; Stokes, 2005; Stokes et al., 2013; Wantchekon, 2003). However, while most studies focus on the interaction between politicians and voters, and more recently on the role of political brokers,[1] they often fail to characterise the influence of interest groups, particularly firms, on political distortions.

The consequences of leaving aside the role of firms in studies of patron–client relationships between politicians and voters are twofold. First, by assuming that sponsoring interests and political parties are unified actors that hold the same incentive structure, studies fail to recognise the independent effect of the political connections firms and politicians on governance, particularly on corruption.

Second, the clientelism literature has understudied firms' strategic decision-making when facing political uncertainty: firms might undermine democratic consolidation – which thrives with electoral uncertainty – through increasing levels of intervention, corruption, and capture. In other words, democracy thrives with electoral uncertainty through political turnover. However, electoral uncertainty also leads to higher financial risk by sponsoring firms.

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[1] See Gallego et al. (2018), for example, on how brokers are crucial but were also neglected by the clientelism literature until more recent theoretical (Camp et al., 2014; Gingerich and Medina, 2013; Stokes et al., 2013) and empirical work (Baldwin, 2014; Kadt and Larreguy, 2018: Koter, 2016; Larreguy et al., 2016, 2017).

We show that as electoral uncertainty increases so does the incentive for firms to mitigate financial risk through the appointment of cronies to key government positions, making politicians irrelevant to policy implementation. In other words, increasing risk leads firms to arrange contracts with candidates that replace political intermediaries with direct patrons. Patrons then act as electoral risk-mitigating tools for special interests.

From the latter, demand-side viewpoint, as electoral uncertainty, politicians' electoral power diminishes vis-à-vis other political contenders, decreasing their bargaining power at the politician–firm contractual arrangement phase, allowing stronger forms of capture.

In that regard, this chapter uses a novel database on contractual arrangements between politicians, political brokers, and businesspeople in Benin to investigate the way the nature of these arrangements depends on the level of political competition. To do so, the chapter pursues four objectives.

First, we propose a reconfiguration of the clientelism and political distortion literature by bringing it together with the 'political connection' and clientelism literatures. The cronyism and special interests and lobbying literatures have moved separately from the clientelism literature and have focused on showing, among other things, that political distortions from clientelism are 'fundamentally different in nature from elite capture' (Bardhan and Mookherjee, 2012, p. 2). With regard to distributional politics, for instance, clientelism is typically progressive, as poor voters are willing to sell their votes at a lower 'price'. Capture is regressive, as richer interest groups are willing/able to pay more. Moreover, clientelism decreases public goods allocation by favouring private use of public resources, while the implications of capture for public goods remains ambiguous and highly dependent on interest groups' preference and type. In other words, the special interest literature has stressed that while clientelism and capture represent important forms of political distortion and institutional weakness, especially in developing countries, they are qualitatively different. However, by doing so they have overlooked what politicians do with the financial and non-financial resources provided by firms, and thus they have theoretically misspecified their utility function, and the effect of electoral constraints on firms' investment maximisation problem. Consider, for instance, that politicians' strategies of voter mobilisation have to be financed. Thus, campaign finance affects the decision to choose one mobilisation strategy over another.[2]

Second, we characterise empirically the existent firm–politician–broker–voter contractual arrangement, focusing mainly on the relationship between the gifts/resources given to politicians and the different payback demands established by corporations. The chapter uses a novel database on contractual arrangements

[2] Additionally, the literature has wrongly viewed interest groups as actors on the demand side of the cronyism market, when actually they act as financial suppliers for politicians who need extra-governmental resources to advance their political careers through elections, giving institutional concessions as payment.

between politicians, political brokers, and (local and foreign) businesspeople in Benin to investigate the nature of these arrangements and their dependence on the degree of electoral competition. Obtaining information on the underlying 'sponsoring system' is difficult, and to our knowledge no study has tried to depict the bilateral relation in terms of resources and pay cheques between firms and national and local politicians. To do this, we carried out structured interviews with key political actors to build a contractual-level dataset covering Benin's twelve departments and twenty-four electoral districts from 1991 to 2018, for legislative and municipal-level elections. The results allow us to construct national- and local-level contractual arrangements between politicians, political brokers, and firms, including both the financial amounts given to politicians as well as specific concessions granted to interest groups.

Third, we look at determinants of the form of firm–politician contracts. To do so, we consider two alternatives. First, we estimate the effect of political competition as proxied by municipal-level winning margins on firms' strategic decision-making at the local level, controlling for various cross-municipal socio-demographic differences, surveyor, and municipal fixed effects. To push forward causal identification we provide placebo tests on legislative-level elections. Elections for Members of Parliament (MPs) in Benin provides an ideal placebo, since they do not hold control over national- or regional-level procurement and budgeting, and they have no say in national or regional bureaucratic positions. Contrary to other settings, MPs are not allocated to relevant committees in parliament in charge of budgeting, but rely on party and executive lines for general voting patterns in the assembly. Thus, electoral shocks that modify the overall electoral uncertainty faced by MPs should not lead to firms' stronger preference for more direct forms of state capture or the appointment of cronies to key government positions. Second, we exploit a quasi-exogenous shock introduced by the 2018 electoral reform that – among other features – collapsed the existent multiparty system into a two-party block competition.[3] The reform allows us to compare those communes and electoral districts with multiple parties competing for office and suddenly collapsed to one of the two proposed party blocks, decreasing electoral competition (our treatment group), to those districts that were already under a de facto two-party system (our control). Our expectation, later confirmed empirically, is that those districts that experience a decrease in electoral uncertainty experience a decrease in firms' preference for direct forms of state capture. Both empirical strategies then allow us to observe the existent simultaneity of

[3] The electoral reform introduced various other changes, including a higher deposit required for candidates to contend for the presidential election; a reduction in the amount of state resources to finance local, communal, and municipal elections, which decreased by 50 per cent from CFA Franc 20,000 to CFA Franc 10,000; the introduction of campaign caps; and restrictions on former customs officers and forest agents running for legislative seats unless they resigned one year prior to the election, among others.

democratic consolidation – which thrives with electoral uncertainty through political turnover – and special interests' state capture.

Finally, the fourth objective of the chapter is to contribute to the study of institutional reforms that aim to reduce the influence of interest groups and the negative effects of clientelism in developing countries. In particular, we pinpoint the need for multilevel reforms to prevent business interference, limit bureaucratic capture by brokers, promote transparent appointment processes, and strengthen accountability through the promotion of voter civic engagement in Benin.

In fact, since the democratic renewal of Benin in 1991, political actors have initiated reforms aiming to reduce the cost of campaigning. However, the reforms yield mixed results. The attempts include the following. The first was the imposition of campaign spending caps according to election type (presidential, parliamentary, and local). However, the caps have not been respected or enforced. Furthermore, by 1998, a provision in the electoral code removed the verification capacity of the Supreme Court – the institution in charge of the control of campaign spending of candidates and parties. By 1999 a new electoral restriction was introduced forbidding the distribution of campaign gadgets (T-shirts, caps, pens, etc.) with parties' and candidates' logos within six months of national elections (presidential and parliamentarian). The electoral change had mixed results, with parties and candidates utilising specific colours for branding instead of logos. Lastly, a limitation of the campaign period to two weeks was established (contrary to countries where there is no limitation at all like Ghana or where the campaign period is long such as Nigeria's three months). This restriction is supposed to contribute to the reduction of campaign costs. Except for the incumbent, this measure has seemed to be by and large successful.

It is important to note that Benin has three traits that make it an ideal setting in which to study the relationship between economic and electoral risk and firms' state capture strategies. First, the dynamics of electoral competition and economic power vary substantially across the country's seventy-seven communes and twelve departments. The winning margins by political party for the commune-level 2015 elections are substantially low (less than 1 per cent). Moreover, Benin can be characterised as a low concentrated party system in terms of vote share. Moreover, between communes and within communes across time we notice large variability in the actions taken by influence groups to achieve their desired outcomes. Second, Benin provides a case of thriving democratisation mixed with poor governance and various degrees of local state capacity, an important mediator to consider when studying politician–private-sector contracts. Lastly, a pseudo-decentralised political system allows for local politicians to have substantial freedom to shape local campaigns and agree to different contractual arrangements with their financial sponsors.

Our results show three main findings. First, around 34 per cent of mayors and city councils competing for municipal-level positions, and deputies competing for legislative seats, face budget constraints in regard to developing their political campaigns. This creates a need to negotiate their budget deficit with businesspeople in order to run for elections, allowing for contracts through narrow commitment over policies. Second, the most recurrent policy concessions made by businessmen are public procurement arrangements (71 per cent of contracts include such concessions), followed by policy commitments related to firms' interests (46 per cent of cases), and the direct appointment of businessmen's relatives to public positions (39 per cent of cases). In part, this rank ordering is due to the fact that public procurement allows for firms to cash in and for politicians to keep a share of the procurement (a minimum of 10 per cent in Benin's case). Note that policy concessions add more than 100 per cent, which implies that contracts contain more than one concession petition.

Most interesting are firms' strategic decisions when faced with political uncertainty. If incumbents do not comply with the contract with firms, the latter may finance riots against the former to increase economic concessions and payment. Moreover, firms seek to support challengers with contracts that are characterised by higher concessions, increasing the overall control of firms over local governments and national politics. Regarding the estimation of the effect of winning margins on firms' capture preferences, we find that a 1 standard deviation increase in winning margin decreases the reliance on more direct forms of state capture by –0.1684 standard deviation for municipal-level elections, a result that is significant to the 1 per cent level and robust to surveyor and municipal fixed effects and socio-demographic controls. However, interestingly, positive and non-significant results are found for MPs' elections, showing that electoral shocks only have an effect on firms' capture preferences when political actors are relevant for electoral risk management.

Relative to the status quo concession benchmark, when elections become more uncertain due to the introduction of more challengers, firms modify their demands in relation to incumbents. In particular, they rely more heavily on demanding that incumbents' platform commitments are similar to firms' interests during the electoral campaign (a prevalence of 68 per cent), while decreasing the proportion of public procurement petitions to 67 per cent, holding second place, followed by an increase in pushing forward the political careers of businessmen's acquaintances, which reaches an occurrence of 64 per cent. Moreover, in this case of higher electoral uncertainty the influence and control over the recruitment in all public sectors increases from 17 to 51 per cent. Lastly, in the absence of what firms consider a 'good' candidate to fund, firms increase their participation in elections by running for election themselves.

These results are tied to those on the effect of Benin's 2018 electoral reform on party collapse in that electoral uncertainty drives firms' capture preference. In particular, multiparty districts affected by the reform show a decrease of –0.259 standard deviation on firms' capture preferences in the 2019 commune-level elections. In other words, as the number of candidates decreases – and thus the cost of bribes – firms rely less heavily on more direct forms of state capture, such as the appointment of firms' agents or cronies to key government positions. Specifically, firms decrease their use of patronage to move forward the political careers of friends and family members (decrease of –0.437 standard deviation), they decrease their use of patronage of members from the company (–0.436), and they reduce the demands on bureaucratic recruitment control (–0.606). The results are robust to including controls on politician-level characteristics, as well as commune fixed effects. Moreover, we demonstrate that the sample of politicians used show a balance on multiple covariates between districts that hold multiparty competition in the 2015 elections (the treatment) to those with de facto two-party competition (the control). While this balance does not rule out commune- and firm-level differences between treatment and control, they show that the results are not driven by sample selection bias. As with the effect of winning margins on firms' capture preferences, we also find positive and non-significant effects for legislative-level elections, which provides an important placebo to take into consideration.

We believe that differentiating sponsoring interest groups, politicians, and voters will lead to interesting developments in the clientelism literature. First, this chapter provides an explanation of the coordination between politicians and private interests in order to marginalise poor voters, especially in the face of increasing demands for redistribution. Second, it makes it possible to explain the paradoxical result of stronger degrees of direct involvement of interest groups through personal nominations in highly democratised (i.e. highly uncertain) settings. Third, the chapter helps increase our understanding of the variation in strategic decision-making of interest groups between different levels of uncertainty across time and space, either caused by variation in electoral risk or interest groups' risk. In the spirit of Kitschelt and Wilkinson (2007), where politicians prefer to use clientelism when they can predict voters' electoral conduct and elasticity, interest groups prefer to rely on direct capture strategies when uncertainty is high, and they rely on sponsoring political campaigns only when politicians can predict voters' behaviour well. This point is closely related to the literature on the link between economic and political structural conditions and strategic choices made by firms to mobilise citizens (Diaz-Cayeros et al., 2016; Magaloni et al., 2007).

This chapter is closely related to work on mapping de facto institutions. Starting with Dahl's (1961) description of the power structure in New Haven and moving to more recent literature on family networks and politicians (for example, Cruz et al., 2017; Querubin, 2016), there has been a need to characterise the full power dynamics affecting electoral politics. Moreover, this chapter speaks directly to the large literature on interest groups and cronyism. The crony governance literature focuses on systems in which economic policies are chosen with the goal of benefiting connected actors (Klor et al., 2017). Our study, in contrast, focuses on showing how interest groups develop crony networks in local institutions as the degree of uncertainty increases. Most importantly, this chapter connects the seemingly distant but actually highly related literatures of clientelism and cronyism, showing that electoral risk encountered in clientelism settings affects firms' (sponsors') strategic decisions to create and fund networks in high-level bureaucratic and political positions.

This chapter is more closely related to the literature on elite capture of local institutions in developing countries. Ch et al. (2018), for example, show that illegal armed interest groups in Colombia – both left-wing guerrilla forces and right-wing paramilitary groups – shaped policy outcomes by influencing local officials who implemented the groups' policy preferences. Likewise, Sanchez-Talanquer (2018) and Pardelli (2018) find that landowners transform local institutions in their favour by appointments to key local bureaucracy and political positions, which result in pushing forward beneficial policies in terms of taxes, property rights, and property land values, and increase the relative power of local governments vis-à-vis higher levels of government. This chapter shows how firms use various strategies to control local institutions, and not only promote policy change through violence (as in the case of Colombia), policy change, political campaign sponsoring, or direct appointments to bureaucratic positions.

II THEORY AND TESTABLE HYPOTHESES

Consider Anderson et al.'s (2015) clientelistic relationship analysis in India, where elite minorities can undermine policies that push forward redistribution in favour of the poor majority. In this case, the capture mechanism runs through land ownership dominance and the use of cultural hierarchies to achieve political control. However, while empirical evidence shows that elites undermine democracy even in a non-coerced setting, the existent strategic relationship between firms and politicians is not clearly described and is actually not considered. There could be at least two possible types of relationships between firms and politicians, depending on the source of uncertainty. First, politicians could renege on delivering investments to sponsors. Under this setting firms face uncertainty due to politicians' type, which allows a cheap-talk strategic setting: politicians act as agents who hold a private information advantage in respect to their sponsors or the principal, and 'bad' politician types renege on their contractual arrangement or benefit from their advantageous information standpoint. Second, firms might face uncertainty coming not from politicians' type but from the political environment and institutional design. From a *supply-side* standpoint – that is, from the perspective of political sponsors like firms – high electoral competition leads to high risk on campaign financial investments. As a response to higher financial risk, firms increase their demand for more direct forms of capture, moving from procurement demands to requesting political appointments and recruitment bureaucratic control. Cronies are then selected for such positions, bypassing politicians entirely.

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From a *demand-side* standpoint, high electoral competition implies politicians' bargaining power is weaker at the time of negotiating the terms and conditions of the contractual arrangements with firms. Not only is there at least one other candidate with similar electoral strength that could compete for funding, but electoral competition increases both the marginal cost of a vote as well as total campaign costs. The result is needy politicians facing risk-averse firms who move to stronger preferences for direct forms of state capture through the appointment of key government positions.

What does the contract look like? Sponsors fund politicians in order to receive a payback. The payback takes a wide range of forms, running from more indirect to more direct forms of state hijacking: refunds on financial investment, policies and platform changes, public procurement, control of budget lines, patronage, and bureaucratic recruitment control.

III DATA AND METHODOLOGY

To test how political competition affects firms' uncertainty and modifies their preference for more direct forms of state capture, we study the relationship between international and domestic companies and electoral politics at various levels of aggregation – national and local – in Benin, covering all elections from 1991 to 2019. Benin exemplifies a thriving nascent democracy, with poor governance and economic performance. While being what has been labelled a successful democracy, Benin has been characterised by a high level of corporate capture of local and national politics. As noted by Fujiwara and Wantchekon (2013), the country's institutional development has allowed for clientelistic promises to narrow groups of citizens and has favoured private use of local government resources. Benin contains over 3,000 villages (called quartiers) in seventy-seven communes, and they vary widely in the type of productive activities carried out, as well as in the political competition in a multiparty system.

Our methodology exploits two sources of variation. First, variation in firms' political investment or contractual choice. To measure this, we rely on a novel database on contractual arrangements between politicians, political brokers, and firms in Benin. In particular, we carried out structured interviews with key players, including campaign managers, CEOs of politically connected firms, local brokers, and politicians and candidates, among others.[4] The result is a dataset with a sample of more than 300 Beninese politicians (deputies, ministries, mayors, etc.), as well as political brokers, covering Benin's twelve departments and seventy-seven communes.

The data collection took place in Beninese constituencies with targeted populations from 6 February to 21 February 2019. Given the difficulty in identifying potential subjects to survey, a snowball sampling technique (or chain-referral sampling) was used. This is a non-probability sampling technique

[4] These were conducted by the Institute of Empirical Research in Political Economy (IERPE).

where existing politicians surveyed recruited future subjects from among their acquaintances. Prior to the interviews, the controller – in charge of coordinating interviews – arranged an appointment with the politician via a phone call to establish contact between the latter and the enumerators to prepare the interview. Then, enumerators met the politician alone, or in a team of two or three, depending on the category (national or local) and/or the agenda of the politician to conduct the interviews. Overall, 311 political actors and brokers were surveyed: 256 politicians, including 191 local politicians (mayors, councillors, etc.), and 83 national politicians (deputies, ministries, cabinets staff, etc.), with 18 who have run for both local and national positions, and 55 brokers (18 per cent of the full sample). Given that elections were scheduled for March and April 2019, we were able to acquire information on contemporary campaigns as well as past ones since 1991. Of the full sample, 76 per cent were running as candidates for the next elections. This dataset allowed us to depict existent politician–firm contracts (such as funding amounts and sources, for instance) and contract types, ranging from those that demand policy and procurement concessions from politicians, to those that seek to influence political platforms during campaign periods, and those that seek to influence direct appointments of firms' acquaintances, or direct intervention through control of budget lines or key bureaucratic positions.

It is important to note some overall characteristics of the politicians in the database. First, 54 per cent of the 215 surveyed individuals who were running for the next election were running for municipal-level elections, while the rest were competing for legislative ones. On average, individuals are 47 years of age and hold a high variety of education degrees, especially high-level ones, with the majority having either undergraduate or graduate degrees. Moreover, only 27 per cent are first-time runners and those who have recurrently participated in elections in the past have participated in a large number of different types of elections, from commune- to presidential-level ones. It is important to note that Benin is characterised as a highly dynamic electoral setting: more than half of the surveyed politicians have switched political parties. A wide majority have switched not due to opposition to their former political parties, but in opposition to party platform changes. In other words, the highly dynamic party system hides a seemingly conservative underlying ideology spectrum. Noteworthy, additionally, is the fact that almost all politicians and political brokers (87 per cent) are members of a political party. Lastly, it is important to see that of the full sample, 36 per cent say they have held private positions in the past.

The second source of variation we exploit is national and local variation in electoral uncertainty. We rely on two measures of electoral uncertainty: first, the use of winning margins; second, the number of political candidates contending for office. We believe the former constitutes a benchmark measure of electoral competition, given that winning margins are positively related to a candidate's likelihood of winning office or the risk associated with a candidate losing. Related to the latter, as the number of political candidates increases, so does the total amount of bribes that firms need to allocate in order to achieve their desired policy preference. In other words, the number of candidates represents a cost of contractual arrangements. Both the costs and electoral competition form part of what we define as electoral uncertainty in this particular setting. As an example, the highest level of electoral uncertainty will be that where low winning margins coincide with a plethora of political candidates running for office with relatively equal electoral strength.

For identification we rely on two empirical tests, given these two sources of variation, firms' preferences for direct capture and electoral uncertainty. First, we analyse the relationship between winning margins and firms' state capture preferences as stated in contractual arrangements. In particular, we estimate the following ordinary least squares (OLS) specification:

$$y_d = \alpha + \gamma_d + \beta \text{WinningMargin}_d + \Phi \mathbf{X}_d + \Theta \mathbf{W}_i + s_d \tag{1}$$

where y_d is either a dummy of any of the preferences for state capture or intervention pushed by firms on politicians, including demanding a refund of resources, and demanding policy and programme modification during a campaign; demanding support for future candidates close to firms; demanding a local budget line; demanding public procurement; patronage both for close family members and for friends or members of the firm; and taking control of bureaucratic recruitment control in a district d; Winning Margin$d$ is a continuous variable on the winning margin of the incumbent relative to the second contender for the 2015 commune-level elections; $\mathbf{X}_d$ is a vector of commune-level control variables;[5] and $\mathbf{W}_i$ is a vector of politician-level characteristics, listed in Table 4.1, including age, education, title, former occupation, political experience, a dummy to account for party switch and reasons for such a switch, and electoral political experience as candidates in different types of elections. We also include a district fixed effect, γ_d, to account for any district-level time-invariant heterogeneity. Thus, our estimates account for the change in firms' preferences for direct forms of state capture in districts that have experienced high electoral uncertainty, as proxied by smaller winning margins. We report robust standard errors (SEs) throughout, clustered at the electoral district level.[6]

Note, however, that this specification does not allow us to rule out time-variant and other sources of potential endogeneity. To push forward the identification we estimate equation (1) for municipal-level elections and run a placebo test on legislative-level elections. Elections for MPs in Benin provide an ideal

[5] Gross domestic product (GDP), poverty, and 2015 electoral measures, including number of candidates, and Herfindhal–Hirschman Index of party vote share concentration.

[6] We believe this to be a conservative approach. If we simply use robust standard errors all results become somewhat stronger statistically.

TABLE 4.1 *Balance table, list experiment on politicians' affiliation with firms*

	Mean control	Mean treatment	Diff.	Diff. SE	p
Title: politician (=1) or broker (=0)	0.836	0.796	0.04	0.047	0.395
Deputy	0.047	0.071	−0.024	0.028	0.379
Minister	0.005	0	0.005	0.007	0.498
Mayor	0.066	0.02	0.045	0.027	0.093
Municipal council member	0.333	0.306	0.027	0.057	0.635
Cabinet director	0.005	0.031	−0.026	0.014	0.06
Other	0.545	0.571	−0.027	0.061	0.66
Age	49.286	44.122	5.164	1.314	0
Years living in region	38.756	35.122	3.633	2.096	0.084
No education	0.019	0.01	0.009	0.015	0.578
Elementary	0.038	0.02	0.017	0.022	0.427
College 1st cycle	0.15	0.041	0.109	0.039	0.005
College 2nd cycle	0.155	0.122	0.032	0.043	0.451
University 1st cycle	0.169	0.153	0.016	0.045	0.725
University 2nd cycle	0.254	0.367	−0.114	0.055	0.04
Graduate	0.216	0.286	−0.07	0.052	0.181
Member of political party	0.967	0.98	−0.012	0.021	0.544
Participated in elections as candidate	0.751	0.643	0.108	0.055	0.049
Participated in commune-level elections	0.881	0.857	0.024	0.049	0.627
Participated in legislative-level elections	0.362	0.397	−0.034	0.072	0.635
Participated in presidential-level elections	0.013	0.016	−0.003	0.017	0.845
No. of participations in commune elections	1.5	1.429	0.071	0.127	0.575
No. of participations in legislative elections	0.562	0.651	−0.088	0.141	0.531
No. of participations in presidential elections	0.006	0.063	−0.057	0.041	0.163
Party switch	0.476	0.625	−0.149	0.109	0.17
Party switch 2	0.739	0.667	0.072	0.141	0.61
Ideology reason	0.439	0.595	−0.155	0.071	0.029
Poor project definition	0.291	0.365	−0.074	0.066	0.263
Personal interest	0.534	0.432	0.101	0.071	0.156
Opposition to movement	0.568	0.514	0.054	0.071	0.448
Movement towards opposition	0.149	0.149	0	0.051	1
Running for next elections (2019)	1.319	1.286	0.034	0.057	0.554

(*continued*)

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TABLE 4.1 (*continued*)

	Mean control	Mean treatment	Diff.	Diff. SE	p
Running for commune elections (2019)	0.724	0.671	0.053	0.066	0.429
Running for legislative elections (2019)	0.414	0.514	−0.1	0.072	0.166
Running for presidential elections (2019)	0	0.029	−0.029	0.014	0.041
First-time runner	0.255	0.3	−0.045	0.065	0.49
Holds political position	0.779	0.724	0.055	0.052	0.293
Holds private position	0.352	0.388	−0.036	0.059	0.545

Source: Authors' calculations.

placebo, since MPs do not exercise control over national- or regional-level procurement and budgeting, and they have no say in national or regional bureaucratic positions. In contrast to other settings, MPs are not allocated to relevant committees in parliament in charge of budgeting, but rather they rely on party and executive lines for general voting patterns in the assembly. Thus, electoral shocks that modify the overall electoral uncertainty faced by MPs should not lead to firms' stronger preference for more direct forms of state capture or the appointment of cronies to key government positions.

As a second identification strategy, we use quasi-exogenous variation introduced by the electoral reform in Benin in 2018, which collapsed the multiparty system to an effective two-party block competition.

The reform allows for the existence of multiple parties, but forces parties to join a block to compete, and no more than two blocks can contend for any political position in the country. The reform allows us to compare those communes (or seats) that had multiple parties competing for office and higher degrees of electoral competition and suddenly were affected by the reform (our treatment group) to those communes that already had an effective two-party system (our control). The expectation is that communes affected by the electoral reform reduce the number of effective political parties and thus candidates, decreasing the overall financial costs of bribery faced by sponsoring firms, making them less desirous of more direct forms of state intervention. Interestingly, the number of candidates is highly negatively correlated with the winning margin, and positively correlated with voter turnout for the commune-level 2015 elections (see Figures 4.A.1a–4.A.1d in the Appendix). Thus, while we believe that the effective number of parties (and candidates) acts as a proxy for the capture costs of firms, it also represents an indirect measure of electoral competition, and thus electoral uncertainty. In short, for the identification of the effect of contract type we will rely on cross-municipal competition variation triggered by quasi-exogenous shocks in electoral competition. Specifically, we estimate an OLS specification at the electoral district level for commune-level elections on the effect of the electoral reform as a quasi-exogenous shock to electoral uncertainty on firms' strategic capture of government in the current 2019 elections:

$$y_d = \alpha + \gamma_d + \beta \text{Electoral Reform}_d + \Phi \mathbf{X}_d + \Theta \mathbf{W}_i + s_d \tag{2}$$

where y_d is a dummy for any of the demands pushed by firms on politicians, including demanding a refund of resources, demanding policy and programme modification during the campaign, demanding support for future candidates close to firms, demanding control over the local budget line, demanding control over public procurement, demanding patronage both for close family members and for friends or members of the firm, and taking control of bureaucratic recruitment control in a district d; Electoral Reform$_d$ is a dummy that takes a value of 1 if a commune-level electoral district had more than 2.5 effective parties, as measured by a Molinar Index for the 2015 commune-level elections, and 0 otherwise;[7] $\mathbf{X}_d$ is a vector of commune-level control variables;[8] and $\mathbf{W}_i$ is a vector of politician-level characteristics, listed in Table 4.1, including age, education, title, former occupation, political experience, a dummy to account for party switch and reasons for such a switch, and electoral political experience as candidates in different types of elections. We also include the district fixed effect, γ_d, to account for any district-level time-invariant heterogeneity. We are thus working with between-electoral district variation in firms' government capture, controlling for a range of district- and politician-level characteristics. Hence, our estimates account for the change in firms' strategies in districts that experienced less electoral uncertainty than the electoral districts mean. We report robust standard errors throughout, clustered at the electoral district level, as done with equation (1).[9]

For both equations (1) and (2) we construct a firm capture index with all available demands made by firms in their contractual arrangements with politicians. The index ranges from 0 to 6, with 6 being the highest degree of capture. In particular, capture demands are categorised in the following way: financial refunds get a value of 0; policies and programme changes a value of 1; support for future candidates close to firms' interests a value of 2; control of a budget line a value of 3; public procurement a value of 4; patronage 5; and, lastly, bureaucratic recruitment control a value of 6. We believe this ordering fits well the notion of increasing capture in firms' actions as depicted in the Beninese study case.

[7] The results do not change if we modify the threshold for the effective number of parties up to three or down to two. The results are robust to using the Laasko–Taagepera effective number of parties.

[8] GDP, poverty, and 2015 electoral measures, including winning margin, and Herfindhal–Hirschman Index of party vote share concentration.

[9] We believe this to be a conservative approach. If we simply use robust standard errors all results become somewhat stronger statistically. See Ch et al. (2019) for details.

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Our identifying assumption with this approach is that electoral uncertainty variation occurs due to a quasi-exogenous shock conditionally independent from future firms' capture demands. Our controls tease out district-level dynamics, especially pre-treatment competition levels. One concern, however, is that this approach could simply pick enduring cross-sectional within-electoral district differences, correlated with both electoral uncertainty and firms' demands. To rule this out we include a set of regressions controlling for firms' demands in the 2015 election and identify whether pre-treatment demand differences between control and treatment districts are non-existent.[10] Furthermore, we show that sampled politicians in treatment and control districts do not have statistically different characteristics.[11] This gives high confidence regarding avoiding sample selection bias, as well as treatment and control similarity. Lastly, as done with the estimation of equation (1), we use MPs' elections as a placebo test.

A Descriptive Statistics on Campaign Funding

In this section, we provide a short description of the data, based on the preliminary descriptive statistics related to the central tendency of key variables of the study. This is followed by a short discussion. At a first glance at the data we notice that businessmen invested, on aggregate, a total of CFA Franc 7,567,560,000 (US$13,080,443) in the recent electoral campaigns as financial support to politicians, according to the 189 who responded to this question. On average, the former invested, all elections combined, an amount of CFA Franc 40,040,000 (US$69,252) in the campaigns of a candidate. Considering the type of elections and the location, the financial package is about CFA Franc 10,900,000 (US$18,838) and CFA Franc 47,600,000 (US$82,288) for municipal elections, respectively, in rural and urban areas. These figures are higher according to the importance of elections. For instance, CFA Franc 37,300,000 (US$64,470) and CFA Franc 67,600,000 (US$116,842) are invested in legislative campaigns of a candidate in rural and urban locations, respectively.

While political parties' charters predict CFA Franc 1,500,000 (US$2,592) and CFA Franc 30,000,000 (US$51,853) for municipal and legislative campaigns, out of the 27 per cent of those who really know these amounts, 34 per cent find it insufficient for the corresponding elections, including those who ran or will run for commune and legislative elections. Note, however, in Figure 4.1a that those who believe politicians have a 'reasonable amount of funding' or 'more than needed' greatly surpass the campaign costs of those that believe funds are insufficient.

[10] Results available upon request.

[11] Only three indicators are statistically different (all related to education degrees), something expected with a 10 per cent significance level over twenty-seven indicators.

FIGURE 4.1a Campaign cost by type of election and evaluation of funds
Source: Authors' calculations.

FIGURE 4.1b Ideal vs real campaign costs, by election type and evaluation of funds
Source: Authors' calculations.

Actually, as noted in Figure 4.1b, we see that those who believe that 'campaign funds are reasonable or more than needed' believe that campaign costs should be decreased substantially, especially in commune-level elections. Subsequently, on average, they reported CFA Franc 115,000,000 (US$198,772) and CFA Franc 163,000,000 (US$281,691) as the amount necessary for legislative elections in rural and urban constituencies, respectively.

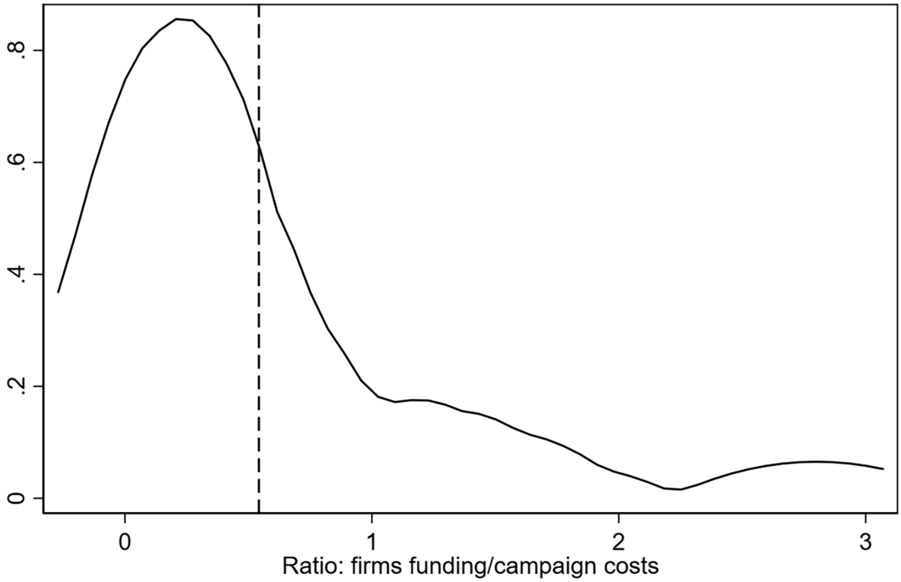

FIGURE 4.2a Ratio of firms' funding to campaign costs by type of election: Community level
Source: Authors' calculations.

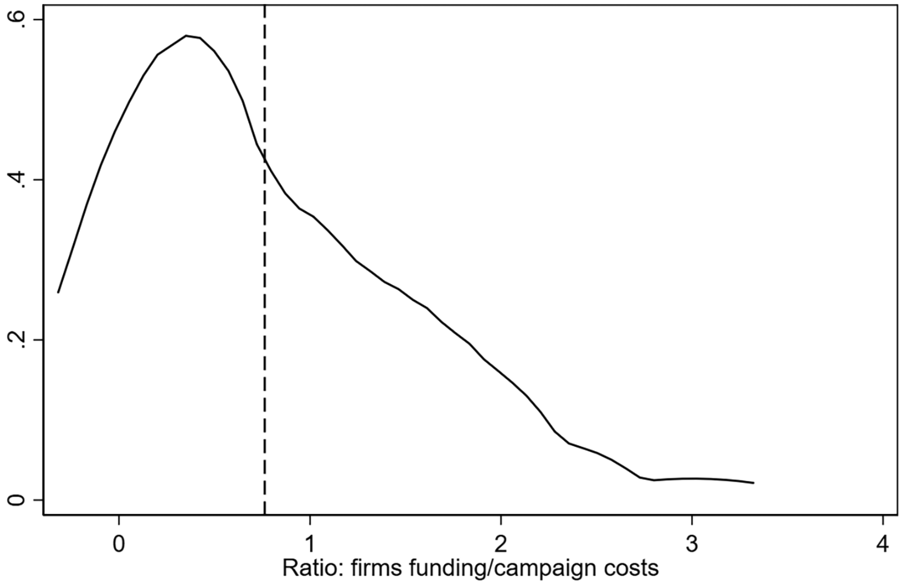

FIGURE 4.2b Ratio of firms' funding to campaign costs by type of election: Legislative level
Source: Authors' calculation.

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Furthermore, business monetary involvement in electoral campaigns is substantial. Figures 4.2a–4.2b show a striking result: for commune-level elections, firms account for 54.3 per cent of the total campaign costs on average. More impressive is the fact that 15.7 per cent get funding from businesses that surpass the total campaign costs, sometimes holding budgets up to three to four times more than needed. These results are even greater for legislative-level elections, with firms accounting for 76.3 per cent of total campaign costs.[12] In other words, as we move up the federalist ladder in Benin we notice more business intervention in monetary terms.

IV RESULTS

The former evidence points to the high intervention of businessmen in elections at different levels. However, the actual proportion of politicians affiliated with firms suffers from social desirability bias and thus politicians might not truthfully answer sensitive questions, creating a measurement challenge. Moreover, given the complexity of businessmen's interests, it is difficult to capture such dynamics either observationally or through surveys.

One way to address such challenges is the use of a list experiment. As noted by Blair and Imai (2012) and a large range of studies (Biemer et al., 2005; Gonzalez-Ocanto et al., 2010; Jamison et al., 2013; Kane et al., 2004; Kuklinski et al., 1997), this methodology protects respondents' confidentiality, allowing them to reveal sensitive information. The underlying mechanism in a list experiment is to compare two groups: a treatment and a control group. The control group is asked to report the number of non-sensitive items called a short list, while the treatment group is asked to report the number on that same short list plus an additional sensitive item. The average response for each group is estimated and differenced out. The difference in means represents the proportion of the population for whom the sensitive item applies. Design effects are tested, as well as ceiling and floor effects, to validate the list experiment estimate (for details, see Ch et al., 2019).

Specifically, the list experiment question tested to measure politicians' affiliation to business interests was the following:

How many of the following five individuals or groups do you consider yourself politically affiliated with? Please indicate HOW MANY in total: I don't want to know which ones, only how many of them. [ENUMERATOR: READ CHOICES AND SHOW THEM ON A PIECE OF PAPER]

The list of answers that the control groups received included:

- the mayor of this commune;
- a member of the communal council;

[12] In the case of legislative elections, 28.2 per cent get funding from firms that surpass their total campaign costs.

TABLE 4.2 *List experiment: Politicians' affiliation with local and national business interests*

	Mean control	Mean treatment	Diff.	Diff. SE	p
Affiliation with firm/business interest	3.54	4.02	−0.481	0.167	0.004
Commune/municipal elections: Affiliation with firm/business interest	3.576	4.406	−0.83	0.275	0.003
Legislative elections: Affiliation with firm/business interest	3.683	4.139	−0.456	0.281	0.109

Source: Authors' calculations.

- the prefect of this department;
- the MP; and
- the president/president's political party.

The list that the treatment group received included the following sensitive item (in the sixth position on the list):

- national or local businessman/firm/business group.

In order to separate respondents into the treatment and control groups, we used their birthday months. Those born in January, March, May, July, September, and November were assigned to the control group, while those born in February, April, June, August, October, and December made up the treatment group.

Table 4.1 shows the balance between the treatment and control groups of the list experiment across a wide range of covariates on politician characteristics. Out of thirty-eight covariates we notice a significant difference in four, giving us confidence regarding the balance to the 10 per cent level.

Table 4.2 shows the results of the list experiment by running a t-test comparing the treatment and control means on politicians' affiliation with firms' interests. The difference shows a prevalence of firms' interests of 48.1 per cent, a difference significant to the 1 per cent level. In other words, almost half of politicians and political brokers in Benin are affiliated with either local or national business interests.

If we distinguish by election type, we notice that business affiliation is higher in commune municipal elections, with a proportion of 83 per cent, significant to the 1 per cent level. Legislative elections show a lower proportion, of 45.6 per cent, with a significance barely reaching 10 per cent. In other words, as we move up the administrative ladder, we notice a decrease in business intervention. A plausible explanation to explore in the future is that business interference might be higher at lower administrative levels due to national government lack of monitoring and state capacity.

It is important to compare these results with those shown in Table 4.3. This table presents a list of different sources of funding provided to politicians for commune and legislative elections. Numbers represent the percentage of funds coming from a particular source. Related to business interests we note that firms, local and national, account for 16 per cent of total funding at the commune level and 17 per cent for legislative elections. Both estimates contrast significantly with the results of the list experiment, showing the effect of social desirability bias.[13]

A Contracts between Firms and Politicians

A wide variety of types of funding types characterise the contract between firms and politicians in Benin. As noted in Table 4.3, firms hold a wide range of resources available for politicians. Besides the primacy of financial instruments and non-pecuniary goods and services provided by firms, politicians utilise advisers and labour to support their political campaigns. A large proportion of politicians (45 per cent for commune elections and 46 per cent for legislative ones) also utilise space provided by firms for their political campaigns.

Most interestingly, the results show that public procurement arrangements have a prevalence in firm–politician contracts of 71 per cent, followed by policy commitments narrowed down to businessmen's interests with a proportion of 46 per cent. In third place comes the appointment to public positions of businessmen's relatives or people they suggest. Depending on the type of elections, this appointment could be in the local administration as an office head or as a member of the central government (ministry, cabinet chiefs, etc.), with a proportion of 39 per cent. These are the most preferred means for businessmen to recover what they have invested in candidates' electoral campaigns and to ensure their control over the implementation of policies. In other words, these numbers should be considered the country's baseline actions by firms.

According to the respondents, businessmen prefer public procurement overall, because of the direct cash flows it generates. Interestingly, they place it in first place because it is also a means for incumbents to make money as they find a way to keep a minimum of 10 per cent of the total amount for themselves, in agreement with the businessmen. It is worth emphasising that the amounts of these public procurements are sometime tenfold greater or even more than the

[13] While we only run a list experiment in regard to politicians' affiliation with firms and find biased results, we do not do so with other survey questions. While social desirability bias might be a concern in such settings, there are two important takeaways: first, all estimates on survey questions may downwardly bias the actual existence of firms' direct capture preferences, a problem that does not affect identification as much as the total effect; second, even in the case of a setting with strong political transparency from politicians to surveyors, social desirability bias is an important feature for which estimates must be adjusted.

TABLE 4.3 *Clientelist contracts – descriptive statistics*

	Mean	SD	Min	Max	N
Firm–politician contract					
Sources of funding: Commune level					
National funding	0.01	0.04	0	0	117
Department funding	0	0.02	0	0	117
Party/party coalition funding	0.31	0.26	0	1	117
President/president's party funding	0.21	0.27	0	1	117
Local firms funding	0.1	0.11	0	0	117
National firms funding	0.06	0.1	0	0	117
Local politicians funding	0.05	0.12	0	1	117
Local/national unions funding	0.01	0.02	0	0	117
Percentage coming from others	0.39	0.26	0	1	75
Sources of funding: Legislative level					
National funding	0.04	0.12	0	1	96
Department funding	0	0.01	0	0	96
Party/party coalition funding	0.31	0.24	0	1	96
President/president's party funding	0.2	0.2	0	1	96
Local firms funding	0.09	0.11	0	1	96
National firms funding	0.08	0.1	0	0	96
Local politicians funding	0.03	0.06	0	0	96
Local/national unions funding	0	0.02	0	0	96
Percentage coming from others	0.38	0.27	0	1	63
Types of funding: Commune level					
Financial instruments	0.78	0.42	0	1	117
Goods/non-financial services	0.56	0.5	0	1	117
Economic/political advisers	0.23	0.42	0	1	117
Labour for campaign	0.35	0.48	0	1	117
Provision of space	0.45	0.5	0	1	117
Support for advertisement	0.49	0.5	0	1	117
Other forms of financing	0.02	0.13	0	1	117
Types of funding: Legislative level					
Financial instruments	0.82	0.38	0	1	96
Goods/non-financial services	0.65	0.48	0	1	96
Economic/political advisers	0.25	0.44	0	1	96
Labour for campaign	0.48	0.5	0	1	96
Provision of space	0.46	0.5	0	1	96
Support for advertisement	0.44	0.5	0	1	96
Other forms of financing	0.02	0.14	0	1	96
Firm–politician contract					
Payback time: Commune level (=1 after election, 0=before)					
Policies	0.71	0.46	0	1	49
Public procurement	0.63	0.49	0	1	91

(*continued*)

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TABLE 4.3 (*continued*)

	Mean	SD	Min	Max	N
Patronage	0.55	0.5	0	1	47
Patronage from firm	0.33	0.48	0	1	45
Support future candidate	0.47	0.51	0	1	17
Programme modification	0.5	0.52	0	1	12
Refund	1	0	1	1	3
Recruitment control	0.26	0.45	0	1	19
Budget line	0.4	0.55	0	1	5
Payback time: Legislative level (=1 after election, 0=before)					
Policies	0.79	0.42	0	1	42
Public procurement	0.68	0.47	0	1	73
Patronage	0.62	0.49	0	1	37
Patronage from firm	0.47	0.51	0	1	40
Support future candidate	0.58	0.51	0	1	19
Programme modification	1	0	1	1	8
Refund	0.33	0.52	0	1	6
Recruitment control	0.33	0.49	0	1	12
Budget line	0.5	0.55	0	1	6
Politician–voter contract					
Commune level					
Mass communication policy and agenda	0.95	0.22	0	1	117
Political appointments	0.38	0.49	0	1	117
Vote-buying attempt	0.5	0.5	0	1	117
Non-conditional transfer (NCT)	0.24	0.43	0	1	117
Ethnic strategy	0.44	0.5	0	1	117
Legislative level					
Mass communication policy and agenda	0.9	0.31	0	1	96
Political appointments	0.42	0.5	0	1	96
Vote-buying attempt	0.53	0.5	0	1	96
NCT	0.38	0.49	0	1	96
Ethnic strategy	0.4	0.49	0	1	96

Source: Authors' calculations.

money invested by the businessmen, and it may happen that they execute more than three to five projects during their tenure.

A good illustration of procurement and how effective it is for both actors is the recent scandal involving the building of a new national assembly in Benin: between two offers, one from a Chinese company that is accredited and well recognised for its insight and expertise in the domain, with a value of CFA Franc 14,000,000,000 (US$24,194,397), and another from a national company affiliated with government officials, with a value of CFA Franc 18,000,000,000

(US$31,107,082), the government attributed the procurement to the latter, representing an overspend of CFA Franc 4,000,000,000 (US$6,914,643), which is twice the amount invested by the businessman to support the presidency of the Beninese former President Boni Yayi. Interestingly, this represents tenfold the money (CFA Franc 400,000,000, so US$691,464) the same businessman invested to support the legislative campaigns of a candidate. From these examples it appears clear why businessmen prefer public procurement over the narrow implementation of policies and the appointment of relatives, which might take a bit longer to yield the expected results.

B Contracts between Politicians and Voters

On the contracts between politicians and voters, politicians apply a wide range of strategies to increase public support. As Table 4.3 shows, a large proportion of politicians and political brokers use non-programmatic strategies: half of politicians in commune-level elections utilise vote-buying attempts, while 38 per cent rely on promising political appointments, and 24 per cent use non-conditional transfers to citizens. For legislative elections these numbers increase to 53 per cent for vote-buying attempts, 42 per cent for political appointment promises, and 38 per cent for non-conditional transfers. In the context of Benin, the use of ethnic strategies surges as an important strategy for promoting voter support. Ethnic strategies mostly target promoting policies that benefit the in-group instead of the out-group.

C Political Uncertainty and Firms' Strategic Decision-Making

If it happens that incumbents do not comply with the deal they have made with businessmen, the latter may finance riots against the former. Sometimes aided by state institutions, firms' actions affect politicians' political careers by either causing them to lose future elections or reducing their winning margin. The most noted strategy utilised by businessmen if politicians do not comply with what was specified in the contract is to support challengers who allow for more concessions than the previous politicians, increasing firms' state capture. In this regard, when the number of candidates increases, businessmen support all potential candidates to avoid wasting money, and to ensure the sustainability of their particular interest.

With more challengers, businessmen's preferred state capture strategy order changes: modification of incumbents' platform commitments to align with businessmen's interests during the electoral campaign, with a proportion of 68 per cent, ranks first, instead of public procurement, which comes in second place, with a proportion of 67 per cent, followed by the promotion of the political careers of the relatives of businessmen, with a proportion of 64 per cent. It is also important to emphasise that from a proportion of 17 per cent, influence and control over recruitment in all public sectors related to the economy

TABLE 4.4 *Electoral competition (uncertainty) and firms' strategies (capture) in local elections in Benin*

	Mean treatment	Mean control	Diff.	Diff. SE	p
Demand policies	0.466	0.489	−0.023	0.04	0.575
Procurement	0.714	0.605	0.109	0.038	0.004
Patronage (from and not from firm)	0.386	0.37	0.016	0.039	0.68
Patronage (from firm)	0.392	0.379	0.013	0.039	0.742
Support candidate (future)	0.161	0.177	−0.016	0.03	0.593
Change in policy programme	0.087	0.164	−0.077	0.026	0.004
Refund	0.042	0.071	−0.029	0.018	0.118
Bureaucracy recruitment control	0.177	0.167	0.01	0.03	0.75
Demand budget line	0.064	0.058	0.006	0.019	0.738
Firm capture index	4.45	4.318	0.132	0.117	0.258
Firm capture index (standardised)	0.045	−0.046	0.091	0.081	0.258

Source: Authors' calculations.

increases to 51 per cent, one of the strongest strategies, if not the strongest, of state capture at the local and national level.

Table 4.4 tests the change in the use of capture strategies of firms for commune/municipal elections. The table reports a t-test on the difference in means between the strategies used under a high electoral competition setting, as proxied by a hypothetical increase in the number of candidates contending (the treatment group), to the strategies used under a low electoral competition scenario with few candidates contending for office (the control group). While the results should be interpreted only as simple correlations, they show interesting dynamics. As noted before, procurement increases dramatically, with an increase of 10.9 per cent significant to the 1 per cent level, while other forms of lower capture value decrease, particularly the demand for political programme changes, which falls by 7.7 per cent, significant to the 1 per cent level. While non-significant, we see a positive increase in all those strategies involving high degrees of state capture, including patronage (increase of 16), bureaucratic recruitment (10 per cent), and the demand to control the budget line (0.6 per cent). We also note an overall decrease in all the strategies associated with low degrees of state capture or with a null effect on state capture, with a decrease in policy demands (−2.3 per cent), demanding support for a candidate supported by the firm in the future (−1.6 per cent), or asking for a refund on what was invested in the politician (−2.9 per cent).

We construct an index of firms' state capture ranking strategies in the following order, from the weakest to the strongest form of state capture: refund=0;

TABLE 4.5 *Effect of electoral competition (winning margin) on firms' preference for direct capture, beta coefficients*

Dependent variable: firm capture index		
	Municipal level	**Legislative level**
Winning margin	−0.1684***	0.0535
	−0.0801	−0.0736
Observations	117	96
R-squared	0.48	0.37
Controls[a]	yes	yes
Commune FE	yes	yes

Standard errors in parentheses are clustered at the commune level; significance level (***) 0.1%. Outcome measured in standardised terms. FE, fixed effects. [a] Electoral district-level covariates include GDP, inequality, and 2015 electoral measures, including winning margin, and Herfindhal–Hirschman Index of party vote share concentration; politician characteristics controls include indicator levels of education levels by politician.

policy and programme change demands=1; support to firms' candidates in the future=2; control over the budget line=3; public procurement demands=4; patronage=5; and, lastly, control of the bureaucratic recruitment process=6. While non-significant, the results show that under a hypothetical high-competition setting the firms' capture index is higher than in low-competition ones.

Thus, in short, the higher the electoral uncertainty, the stronger and more enforceable are the forms of commitment businessmen prefer. Interestingly, in the absence of a good candidate to fund, respondents say that businessmen are more likely to run for elections themselves. In this respect, about 60 per cent of respondents say that businessmen's involvement has become a phenomenon in recent years; most of them run directly for elections.

A good example of the change in frequencies in firms' capture preferences is the relationship between the former Beninese President Boni Yayi and the current President Patrice Talon, the richest businessman in the country. According to a respondent very close to the former, the latter used to finance politicians' electoral campaigns, from presidents to local mayors. After supporting both the 2006 and 2011 Yayi presidential campaigns, Talon negotiated the biggest public procurement in Benin's history. Thereafter, Yayi decided to end the collaboration, presumably due to the power imbalance that the procurement granted Talon. What followed was a clash between both actors, leading to a highly uncertain political environment. As a result, Talon first financed the campaign of the national assembly president, the second personality after the president. However, it seems that, given his experience with President Yayi and given the highly uncertain competitive electoral environment, Talon decided to run for president himself. He won the election on 6 April 2016.

Table 4.5 introduces the estimates of equation (1); that is, the effect of electoral competition measured by winning margins on firms' preference for direct capture for both municipal- and legislative-level elections. The first column shows that when the winning margin increases – that is, when electoral competition decreases by 1 standard deviation – firms decrease their preference for more direct forms of state capture by –0.1684 standard deviation, a result that is significant to the 1 per cent level. Contrast this to the placebo test shown in the second column: winning margins hold a positive and non-significant effect for MPs. As noted before, MPs do not have a say in national- or local-level bureaucracy and thus would have no effect on firms' strategies to mitigate electoral uncertainty. In this regard, the right-hand panel of Figure 4.3 provides an example of the asymmetrical relationship between winning margins and firms' capture index by election type, with a negative relationship for municipal-/commune-level elections and a positive one for legislative-level ones.

Moving forward, Table 4.6 presents the estimates of equation (2); that is, the effect of the electoral reform that collapsed the party system into a two-party block competition, decreasing the electoral risk of firms' strategic decision-making to capture government. Results are expressed in standardised beta coefficients. As seen in the last column, the effect of a decrease in electoral uncertainty decreases the firm capture index by –0.259 standard deviation, significant to the 1 per cent level. This result is robust to the inclusion of district and politician characteristics, and district fixed effects. If we dissect the index, we notice that demands characterised by high degrees of capture are decreasing, especially patronage for family members, friends (–0.4374), members of the firm (–0.4365), and bureaucratic recruitment control. Meanwhile, less direct forms of capture increase or have negligible and non-significant effects, including refunds, support for candidates in the future that are supported by the firm, or demands for public goods procurement. Note, for instance, that there is actually a positive effect on budget line demand. Policies and programme modifications are negative and significant, showing that in settings of low electoral risk firms also decrease the use of such demands towards politicians.

We further test in Table 4.7 the effect of the decrease of electoral uncertainty due to the introduction of the electoral reform on the use of non-programmatic politics and other actions by politicians at the district and commune levels. We notice two important results. On the one hand, in a more certain setting, politicians increase the use of non-conditional transfers to voters by 0.7186 standard deviation, with the result significant to the 1 per cent level, and they decrease the use of other types of expenses, including pork-barrel and non-visible expenses, such as expenditure on water and sewage infrastructure. In other words, as backed substantively by the clientelism literature, under conditions of certainty politicians rely heavily on non-programmatic politics and use non-conditional transfers to attempt to increase citizen electoral support.

On the other hand, and most important for this chapter, politicians under situations of low electoral risk increase dramatically their transfers to firms, an increase of 0.4834 standard deviation, significant to the 1 per cent level. This result goes hand in hand with the previous results: as electoral certainty rises,

TABLE 4.6 *Effect of electoral reform (uncertainty decrease) on firms' strategic decision-making, beta coefficients*

	Dependent variable				
	Refund	**Policies**	**Programme change**	**Support candidate**	**Budget line**
Electoral reform	0	−0.6481***	−1.0992***	0	0.4829***
(decrease uncertainty)[a]	0	0	0	0	0
Observations	117	117	117	117	117
R-squared	0.327	0.544	0.466	0.415	0.739
Controls[b]	yes	yes	yes	yes	yes
Commune FE	yes	yes	yes	yes	yes
	Procurement	**Patronage**	**Firm patronage**	**Recruitment control**	**Firm capture index**
Electoral reform	0	−0.4374***	−0.4365***	−0.6061***	−0.2595***
(decrease uncertainty)	0	0	0	0	0
Observations	117	117	117	117	117
R-squared	0.508	0.402	0.494	0.506	0.391
Controls[b]	yes	yes	yes	yes	yes
Commune FE	yes	yes	yes	yes	yes

Source: Authors' calculations.
Standard errors in parentheses are clustered at the commune level; significance level *** 0.1%. Outcome measured in standardised terms. [a] Outcomes with 0 imply a very small number; we preferred not to introduce scientific numbers and left this as is. [b] Electoral district-level covariates include GDP, inequality, and 2015 electoral measures, including winning margin and Herfindhal–Hirschman Index of party vote share concentration; politician characteristic controls include indicator levels of education levels by politician.

TABLE 4.7 *Effect of electoral reform (uncertainty decrease) on use of non-programmatic politics and transfers to business interests, beta coefficients*

	Dependent variable			
	Non-conditional transfers	**Pork-barrel expenses**	**Pro-business transfers**	**Non-visible expenses**
Electoral reform (decrease uncertainty)[a]	0.7186*** (0)	−0.7240*** (0)	0.4834*** (0)	−0.1202*** (0)
Observations	117	117	117	117
R-squared	0.399	0.446	0.422	0.509
Controls[b]	yes	yes	yes	yes
Commune FE	yes	yes	yes	yes

Source: Authors' calculations.
Standard errors in parentheses are clustered at the commune level; significance level *** 0.1%. Outcome measured in standardised terms. [a] Outcomes with 0 imply a very small number; we preferred not to introduce scientific numbers and left this as is. [b] Electoral district-level covariates include GDP, inequality, and 2015 electoral measures including winning margin and Herfindhal–Hirschman Index of party vote share concentration; politician characteristic controls include indicator levels of education levels by politician.

firms underuse high demands of government capture, in part due to an increase in politicians' transfers.

V DISCUSSION AND CONCLUSION

A wide literature has shown the pernicious effects of business interests in institutional and democratic development. However, there has been little study of the underlying mechanisms by which firms deter democracy, especially in the context of weak states. This chapter provides evidence on the relationship between business interests and clientelistic contracts, and by doing so brings together two seemingly unrelated literatures: interest groups and state capture and clientelism. By doing so it provides, for the case of Benin, concrete evidence on the demand set applied by firms to politicians in exchange for firms' support for electoral campaigns. More importantly, we show that more than half of Benin's politicians are politically affiliated with firms, and that such affiliation affects the underlying base structure within which clientelist contracts with citizens take place.

We provide evidence that firms' strategic interactions with politicians change as electoral uncertainty changes. In particular, in the most striking result of this chapter, we show that as electoral uncertainty decreases firms rely less heavily on more direct forms of government capture, including patronage or the control of local bureaucratic recruitment processes. In positive terms, paradoxically, this implies that democratic consolidation, which thrives with electoral uncertainty, is undermined by business interests.

APPENDIX: ELECTORAL COMPETITION

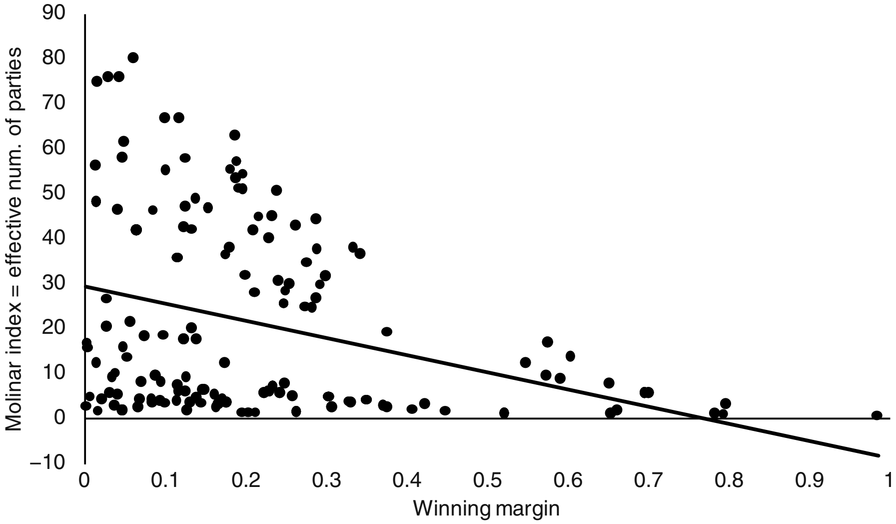

FIGURE 4.A.1a Effective number of parties and electoral competition in 2015: Winning margin
Source: Authors' calculations.

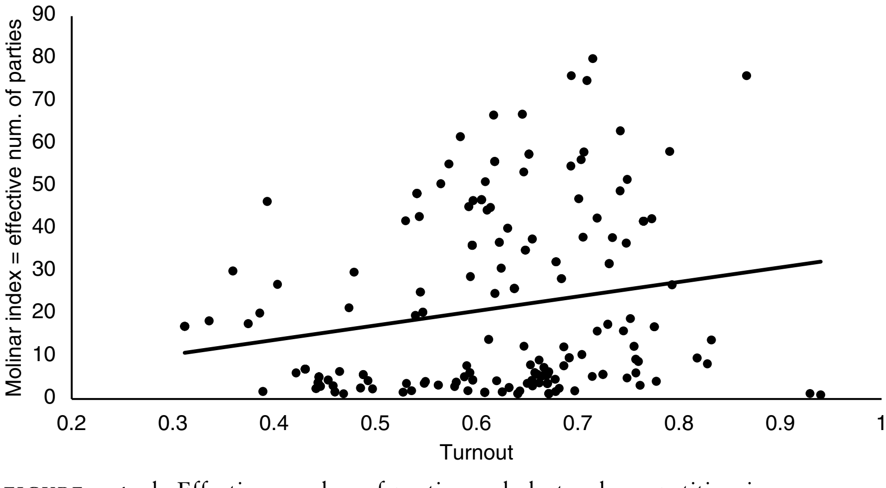

FIGURE 4.A.1b Effective number of parties and electoral competition in 2015: Turnout
Source: Authors' calculations.

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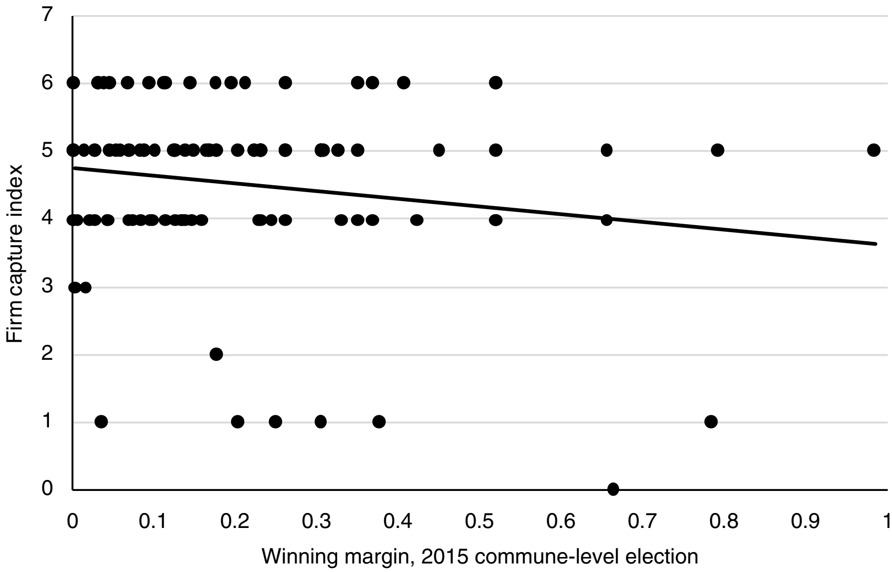

FIGURE 4.A.1C Effective number of parties and electoral competition in 2015: Winning margin community level
Source: Authors' calculations.

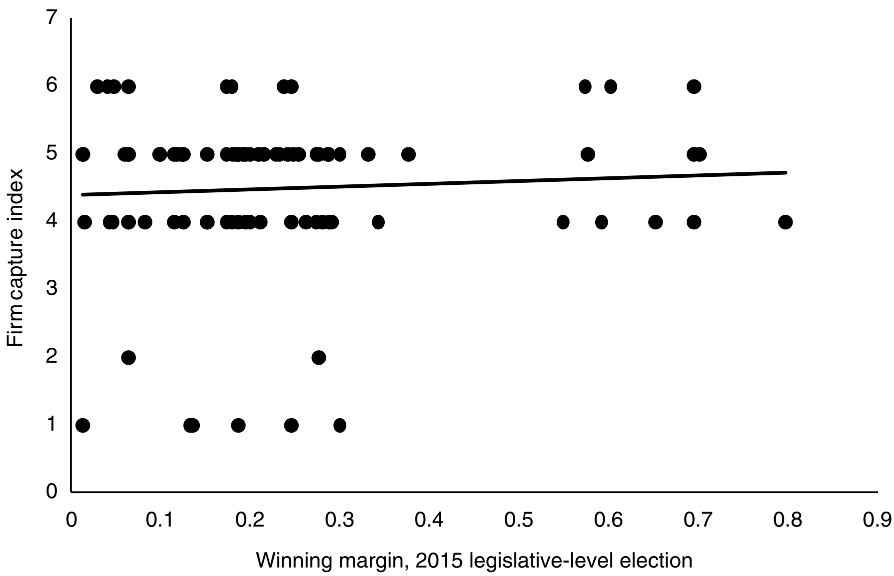

FIGURE 4.A.1d Effective number of parties and electoral competition in 2015: Winning margin legislative level
Source: Authors' calculations.

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Discussion of 'Campaign Finance and State Capture'

Discussion by Cesi Cruz

'Campaign finance and state capture' provides a new perspective on topics that are at the heart of the literature on the political economy of development. In particular, the study of democracies in the developing world tends to focus on issues of clientelism or political exchange – directly or indirectly providing private benefits for constituencies in exchange for electoral support. However, as this chapter points out convincingly, not only are different forms of political exchange targeted at voters, different forms of political exchange are also practised by firms, each with potentially different implications for economic development and democratic consolidation. One problem with the literature on clientelism is that it tends to focus on political exchange between voters and politicians, without regard for the strategies of firms. Arguably, not only does this miss an important part of the dynamic for understanding political exchange more broadly, it also understates the developmental impact of clientelism. In focusing on small-scale 'retail' strategies, such as vote buying or patronage, we may be missing the more important forms of 'wholesale' strategies, such as capture or cooptation – strategies that arguably have more distortionary effects on both economic development and democratic consolidation.

As a result, in addition to highlighting important dynamics in Benin with implications for political institutions and economic development, this chapter addresses a first-order question in the literature on clientelism. This work is exemplary in leveraging results from a specific country context in order to make broader theoretical arguments. It does so by contributing both a novel framework – bringing together the two literatures on clientelism at the voter and firm levels – and bringing new data from Benin to test it.

1 NETWORKS

One potentially helpful area for exploring extensions to this work is to think more about firm and politician networks. Theories of networks underlie both

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the literature on clientelism and the literature on firm capture and cronyism, making it a natural fit given that this project is bringing new data to create a unifying framework for the two literatures. Furthermore, networks are implicit in the chapter's analysis (even if not sufficiently explicit) and, in fact, networks were a key part of the data collection because of the snowball sampling techniques.

Networks matter not only because of the direct connections, but also for understanding the broader structure of how business interests interact with clientelism. This short note addresses two types of networks, firm networks and politician networks, in order to suggest potential extensions to the analysis. Firm networks matter because they determine access to political 'goods', but also because the types of networks that firms invest in may provide evidence of their priorities and strategies for lobbying. As a result, firm networks would be expected to matter for the range of demands that firms might pursue, and their techniques for doing so. It is also possible that networks operate as a constraint on firm strategies – to the extent that firms invest in developing ties and cultivating relationships with a broad range of industry and government actors, it may be difficult for them to switch strategies even when political circumstances change (Fisman, 2001).

Similarly, politician networks matter not only for electoral competition, but also for the types of strategies they may pursue once they are in office. For example, a large literature links politician networks to different types of electoral strategies. In particular, clientelistic political exchange requires dense, hierarchical networks for the identification of clients and the delivery of benefits and monitoring of voter behaviour. Compared to the internal organisational problems inherent in programmatic parties, for clientelist politics the problem is monitoring and controlling the political brokers at each level in the process (Kitschelt and Wilkinson, 2007). Such mechanisms require elaborate networks to monitor actors and manage exchange relations (Stokes, 2005). Kitschelt and Wilkinson (2007) describe these networks as necessary because of the need to monitor political actors at each level in the process. Research by Calvo and Murillo (2009) has argued that clientelist politics requires different types of political network structures to programmatic politics: clientelist countries have large, heterogeneous, vertically integrated parties, while programmatic countries have smaller, homogeneous, horizontally integrated parties. The ability to monitor is a fundamental aspect of successful politician networks (Kitschelt and Wilkinson, 2007; Larreguy, 2013).

II FIRM NETWORKS

It is widely accepted that better-connected firms exercise more political influence. However, it remains little understood how different types of ties affect different types of political action. The notion that the type of ties matters underlies much of the work on politician networks and political parties. With this

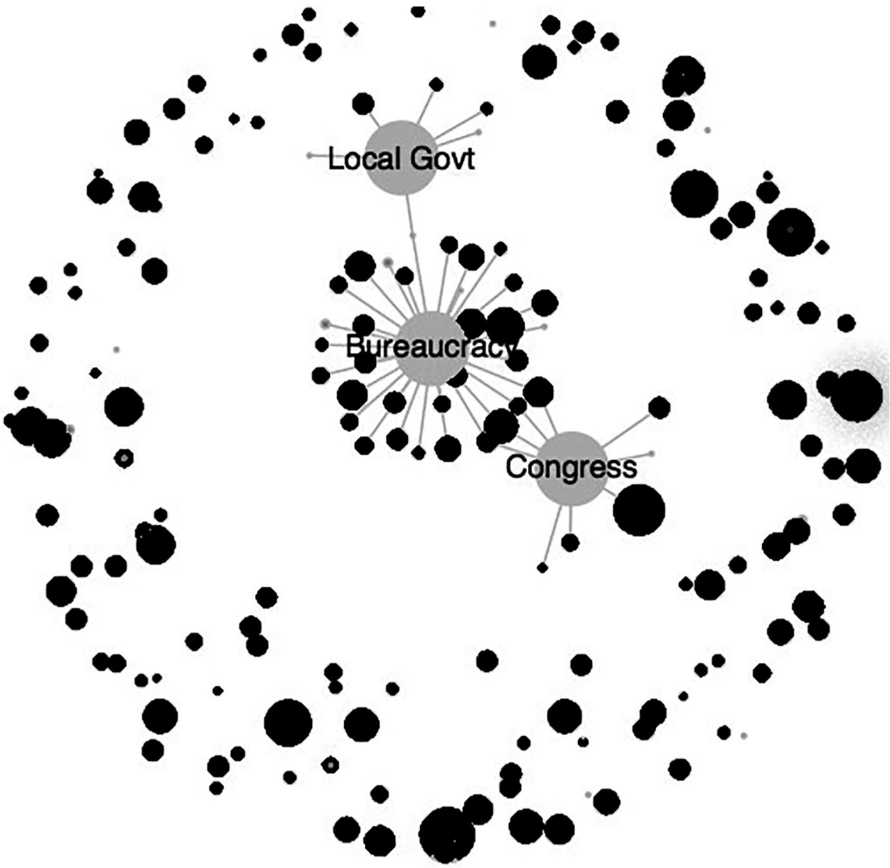

FIGURE 4.3a Peer and government ties
Source: Author's calculations.

type of analysis, it becomes possible to explore whether firm connections affect the strategies firms pursue, or the ways in which they engage with politicians.

For example, Cruz and Graham (2021) contrast the effect of ties to other firms in the same industry (peer ties) with direct ties to elected officials and bureaucrats (government ties). Their framework proposes that peer ties facilitate collective action, most often with respect to broad policy issues that affect many firms, while government ties are primarily used to address narrow, particularistic issues. Cruz and Graham use a new survey of foreign-owned firms operating in the Philippines to demonstrate that different ties are associated with different approaches to lobbying. Consistent with theories of collective action among firms, ties to other firms are associated with efforts to influence policy at the national level, where issues are broader based and affect larger numbers of firms. By contrast, ties to government actors (bureaucrats or

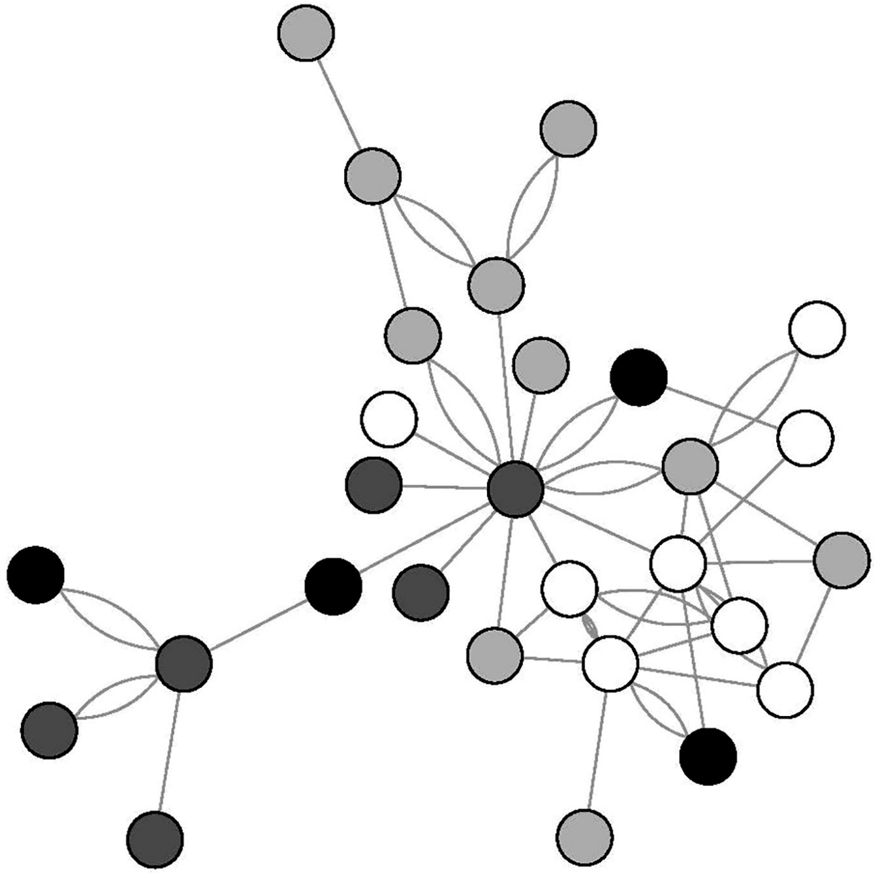

FIGURE 4.3b Effective mayor network in Isabela (1st district–white; 2nd–light grey; 3rd–dark grey; 4th–black)
Source: Author's calculations.

politicians) are associated with seeking policy influence at the local level, where actors have narrower scope but can direct specific benefits and concessions to firms.

For example, Figure 4.3a is a visual illustration of firms' ties with politicians, bureaucrats, and other firms.[14] Each of the black circles (nodes) represents an

[14] Ties are measured in two different ways. First, because the sample is too small to be able to capture the entire firm network, the number of peer firms that respondents report having a relationship with is used as a proxy for peer ties. To differentiate peer firms from clients, suppliers, or other partners, respondents are asked about the number for firms in each category separately. The variable uses the logged number of peer firms. Second, the measure of government ties reports the number of ties to either elected officials or bureaucrats.

actual firm in the sample and the grey circles represent political actors: congress, local government, and the bureaucracy (labelled). For each firm, the figure presents (1) ties to congress, bureaucracies, or local government, depicted by connecting lines between the firm node and the government actor node; and (2) ties to peer firms, represented by the size of the circle, where large circles are those firms that report a larger number of peer firms. A substantial number of firms, including many with a large number of peer ties, have no direct government ties.

III POLITICIAN NETWORKS

Another important aspect of networks that could extend the important findings in this chapter are differences in the networks and strategies of politicians. Figure 4.3b is a visual illustration of ties among mayors in Isabela province, in the Philippines. Some mayors are well connected horizontally, while others have vertical connections: instead of ties to other mayors, they have ties down to the village-level officials and up to the congressman (or congresswoman) and governor of the province. The structure of these ties affects the incentives of politicians to pursue different types of political exchange.

Vertical ties are associated with individually targeted political exchange, because in a political context where there are overlapping constituencies, politicians can reduce the costs associated with individually targeted political exchange by pooling their efforts. Politicians at higher levels collude with lower-level politicians and political brokers. The higher-level politicians provide funding and the lower-level politicians provide the personnel and oversight for the implementation. A big part of the costs of vote buying involves logistics: identifying targets, sending personnel to conduct the transaction, as well as monitoring and enforcing the transaction. Once a system for monitoring or verification has been set up and the political broker has already been hired to hand out the envelope of money, the marginal cost of asking the voter to also vote for another politician on the same ballot is relatively small. The overlapping constituencies create incentives for such collusion among politicians organised through vertical networks.

Horizontal ties, by contrast, facilitate group-targeted strategies like pork-barrel politics. When pork-barrel funds take the form of spending allocated to more than one municipality, mayors who are able to cooperate with each other can act collectively to demand pork-barrel projects that benefit their municipalities. In these cases, the funding is typically controlled by politicians at the national level (such as governors or congressmen) or national government agencies. Very few local-level politicians are influential enough to lobby successfully for these types of funds on their own. However, groups of mayors acting collectively can successfully bid for large-scale projects affecting their areas. Examples of such projects include fisheries and shoreline support for coastal municipalities, irrigation systems for municipalities along a river,

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or construction and road projects that go through more than one locality. Horizontal ties are important not only for the process of bidding for national- or provincial-level projects, but also for ensuring that mayors cooperate throughout the project implementation process.

Extended to firms, we might also expect that the form of political alliances and political networks might also condition how politicians engage with firms. For example, politicians with ties to the bureaucracy might offer to negotiate with firms by offering regulatory deals. Politicians with more discretionary funding may prefer to offer concessions and kick-backs. As a result, in addition to considering the preferences of firms for direct or indirect forms of capture, it is equally important to consider that politicians may be differentially positioned to offer these different types of 'policy goods'.

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5

The Cotton Sector

History of a Capture

Barthélemy Honfoga, Romain Houssa, and Houinsou Dedehouanou, with Discussion by Véronique Thériault

1 INTRODUCTION

Cotton has a long history in Benin's development strategies and it continues to play a major[1] economic role today, accounting for about 50 per cent of export revenue (excluding re-exports) and 45 per cent of tax revenue (excluding customs revenue).[2] It contributes to the livelihoods of about one-third of the population[3] and it constitutes 60 per cent of physical capital in Benin's industrial sector (nineteen ginning factories, four textile factories, and two agro-food factories for vegetable oil extraction) where it generates about 3,500 paid jobs (Ministère de l'Agriculture de l'Elevage et de la Pêche, 2008). In addition, cotton contributes to activities in the services sector (e.g. transport and construction), and also plays a socio-political[4] role in rural development in Benin (see, e.g. Kpadé, 2011).

[1] It is, however, difficult to understand the methodology underlying many indicators related to the importance of cotton in Benin. The values of some indicators are inconsistent across sources and important information needed for the analysis is sometimes simply not available. For instance, it was not possible to get information from the website of the Association Interprofessionnelle du Coton au Bénin (AIC; www.aicbenin.org) because the website has been down since 2018. Therefore, there is a need to develop a coherent framework for data and other historical documents related to the cotton sector.

[2] Before cotton, palm oil – promoted by King Ghézo (1818–1858) – played the leading role in Benin's development. In 1962, for instance, palm oil products accounted for around 60 per cent of export revenue, against only 2 per cent for cotton. From 1972, however, the share of palm oil decreased dramatically, to 19 per cent, and in 2016 palm oil became almost non-existent in Benin's official export statistics. By contrast, cotton's share increased to 30 per cent in 1972 and in 2016 it stood at 45 per cent of export revenue.

[3] Benin's total population is 10.7 million.

[4] For instance, cotton farmers finance local infrastructure and a number of them hold political power at village and district levels.

Several indicators have been proposed to assess the economic performance of the cotton sectors in African countries (e.g. Tschirley et al., 2009), but data limitation forces us to focus this analysis on three main indicators: production, yield, and acreage. In some cases, we discuss performance related to two additional indicators: the producer price of seed cotton; and Benin's market share of cotton lint in the international market. We derive data on the first key three indicators from the Food and Agriculture Organization (FAO) Corporate Statistical Database (FAOSTAT), allowing us to make a consistent comparative analysis with other countries over a long time period (1961–2017).[5] Data from three other sources (Institut National de la Statistique et de l'Analyse Economique, INSAE; Association Interprofessionnelle de Coton au Bénin, AIC; and Programme Regional de Production Intégrée du Coton en Afrique, PR/PICA) are used to discuss the performance of the sector over the recent period (2016–2018).

Figures 5.1a and 5.1b report the performance of the cotton sector in Benin and in Burkina Faso, a neighbouring francophone country; they give the production of seed cotton, yields, and cultivated area over the 1961–2017 period.[6] Figure 5.1a presents the performance in Benin and Burkina Faso in levels, whereas Figure 5.1b displays the performance of Benin relative to Burkina Faso (1961=100). The data in Figure 5.1b show a relatively poor performance in Benin's production in 1962–1969, 1974–1992, and since the early 2000s. In 1961–1969, this was primarily caused by a more rapid expansion of acreage in Burkina Faso, since Benin was doing relatively well in terms of productivity per land unit. In the period 1974–1992, Benin lagged behind both in terms of yields and acreage.

In contrast, Benin outperformed Burkina Faso in 1970–1973 and 1993–1997. In the first subperiod, Benin's performance was due to a spectacular improvement in yields, whereas in the second subperiod the result mostly stemmed from a more rapid extension in the area allocated to cotton. Figure 5.1a shows that, up until 1993 and except for the subperiod 1970–1973, the output of cotton in Benin moved roughly hand in hand with the cultivated land area, suggesting that improvement in yields did not play a significant role. In Benin, yields thus appear to be volatile and, more worryingly, in recent years they have come down to the level where they were in the early 1970s.

[5] Another source for an international comparison is the International Cotton Association (ICA), but we currently do not have access to its database.

[6] Burkina Faso is a good comparator for Benin not only because the two countries share a common border, but also because the initial performance of Burkina Faso (in 1961) was close to that of Benin. Production in Benin and Burkina Faso was 2,482 tonnes and 2,352 tonnes, respectively. The yield figure was 1,204 and 1,026 hectogram per hectare, respectively, while land area allocated to cotton was 20,608 and 22,925 hectares, respectively. Côte d'Ivoire and Mali are two other possible comparators, but their initial production levels were much higher than that in Benin while their performance did not significantly improve over time (FAOSTAT).

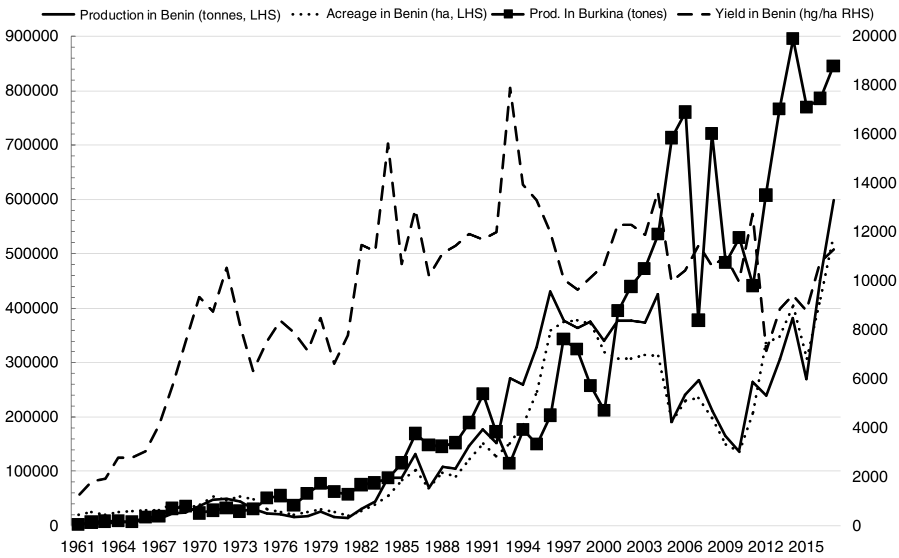

FIGURE 5.1a Performance of the cotton sector in Benin and Burkina Faso
Sources: Authors' calculations based on FAOSTAT. Data over the period 2016–2017 are obtained from INSAE and AIC and are being updated in the FAOSTAT database. Note that the data presented here are sometimes different from the values presented in studies (e.g. Gergely, 2009; Kpadé, 2011; Saizonou, 2008; Yérima, 2005) citing AIC. LHS, left-hand side; RHS, right-hand side

What are the causes of the performance in the cotton sector in Benin? This chapter aims to provide a diagnostic of the cotton sector in Benin. In particular, it reviews the underlying factors of the sector's performance, with an emphasis on the role played by institutional factors. Over the years the sector has operated under different modes of organisation, between public and private types, each of which has been reversed over time. We aim to elaborate on the underlying causes of these changes and their implications for the performance of the sector. For this purpose, we make use of academic and grey literature. Moreover, we obtained information from key informants within the sector.

Section II introduces the framework of the analysis. Section III summarises the historical background. Section IV reviews the performance of the cotton sector in the period 1961–2016. It seems too early to provide an analysis of the sector after 2016, particularly because we lack crucial information on the current functioning of the AIC. We therefore do not provide an in-depth analysis on the performance of the recent period, but we leave such an analysis for future research. Section V presents the synthesis of the diagnostic.

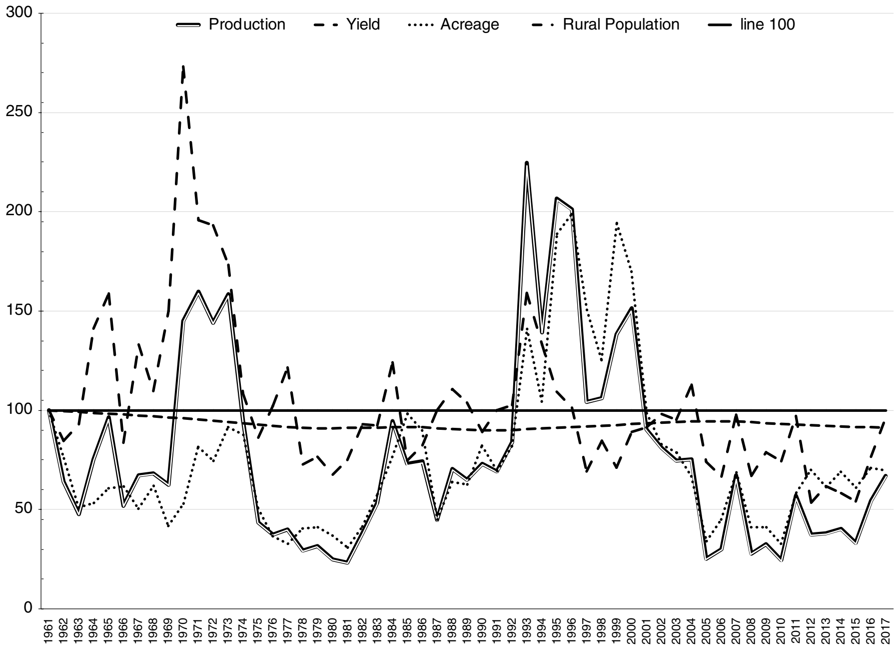

FIGURE 5.1b Performance of the cotton sector in Benin relative to Burkina Faso (1960=100)

Sources: Author's calculation based on FAOSTAT. Data over the period 2016–2017 are obtained from INSAE and AIC and are being updated in the FAOSTAT database. Note that the data presented here are sometimes different from the values presented in studies (e.g. Gergely, 2009; Kpadé, 2011; Saizonou, 2008; Yérima, 2005) citing AIC.

II ANALYTICAL FRAMEWORK

A Organisation of the Cotton Sector

There are nine main inter-related functions in the cotton sector:

1. Input supply and distribution.
2. Research (seed variety development).
3. Technical and extension services.
4. Production – seed cotton.
5. Primary marketing.
6. Processing – cotton lint, cotton seed, oil, etc.
7. Final marketing (of cotton lint, including export).
8. Quality control.
9. Price setting.

In this setting the performance of the sector depends on both domestic and external factors (e.g. Ahohounkpanzon and Allou, 2010; Baffes, 2004;

Bourdet, 2004; Cabinet Afrique Décision Optimale, 2010; Gergely, 2009; Kpadé, 2011; Saizonou, 2008; Yérima, 2005). We discuss the specific role of both of these sets of factors in what follows.

B External Factors

External factors include international forces that cause fluctuations in the global cotton price. Figure 5.2 displays monthly data on world cotton prices in US$ and CFA Francs (CFA), together with the CFA Franc/US$ nominal exchange rate over the period 1980–2017. The figure also displays the real producer price, which we obtain by dividing the nominal price by the consumer price index (CPI). The co-movement between the nominal and real price series is strong (0.65). Therefore, the rest of the discussion will be focused on the nominal series.

The data show that variations in both the nominal exchange rate[7] and the US$ value of world cotton prices have caused great fluctuations in the CFA Franc value of the cotton price. In the second half of the 1980s, in 2001–2002, and in 2004–2009, for instance, the US$ value of cotton prices exhibits a declining trend, amplified by a persistent appreciation of the CFA Franc. We briefly discuss the causes of these fluctuations in the world US$ cotton prices. Thereafter, we elaborate on their impact on domestic cotton supply and the welfare of producers.

1 Understanding the Fluctuations in World Cotton Prices

Fluctuations in the world US$ price of cotton are caused by both demand and supply forces (see, e.g. Janzen et al., 2018). The impact of world supply operates through the action of subsidies in some leading cotton-producing countries, the USA in particular. For instance, FAO (2004) argues that world cotton prices would have been 10–15 percentage points higher in the absence of the subsidies to cotton producers in big producing countries. In value terms, the effect of subsidies amounts to a loss of about US$150 million in the export earnings of West African cotton-producing countries (Tschirley et al., 2009). In 2003, a number of these African countries (Benin, Burkina Faso, Chad, and Mali) submitted a case to the World Trade Organization (WTO) to request the elimination of such subsidies by the Organisation for Economic Co-operation and Development (OECD) and financial compensation. Following discussions at the WTO, the USA removed around 15 per cent of its subsidies to the cotton sector, but did not provide any direct compensation.

On the demand side, fluctuations in world cotton prices are explained by variations in global demand and by the development of substitutes in the form of synthetic fibres. The role of synthetic fibres in the global market has grown

[7] Except for the 1994 devaluation in the CFA Franc, the variations in the currency mainly reflect movement in the French Franc (prior to 1999) and the Euro (after 1999), to which the currency has been pegged.

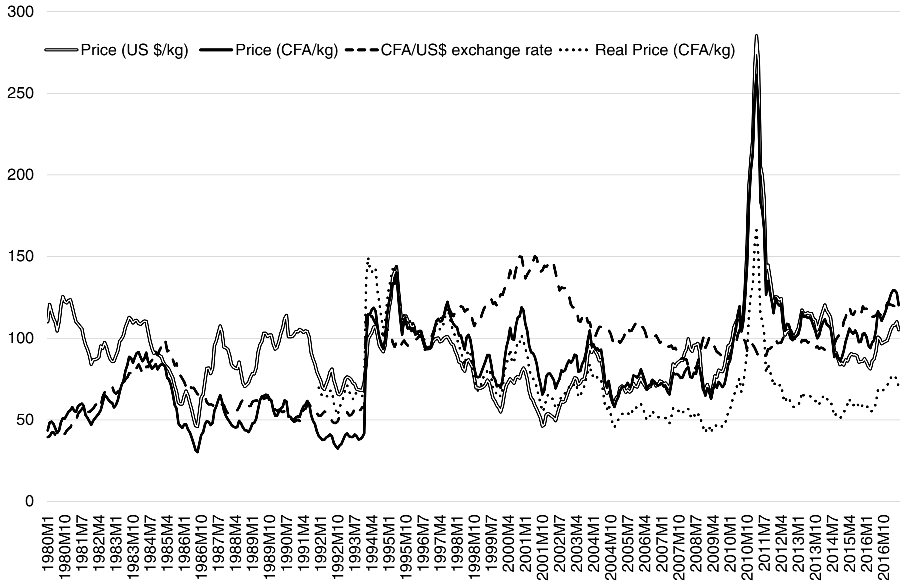

FIGURE 5.2 World cotton price and the CFA Franc/US$ exchange rate (1996=100)
Source: Authors' calculations based on International Monetary Fund (IMF) commodity database and IMF internal financial statistics. Real price in CFA Francs is obtained by normalising the nominal price by CPI. Due to missing data we were not able to construct the real price before 1991M12. After the CFA/kg were constructed all series were transformed in indices worth 100 in base year 1996. The real series starts from 1991M12 because of missing information on CPI prior to that date.

considerably over the past decades (see Baffes, 2004; Krifa and Stevens, 2016). In particular, the share of cotton fibres in the world market of textile fibres shrank considerably from 70 per cent to below 30 per cent between 1960 and 2014, due to the marked decrease in the relative price of synthetic fibres (see Figure 5.3b below). For Benin and other West African countries, this new factor calls into question the sustainability of any long-term development strategy grounded primarily in the cotton sector. However, in absolute terms there is no decline in cotton fibre. We come back to this issue in Section V.

2 *Welfare Impact of Cotton Price Fluctuation*

Farmers are sensitive to the price of cotton, especially because cotton requires more labour effort and other inputs than other crops.[8] A number of studies

[8] For instance, Minot and Daniels (2005) report that cotton is 15 per cent more labour intensive than the area-weighted average of other crops analysed in their study on Benin (maize and cassava, cowpeas, groundnuts, sorghum, millet, yams). Moreover, the cultivation of cotton requires 23 per cent more hired labour per hectare than the average of other crops.

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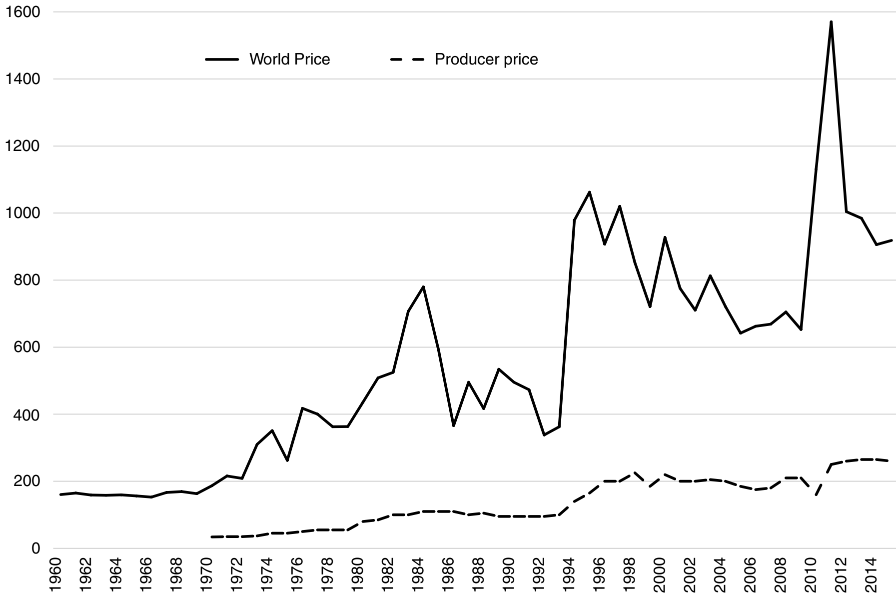


FIGURE 5.3a World and Benin producer prices of cotton (CFA/kg) and rolling correlation coefficients of the prices
Sources: Authors' calculations based on data derived from several sources. The original world price of cotton comes from the World Bank and has been converted into CFA Francs with the exchange rate series obtained from World Development Indicators. The producer price series comes from Baffes (2007) prior to 1980, Kpadé (2011) from 1980 to 2009, and INSAE for the remaining period.

find a positive response of the supply of seed cotton to production price and a positive effect of higher prices on producers' welfare in Benin (e.g. Alia et al., 2017; Gergely, 2009; Hugon and Mayeyenda, 2003; Minot and Daniels, 2005; World Bank, 2004). For instance, Alia et al. (2017) report price elasticities of the cotton supply ranging from 1.3 to 2.6.[9] In a related study, Minot and Daniels (2002) find that a 40 per cent reduction in the producer price of cotton results in a 6–8 per cent increase in rural poverty.[10] Moreover, they estimate the multiplier effect of cotton: national income would be reduced by US$2.96 for each US$1 decrease in the income of cotton farmers.

These micro-economic findings are in line with the aggregate data reported in Figures 5.3a and 5.3b. First, Figure 5.3a shows a strong co-movement between the world price and the producer price, although the strength of the

[9] Moreover, the authors estimate the cross-price supply elasticity related to alternative crops to cotton (maize, millet, sorghum and related crops, rice, yam, cassava and other tubers, beans and related crops, and peanuts and related crops) in the range of –0.28 to –0.39%.

[10] The baseline poverty incidence is estimated at 40 per cent.

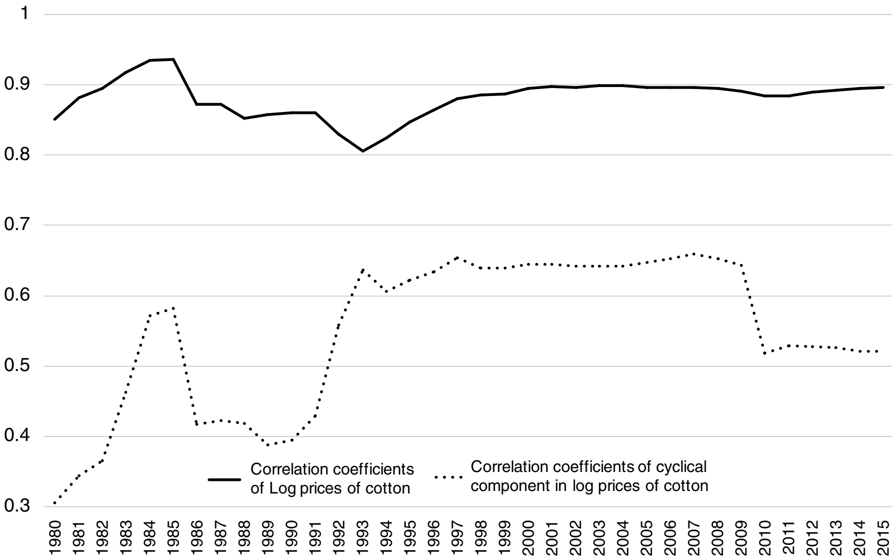


FIGURE 5.3b World and producer prices of cotton (CFA/kg) and rolling correlation coefficients of the prices

Sources: Authors' calculations based on data derived from several sources. The original world price of cotton comes from the World Bank and has been converted into CFA Francs with the exchange rate series obtained from World Development Indicators. The producer price series comes from Baffes (2007) prior to 1980, Kpadé (2011) from 1980 to 2009, and INSAE for the remaining period. The correlation coefficient value for 1980 is obtained using information from 1970 to 1979. The correlation coefficients for the cyclical components are based on de-trended series using the HP filter where the value of the smoothing parameter is set to 100.

correlation is less pronounced before 1992 when the statistics are based on the cyclical component of the two prices. We elaborate later, in Section III, the producer price-setting rules. Second, following the drop in cotton prices observed during the years 2001–2009, both the output and the surface of land planted in cotton have declined significantly in Benin and Burkina Faso. However, Benin displayed a much larger negative response, suggesting that country-specific factors may also explain the behaviour of cotton supply.[11] Conversely, cotton supply increased sharply in the same countries following a strong increase in the US$ price and the devaluation of the CFA Franc in 1994.

[11] During the years 1984–1993, the continuous appreciation of the CFA Franc also contributed to low cotton prices, yet this did not prevent cotton supply from rising perceptibly, not only in Benin but also in Burkina Faso. This again suggests that other factors than producer prices have been at work.

C Domestic Factors

There are three main domestic factors affecting the performance of cotton: climatic risks, technical skills, and the quality of institutions. Climatic risks are exogenous and cannot be directly acted upon. Cotton supply depends on specific climatic conditions across the growing cycle: the length of the rainy season, dry spells, flooding periods, temperature, and solar radiation (e.g. Blanc et al., 2008). The role of climatic risks is not systematically discussed in this chapter. Technical skills depend on training and experience and will also not be discussed further here. But the role of institutions is of special interest to us. These include the type of coordination of the different functions in the supply chain and the specific rules and regulations that are involved.

There are two views regarding the required type of coordination in the cotton value chain: the French view and the World Bank view. The French view is based on the strategy developed by the Compagnie Française pour le Développement des Fibres Textiles (CFDT), a French parastatal company that modernised the cotton sector in the former French colonies of Africa. It advocates a vertical integration of the value chain through a single channel (a monopoly/monopsony) from farmers to ginnery companies and input suppliers. Moreover, the chain controls research activities for variety development, which are linked to extension services. In addition, it is in charge of promoting stable producer prices. After independence, the CFDT entered into joint ventures with African governments and the single channel was maintained. In the mid-1980s, when world cotton prices collapsed, subsidies from governments and money from donors were used to rescue the African cotton companies.

The World Bank view assumes that (state) monopoly is less efficient because of excessive public employment and political interference (e.g. Baffes, 2007). Such a monopoly can also be blamed for excessively taxing farmers who receive a rather small share of the world cotton price. Hence, allowing competition should decrease this tax and stimulate the supply of cotton. The view of the World Bank, also supported by the IMF, was dominant in the 1980s and was enforced through the structural adjustment programmes in many African countries in the 1980s and 1990s.

Conceptually, it is hard to say a priori which of the two modes of coordination would generate a better performance for the cotton sector, because each of the approaches has its advantages and disadvantages. For instance, while competition can boost producer prices, it typically implies higher coordination costs in a weak institutional environment characterised by imperfect credit markets, asymmetrical information, and weak contract enforcement. In a system where ginneries provide input credit to farmers, competition will encourage side-selling[12] to cotton-buying competitors, discouraging credit supply by final

[12] 'Side-selling is the sale of seed cotton to a buyer other than the company that provided the producer with inputs on credit during the production season' (Poulton et al., 2004).

buyers, thus causing inefficiencies in the input segment of the supply chain. By contrast, whereas a monopoly maintains a lower producer price, it will achieve a higher degree of coordination and better limit the side-selling problem. Hence, it is shown that the organisation of the value chain implies a trade-off between competition and coordination (e.g. Tschirley et al., 2009). A recent empirical analysis by Delpeuch and Leblois (2014) confirms this trade-off. They find that African cotton producers in a competitive system achieve higher yields but lower acreage and production, whereas in a regulated system of the CFDT type lower yields but higher acreage and production are observed. On a related point, Baffes (2007) argues that taxation of farmers has been reduced as a result of the liberalisation and privatisation of the cotton sector in Benin and many other African countries.[13,14] Figure 5.3a also shows that the world price of cotton is much higher than the producer price, but we currently lack relevant and consistent information to discuss the underlying factors behind the difference.

Finally, there is also a debate about the mode of coordination among producers. For instance, should access to technical and agricultural services be organised at the individual or the farmer group level? Should production and input decisions be taken at the individual or the famer group level? Related to access to input and credit, a joint liability approach is used in the cotton sector of Benin and other West African countries. The joint liability approach may create, however, free-riding problems, which will generate inefficiencies in a weak contract enforcement environment. Farmers often report this free-riding problem in West African countries (Benin, Burkina Faso, and Mali), as evidenced by Thériault and Serra (2014). Theoretically, it is difficult to predict the efficiency of the farmers who report the problem. For instance, inefficient farmers may report the problem more if they are afraid that their relatively low level of production will not make it enough to cover credit at reimbursement time. In this case, their assets may have to be seized in order to repay the loan. In the same way, efficient farmers may also report the free-riding problem because they have to pay for those who fail to repay their loans. Thériault and Serra (2014) argue that producers who report more problems with the joint liability feature are more inefficient in a sample of West African countries (Benin, Burkina Faso, and Mali).

III HISTORICAL BACKGROUND OF COTTON IN BENIN: 1641–1960

A Pre-colonial Period to 1949: Private Mode of Organisation

The origin of cotton in Benin dates back to the pre-colonial period. Cotton was produced in the northern (Atacora–Donga and Alibori–Borgou departments)

[13] However, Benin represents a special case as regards the timing and nature of these liberalisation programmes, as we will discuss in the rest of the chapter.

[14] The idea of taxation of African farmers goes back to Bates (1981).

and central (Zou–Collines departments) regions of the country, and the raw cotton was entirely processed by the local artisanal textile sector (D'Almeida-Topor, 1995; Manning, 1980, 1982).[15] Map 5.1 shows that the Alibori–Borgou departments easily dominated cotton production. Moreover, the data reported in Figure 5.4 show that the central region, which was the second most important contributor to cotton production in the 1970s and 1980s, has declined considerably over time. In fact, the level of cotton production (not reported) has increased in the northern region, while it has decreased in the central region.

The northern region has a dry climate whereas the central region has a humid climate. A humid climate is less favourable to cotton production and this partly explains the decline in cotton production in the central region (e.g. Ton, 2004). In particular, the producer cost of cotton is relatively high in that region, for example because farmers would need to consume relatively more pesticide to protect cotton from diseases. As a result, farmers switch more frequently to alternative crops when the relative producer price of cotton decreases (and/or the relative cost of cotton increases, or when the quality of input deteriorates). On the other hand, the support of development aid projects is one possible explanation for the increase in the production in the northern region.[16] We will elaborate on these points later (Figure 5.4).

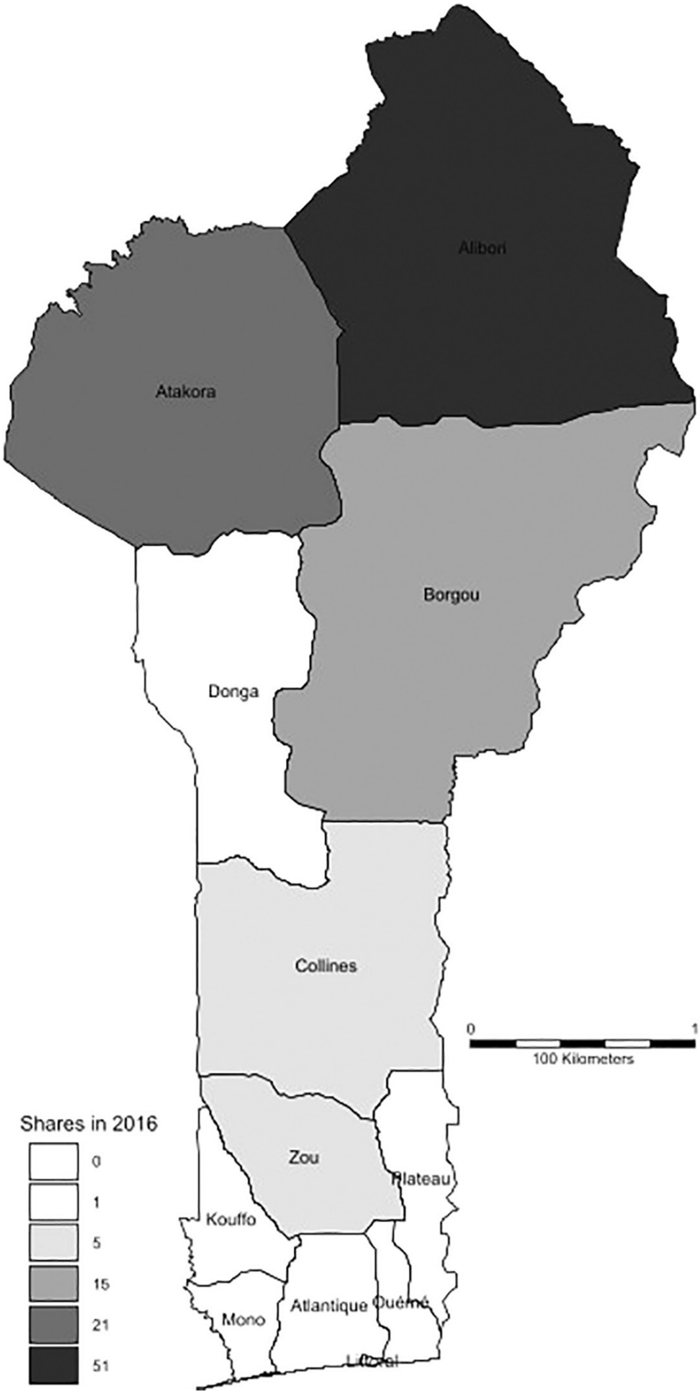
During the colonial period (1894–1959), French entrepreneurs encouraged the production of cotton with the purpose of supplying cotton to their textile industries in France.[17] They developed two main strategies, which seem to be still relevant today (Kpadé and Boinon, 2011 and Manning, 1982): (1) introduction of new varieties of the Barbadense family of cotton to improve productivity; and (2) promotion of small-sized farming (in order to limit labour movement).[18]

[15] Before 1999 Benin was divided into six departments: Atacora, Atlantique, Borgou, Mono, Ouémé, and Zou. In the 1999 reform each of these six department was divided into two departments, such that the country now includes twelve departments, as displayed in Map 5.1: Atacora has been split into Atacora and Donga; Atlantique into Atlantique and Litoral; Borgou into Borgou and Alibori; Mono into Mono and Couffo; Ouémé into Ouémé and Platteau; and Zou into Zou and Collines. Because of these changes it is difficult to trace the production of specific departments before 1999. Thus, when we refer to information related to Borgou department (before 1999) in the text we have in mind that this information also includes the Alibori department.

[16] There was also a project in the central region, but it seems that more efforts were put into developing the northern region. For instance, in the 1980s and 1990s there were more projects for cotton development in the northern area.

[17] Cotton was also encouraged in other former French colonies at that time. French entrepreneurs were motivated to do this because of difficulties in importing cotton from the USA (Fok, 1993 and Kpadé and Boinon, 2011). For this purpose, they created the Association Cotonière Coloniale (ACC), which had a representative in each of the colonies. Emile Poisson was the representative for Benin at that time (D'Almeida-Topor, 1995 and Manning 1980, 1982).

[18] In addition, farmers were coerced to produce cotton with the help of the colonial administration.



MAP 5.1 Share of the main cotton-producing areas, 2016 (per cent)
Sources: Authors' calculations based on DSA.

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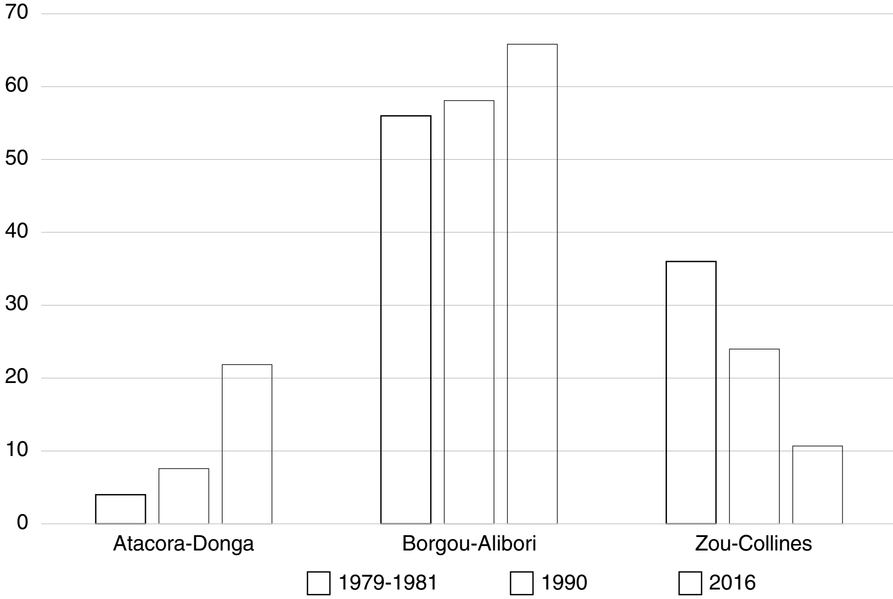

FIGURE 5.4 Share of the main cotton-producing areas, 1979–2016 (per cent)
Sources: Authors' calculations based on data from Kpadé (2011), Benin (1994), and Direction de la Statistique Sociale (DSA).

In this context, ginneries were built in the central area (in Savalou and Bohicon) in order to process raw cotton.[19]

The market structure of the cotton industry in this period was thus decentralised and potentially competitive, with the private sector in charge of the main activities, including marketing and processing. Following these efforts cotton production improved and exports to France began around 1904[20] (Manning, 1982). The two ginneries were upgraded in 1924 (Savalou) and 1924 (Bohicon). However, the sector's development was still marginal around 1926[21] (Figure 5.5). One problem was the low producer price compared to other crops (coffee, cacao) that were subsidised by the colonial authorities. Moreover, due to several market imperfections that characterise Africa's rural areas, the market-based mode of coordination did not ensure efficient provision of inputs and agri-services to farmers (Kpadé and Boinon, 2011).

[19] The construction of the first ginneries in the central region can be explained by the relative proximity of that region to the port of Cotonou, through which cotton lint is exported to France. The fact that the colonial power settled first in the central region before the northern region could be an additional reason.

[20] 1904 coincided with the period when Benin became a member of the Afrique Occidentale Française (AOF), the federation of the eight French colonial territories in West Africa (Benin, Burkina Faso, Côte d'Ivoire, Guinea, Mali, Niger, Senegal, and Togo).

[21] The Great Depression (1929) and World War II (1939–1945) also caused volatility in exports.

FIGURE 5.5 Cotton exports, 1903–1960 (tonnes)
Source: Authors' calculations based on data from Manning (1982) and Kpadé (2011). The original data obtained from the two sources did not coincide in several periods. The data reported here are a simple average of figures from both sources. Data are missing in 1942–1944 due to World War II.

B 1949–1960: Private Mode of Organisation but Regulated by the French Government

The modern development of the cotton industry came after the CFDT[22] was created in 1949 to take over the management of the cotton industry in the colonial territories. A research body, the Institut de Recherche du Coton et des Textiles Exotiques (IRCT), was established with the aim of developing higher yield varieties of seed cotton in support of CFDT activities. These changes occurred in the context of a new strategy initiated by France to develop its colonies after the Brazzaville conference. The strategy was based on development plans that were designed for each territory and financed by a French organisation, Fonds d'Investissement pour le Développement Économique et Social (FIDES). In Benin, FIDES financed two development plans in 1946–1952 and 1953–1960 (Manning, 1982; Sotindjo, 2017).[23]

[22] In 2001 the CFDT became Développement des Agro-Industries du Sud (DAGRIS).
[23] The plans supported the development of agriculture, industry, infrastructure, and other public services. In agriculture, palm oil was promoted as well.

In terms of organisation of the cotton industry, the CFDT promoted a single chain running from farming to exporting activities. In particular, the CFDT wielded monopsony power for the purchase of seed cotton from farmers and monopoly power for the supply of inputs, primary processing of seed cotton, and marketing of cotton lint. Typically, farmers would obtain inputs on credit before sowing, and they would pay this back in the form of seed cotton after production was realised. The CFDT also supported the acquisition of equipment by farmers and it provided them with technical and extension services. In addition, it encouraged the production of high-quality seed cotton by offering a price premium. The producer prices were set on a pan-territorial basis and announced before the sowing season. The CFDT bought the whole harvest from the producers at the announced price. In order to process the growing production, two new ginnery factories were built in 1955 in Borgou (Kandi) and in Atacora (Djougou).[24] Exports also improved, as can be seen from Figure 5.5.

IV UNDERSTANDING THE PERFORMANCE OF THE COTTON SECTOR IN BENIN: 1961–2016

A 1961–1970: A Private Mode of Organisation but Regulated by the Newly Independent State

This period immediately following independence (in 1960) was characterised by political instability.[25] In line with the economic policy of the previous period, two development plans were implemented, covering the periods 1961–1965 and 1966–1970. These plans were largely financed by the French government through its development fund Fonds d'Aide à la Coopération (FAC), which replaced FIDES in 1959. The European Commission's special fund for development, Fonds Européen de Développement (FED), also contributed to the financing of the development plans in Benin.

After independence, many rules and decisions were enacted to organise the agriculture sector.[26] As the political context was characterised by a growing

[24] In September 1955 a stabilisation fund, the Caisse de Stabilisation des Prix du Coton de la Fédération de l'AOF (CSPC), was created to jointly manage the producer price in the francophone cotton-producing colonies in West Africa. CSPC set the producer price and was managed by the general government of AOF, based in Dakar. It was financed from cotton revenue, but also from subsidies received from the French textile marketing board (Fond de Soutien des Textiles). When AOF ceased to exist in 1958, CSPC was replaced in September 1959 by a new regional stabilisation fund (the Caisse de Stabilization Inter-Etats du Coton), which from then on was jointly managed by the West African francophone countries. We currently lack additional details on these funds.

[25] There were many coups d'état that toppled several governments. For details see the Appendix to this chapter, Chapter 1, and Akindes (2016).

[26] Other agricultural products, especially palm oil, were supported as well. For this purpose, the parastatal organisation Société Nationale pour le Développement Rural du Dahomey (SONADER) was created in 1961 to take over the management of agricultural production

nationalist movement that had started during the colonial period, the new government started to promote parastatal companies and national players in various activities of the economy. For instance, a registration card was introduced to regulate the primary marketing of seed cotton.[27] In the same way, there was a rule limiting exports of raw cotton, so that it could be processed inside the country.[28] A national stabilisation fund, the Fonds de Soutien des Produits à l'Exportation (FS),[29] was established in 1961 to protect agricultural exports when world prices became lower than the operating costs (producer price, processing costs, and transportation cost). FS was financed by export revenue and subsidies. Taxes were charged on all export products.[30]

The IRCT introduced a new high-yielding variety of cotton (Hirsutum) to replace the existing one (Barbadense). This was done in the northern region in 1962 and later, in 1965, in the central region (World Bank, 1972, 1978). While the two varieties were still produced in the country, the government issued a provision (August 1965) to regulate their distribution. More specifically, the rule imposed that the two varieties should be commercialised separately and on different days in pre-defined local markets. In addition, two qualities of seed cotton were explicitly defined: high-quality cotton (*1er choix*), obtained from the current agricultural season and possessing attributes of homogeneity, whiteness, cleanness, and dryness; and low-quality cotton (*2ème choix*). Appointed controllers were charged with the task of identifying the quality of cotton offered for sale by any operator in the local market.

The price of high-quality seed cotton was determined on the basis of the processing price of cotton lint from the past year. A forecast was then made regarding the processing cost for the next cotton season, but the quality of these estimations was only indicative. As for the price of low-quality seed cotton, following a proposition by FS, it was fixed by the government at a given ratio to the price of the high-quality product. This price-setting rule was thus not based on

in the country. Another parastatal organisation, the Office de Commercialisation Agricole du Dahomey (OCAD), was created in 1962 to take over the management of the other components of the supply chain for these products (primary marketing, transport, processing, and export).

[27] We currently lack information on how the collection was organised before independence.

[28] Specific decisions were also taken as regards farmers. In June 1962, for instance, the government introduced a law imposing collective land for agriculture (*champs collectifs*) in each village in Benin. The idea was that groups of village farmers would join forces to generate income that would be used to finance local infrastructure. Besides these collective lands, however, farmers cultivated their individual land. Similar practices of local public goods financing were imposed by the colonial authorities through the organisations Société Indigène de Prévoyance (SIP) in 1929 and the Sociétés Mutuelles de Développement Rural (SMDR) in the 1950s.

[29] The FS was initiated in parallel with the regional fund CSPC, because the price support was seen to be insufficient for a number of cotton growers who followed illegal routes to export their production to neighbouring countries (United Nations Economic Commission for Africa, 1962).

[30] The lowest tax was applied to cotton (CFA Franc 0.010 per kg), whereas the highest was applied to groundnuts (CFA Franc 0.75 per kg). For palm oil products, the tax amounted to CFA Franc 0.10 per kg.

any consideration related to the growers' production costs. Each year, FS transferred this price information to the government for announcement to the public.

In the meantime, the Société d'Aide Technique et de Cooperation (SATEC) and the Bureau pour le Développement de la Production Agricole (BDPA – created in 1950), two other French parastatals,[31] were established in central Benin (in the Zou and Collines departments) and the north-western area (in the Atacora and Donga departments), respectively, to take over the extension and technical services and the marketing of seed cotton (Sotindjo, 2017; World Bank, 1969). If the CFDT concentrated on the north-eastern area (in the Alibori and Borgou departments) for the realisation of these activities, it continued to be the main organisation for the processing and exporting of all the cotton produced in Benin.

To expand its cotton sector, Benin received support from the FAC and the FED during the period 1963–1970. However, most of the funding was directly handled by the French agencies. The CFDT concentrated its efforts on the Borgou–Alibori department and SATEC concentrated on the central region. The project financed one government ginnery factory in Parakou in the Borgou department in 1968. Furthermore, the IRCT continued its research activities in relation to high-yielding varieties in the stations of Mono and Parakou. As a result, between 1961 and 1969, production and acreage increased from 2,482 tonnes and 20,608 ha to 23,959 tonnes and 31,884 ha, respectively.[32] Concurrently, yields increased from 1,204 hectogram per hectare (hg/ha) to 7,514 hg/ha over the same period.

Six cotton-processing factories, representing a total capacity of 60,000 tonnes, operated in Benin around the end of the 1960s (World Bank, 1972). This points to a serious problem of over-capacity, since total production in the country was about 24,000 tonnes of seed cotton in 1969. The CFDT owned four of these factories, two of which were located in the central region (Bohicon and Savalou) and two in the northern region (in Kandi and Djougou[33]). The government owned the two remaining factories: one in the south-west (Mono) and the other in the north (Parakou). Through an agreement with the government, the CFDT managed the ginnery in Parakou, in addition to the four factories under its ownership. SONADER operated the second government ginnery in Mono. Formally, the agreement with the government stipulated that the CFDT was not allowed to purchase seed cotton from producers in the Mono region. However, it remained in charge of the export of all cotton lint processed in Benin, including the product processed by SONADER in the Mono region. In 1969, however, the responsibility for cotton exports was shifted from the CFDT to OCAD.

[31] The French parastatals are locally known in Benin as *Sociétés d'Intervention*.

[32] The major increase, however, took place after 1966, when the project's operations really started (see Figure 5.1a). The delay was due to administrative and technical difficulties (World Bank, 1969). These problems were partly related to the political instability at the time.

[33] The ginnery in Djougou become defective sometime in the 1960s or 1970s.

B 1971–1981: A Public Mode of Organisation Regulated by the Marxist–Leninist Government

The positive impulse of the 1960s continued its effect till 1972, when seed cotton reached a peak of 49,590 tonnes (Figure 5.1a). Thereafter, production started declining, from 1973, and reached a low level of 14,134 tonnes in 1981. We now detail a number of events that coincided with this poor performance of Benin's cotton sector in 1973–1981.

While the French parastatals (CFDT, SATEC, IRCT) contributed significantly to the development of the cotton sector in 1963–1972, their mode of operation was criticised on a number of points (World Bank, 1970). For instance, the parastatals were blamed for their high operational costs, and for their single-crop development strategy, which ignored food crops and did not apply an integrated rural development approach in the areas of intervention. Moreover, the nationalist movement continued to grow, with the consequence that there was rising pressure to reduce foreign influence. In particular, the revolutionary government that took power in October 1972 promoted the ideas of 'self-reliance' and food self-sufficiency. Consequently, Beninese rural regional development agencies, known as the Centres d'Action Régional pour le Développement Rural (CARDERs), were promoted in the years 1969–1975, with a view to developing each department. This decision was taken in parallel to the creation in January 1971 of a national cotton agency, the Société Nationale Agricole pour le Coton (SONACO), charged with the development of the entire cotton sector in the country.

In order to further expand the cotton sector, however, foreign assistance was necessary because the country lacked technical skills and financial resources. In this context, a new project was implemented from 1972 onwards, jointly financed by the government (24.5 per cent), a grant from the FAC (27.5 per cent), and credit from the International Development Association (IDA) for the remaining 48 per cent. A primary objective of this project was to develop the activities of the newly created agency (SONACO), which was intended to progressively take over the management from the CFDT and SATEC of all activities in the cotton sector: technical and extension services, supply and distribution of inputs, processing, and marketing.[34]

An important condition imposed on SONACO was that it should work in collaboration with the three French parastatals already operating in the cotton sector: SATEC, IRCT, and CFDT. In a first phase, it was expected

[34] Other activities of the project included the creation of a fund to provide credit for inputs and equipment, the construction of two additional ginneries, and the rehabilitation of rural roads to facilitate the transport of cotton from the fields.

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that SONACO would concentrate on the management of the procurement of inputs and the agricultural fund. In addition, SONACO would contract with the CFDT and SATEC (the former for the north and the latter for the central region) to manage the project at the regional level (distribution of inputs, technical and extension services, transport, marketing). Moreover, through a joint venture with the government, the CFDT would manage all the cotton ginneries in the country. A similar joint venture between the CFDT and government cotton agency was successfully created in other francophone West African cotton-producing countries. Finally, it was expected that the IRCT would pursue its research and development activities in relation to higher-yielding seed varieties.

The project should have started in 1970, but serious institutional problems caused delays so that it was implemented only from January 1972.[35] In the beginning (1972), funds came from the FAC and the Government of Benin. As for IDA, it delayed its intervention until April 1973 because of institutional hurdles. In particular, SONACO unilaterally decided to take over direct control of the extension services in the field, in violation of the initial agreement to contract those activities to CFDT and SATEC. Furthermore, skills shortages and management problems at the top level of SONACO were a hindrance to the project's smooth unfolding. Also, with a new government coming to power (on 26 October 1972) there came big changes in the staffing of the government agencies. All these unforeseen changes increased uncertainty; hence the decision by IDA to postpone the disbursement of its funds. In the end, IDA's decision was proved to be the right one because the cotton sector performed very poorly from that time onwards (see Figure 5.1a).

There are many reasons for the collapse of the cotton sector. First, SONACO was unable to adequately develop field activities, especially input supply and distribution. In particular, procurement problems (problems with the licensing of suppliers and non-transparent competitive bidding) caused delays in the delivery of inputs to farmers. Moreover, inputs were left unprotected in the port of Cotonou and their quality deteriorated after they had been exposed to the rain. There were also problems in the delivery

[35] Project preparation started in 1967 and its implementation should have started earlier, in 1970, but political instability, characterised by many government changes, caused delays in its definition and approval. The rule of Colonel Christophe Soglo, who seized power through a coup in November 1965, was interrupted by a coup executed by Colonel Maurice Kouandoté on 17 December 1967, then followed by another military coup, this time at the initiative of Colonel Alphonse Alley on 21 December 1967. Alley organised a general election, the results of which were not validated, and Dr Émile Derlin Zinsou was finally appointed as the new president in July 1968. Thereafter, a new coup was executed by Kouandoté in December 1969, followed by a new general election in 1970, which was again contested. Thereafter emerged the triumvirate system of government first led by Hubert Maga (May 1970 to May 1972), then by Justin Ahomadégbé (May 1972 to 26 October 1972), and finally by Mathieu Kérékou. After Kérékou took power, several administrative bottlenecks delayed the effective start of the project till April 1973.

of ploughs. Furthermore, there were issues between producers and extension staff of SONACO, who were collectors of seed cotton at the village level. In particular, taking advantage of the illiteracy of the growers, some collectors tampered with the amount of cotton submitted by growers. All these problems were amplified when the CFDT and SATEC were forced to leave the country in 1974, when the regime adopted a Marxist–Leninist ideology and put more emphasis on food crops. This is where Benin differs fundamentally from other francophone West African countries. As a consequence of these problems, farmers turned away from cotton, especially in the central region of Zou–Collines, and they started to produce more maize for the Nigerian market, where demand noticeably increased following the first oil shock. This period marked the decline of cotton production in the central region that we highlighted earlier.

Changes in the other segments of the supply chain also compromised the performance of the sector. For instance, the fact that OCAD took over export activities from CFDT had the effect of reducing the quality of cotton lint exported by Benin. The Société de Commercialisation et Crédit Agricole du Dahomey (SOCAD) replaced OCAD in 1972, and it also took over management of the stabilisation fund FS. The change did not, however, improve the situation and the agencies continued to suffer from weak management problems. All these issues led the government and the donor to prematurely end the project around 1975.

There were, however, three main positive outcomes from the project, which also affected the sector later on. First, one additional government ginnery (with a capacity of 18,000 tonnes) was constructed in 1972 in the central region (Glazoué). Second, the research unit IRCT developed new high-yielding varieties (although in 1973–1980 their effects on cotton yield were nullified by the disruption of inputs and extension services): BJA SM 67 and 444–2–70. Third, and most fundamentally, village groups of farmers known as Groupements Villageois (GVs) were promoted in 1971 to take on some responsibilities in the cotton supply chain. GVs do not use collective asset ownership (land and equipment), and neither do they practise common production; instead, they merely coordinate within their group the distribution of inputs and the primary marketing of seed cotton. For inputs, a joint liability system known as *caution solidaire* was introduced whereby farmers in each GV are jointly responsible for input credit to be recovered at the time of the primary marketing of cotton. As regards primary marketing, village collection centres were created where each GV sells its seed cotton jointly to the collector. The project introduced this change in order to counter the tampering with the amount of seed cotton by some collectors. For this purpose, the project initiated a training programme to develop GVs' skills in cotton weighing, as well as their literacy skills. GVs were paid for their involvement in the primary marketing, and revenue generated from that activity (*ristournes*) was invested in rural infrastructure, such as schools, wells, and health centres.

After having adopted a Marxist–Leninist ideology in 1974, in 1977 the government initiated two new types of farmers' groups. One was the Groupement Révolutionnaire à Vocation Coopérative (GRVC), which is similar to the GV in terms of asset ownership and production organisation, but it produces food crops in addition to cotton. Moreover, GRVCs promote production en bloc of the members' plots and a high degree of centralisation of extension services. Second, the government promoted collectivist cooperatives known as Coopératives Agricoles Expérimentales de Type Socialiste (CAETS) and Coopératives Agricoles de Type Socialiste (CATS).[36] Over time, however, CAETS and CATS did not succeed because they were not able to attract the most efficient producers (see, e.g. Yérima and Affo, 2009). Moreover, there were mismanagement problems.

The Marxist–Leninist government also introduced institutional changes in the other steps of the supply chain of cotton. In 1976 SONACO was replaced by a new parastatal, Société Nationale d'Agriculture (SONAGRI), and the responsibilities of the latter also included the management of inputs for food crops. In particular, SONAGRI was assigned the activities related to processing and input supply in the cotton chain. In contrast, extension services were from then on transferred to the development agencies, CARDERs. In the same period SOCAD was renamed Société Nationale pour la Commercialisation et l'Exportation du Bénin (SONACEB) in 1976 and a new stabilisation fund, the Fonds Autonome de Stabilisation et de Soutien des Prix des Produits Agricoles (FAS), was created in the same year. Following these additional changes, cotton production deteriorated further, from 30,654 tonnes in 1974 to a very low level of 14,134 tonnes in 1981. Moreover, the financial accounts of the government agencies (CARDERs, SONAGRI, and SONACEB) continued to be problematic.

Around the end of 1977, however, the government took a renewed interest in cotton and called upon the support of donors. As such, a technical assistance programme was implemented in 1977–1981 to prepare new development projects. The assistance programme was financed by IDA (50 per cent), FAC (31.25 per cent), and the government (18.75 per cent).

C 1981–1991: Public Mode of Organisation – Government Agencies Restructured and Reorganised

In 1981–1991 the cotton sector recovered strongly, as can be seen from Figure 5.1a: seed cotton increased almost eightfold over the period. This outcome was the result of four new projects that were developed by the government in collaboration with five donors (IDA, Banque Ouest-Africaine

[36] In the strategy developed by the government, GRVCs were expected to become CAETS at village level, which would themselves become CATS at commune (district) level. In practice, however, CAETS and CATS did not succeed and only GVs and GRVCs have survived today.

de Développement (BOAD), Caisse Centrale de Coopération Economique (CCCE),[37] the International Fund for Agricultural Development (IFAD), and the Organization of Petroleum Exporting Countries (OPEC)).

The projects strengthened the capacity of the cotton sector at both the national and regional levels. At the national level, they helped in restructuring and reorganising the existing government agencies in the cotton sector. As such, in 1983, FAS, SONACEB, and SONAGRI were replaced by a single new organisation, Société Nationale pour la Production Agricole (SONAPRA), which became responsible for the management of input supply[38] as well as the final marketing of cotton. In addition to these institutional reforms, the government increased producer prices from around CFA Francs 80 in 1981 to CFA Francs 100 in 1982–1984, and to CFA Francs 110 in 1985–1986.[39]

At the regional level the projects helped in strengthening the capacities of the CARDERs and the producer groups. In this respect, the first project concentrated on the Borgou region (1981–1988), the second targeted the Zou region, and the third focused on the Atacora region (1983–1988). Finally, the fourth project was a follow-up of the first project in the Borgou region (1988–1991). Hence, the most productive Borgou region received more support, which contributed further to the development of the region.

In 1981, the government transferred to the CARDERs all activities related to the transport and processing of cotton, although these functions were formerly under the responsibility of SONAGRI and should therefore have been passed on to SONAPRA. In addition, the CARDERs continued to manage extension services and the primary marketing of cotton, in collaboration with the GVs. Women's groups were also promoted for the first time during this project. For extension services, a training and visit (TV[40]) system was introduced in the fields. The projects supported the training of the CARDERs' staff and the GV members, which facilitated input delivery and the provision of extension services to farmers. Moreover, the projects supported the acquisition of equipment by farmers and the construction of rural roads.

Following these institutional changes and the producer price incentive that was provided during the period, cotton production increased substantially

[37] The CCCE is the French development cooperation agency, which holds a share in the CFDT. The CCCE became the Caisse Française de Développement (CFD) in 1992 and the Agence Française de Développement (AFD) in 1998.

[38] The input supply was managed through a procurement system with international bidding. We do not currently have details about the firms that were assigned the import of input supply.

[39] It seems that the government reduced subsidies on inputs during that period, but it is currently difficult to check this information.

[40] TV is a management method for organising extension services in a way that establishes a personal relationship between an extension agent and a farmer. The extension agent regularly visits the farmer (every one or two weeks) to provide advice on any matter related to the activities in the production cycle. Unsolved problems are reported back to the extension service for advice or research to find solutions.

from 14,134 to 88,098 tonnes in 1984, surpassing for the first time the ginnery capacity of 72,000 tonnes. From then, production further increased to 132,762 tonnes in 1986. In 1987, however, the sector experienced a crisis that caused production to regress to 70,203 tonnes. The crisis had to do with three main issues. First, Figure 5.2 shows a strong decrease in the US$ value of the world cotton price and a deep depreciation of the US$ in 1984–1986. As a result, the CFA Franc value of export revenue of the cotton sector depressed. Second, weak financial management by SONAPRA and the CARDERs combined with the continued support of the producer price value of CFA Franc 110 led to a depletion of resources of the stabilisation fund in 1985. In this context, the further decrease in world cotton prices that occurred in 1986 could no longer be absorbed by the stabilisation fund without external funding, because the government itself was also experiencing financial problems. The misallocation of the stabilisation fund included excessive pre-financing of the working capital of CARDERs, and transport and other logistics by SONAPRA to manage the excess production of cotton. Moreover, the debt of SONAPRA and the CARDERs with respect to the banking sector and external suppliers stood at about CFA Franc 7.6 billion. The cotton sector was therefore bankrupt in 1986.

In order to resolve this situation, a restructuring programme for the cotton sector was implemented in 1987–1991. The programme was executed by the government in collaboration with four donors (IDA, CFA, IFAD, and BOAD) within the framework of the second Borgou project, where money was provided to absorb the debt of SONAPRA and the CARDERs. An important condition imposed by the donors on the government in this restructuring programme was that external technical assistance should be mobilised to assist in the management of cotton agencies. The CFDT was thus called to provide technical and managerial assistance to SONAPRA and the CARDERs. The programme included three main reforms. First, the management of ginnery factories was transferred from the CARDERs to SONAPRA. As such, SONAPRA gained control of the main activities of the cotton sector and the CARDERs were left with the status of SONAPRA subcontractors, to manage field activities. From then on, the cotton sector became integrated around the monopoly SONAPRA, as was the case with the CFDT before 1972. A similar change occurred in other former francophone exporters of cotton, but Benin was different because unlike those countries the CFDT had no ownership share in SONAPRA. This was the case because the CFDT was forced by the Marxist–Leninist regime to leave the country in 1974.

Second, the stabilisation fund became the Fonds de Stabilisation et de Soutien des Prix des Produits Agricoles (FSS) and was passed on to an independent management committee. Moreover, the producer price-setting rule was reformed to include a price floor, which was announced by the government before the sowing season around April. The determination of the price floor was based on an opaque rule that took into account the financial viability of the whole cotton sector. If the export price exceeded the cost (producer price and other costs of the cotton sector) in a given year, the margin was distributed in the next year among producers, SONAPRA, the FSS, and the government, according to a pre-defined sharing rule. There were, however, some problems with the implementation of this new rule. In particular, the determination of the price floor was not transparent. Moreover, the price floor was not directly related to the world cotton price, such that the FSS was not always able to stabilise strong adverse price shocks. In any case, the government reduced the producer price from CFA Franc 110 to CFA Franc 100 in 1987 in order to contribute to the financial viability of the system. Moreover, input and seed distribution were limited to the high-yielding regions in 1987. As a consequence of these two measures, seed cotton production reduced considerably in 1987.

Third, various reforms were initiated to strengthen the administrative and financial procedures of SONAPRA and the CARDERs. For instance, internal audit units were established in these agencies in order to regularly check their financial viability. In the same way, administrative and accounting procedures were put in place to manage their invoicing systems. Furthermore, working capital was provided to SONAPRA and the CARDERs.

Following these reforms, the sector's performance improved significantly. For instance, the reorganisation of the government agencies helped in reducing operating costs and the export marketing procedure (World Bank, 1995). Cotton production surged from 70,203 tonnes in 1987 to 177,123 tonnes in 1991.[41] In the same way, the GVs' revenue increased from their participation in primary marketing, which they used to further finance local infrastructure. The promotion of women's groups may also have increased their voice in matters related to rural development in the cotton-producing areas. One of the first careful micro-economic analyses of the 'impact' of these reforms in the Borgou region claims that women gained the most from these changes, because they were previously less involved in the cotton value chain (Brüntrup, 1997).

The sector realised this performance despite the fact that world cotton prices continued to decline over the period. However, it was not clear whether without the second Borgou project the sector would be able survive a similar crisis in the future. Hence discussions started between the government and the main donors to privatise and liberalise the cotton sector. The context was also characterised by a structural adjustment programme that began in 1989 and the political transition towards a democratic regime with the national conference in February 1990. A new constitution was adopted in the same year and a market economy was re-established. Hence, a new institutional framework for

[41] In the meantime, two ginneries were constructed for SONAPRA in Borgou to address the under-capacity problem: one in Banikoara and the other in Bemberekè. These were financed by IDA and CCCE.

the agriculture sector was elaborated in the Lettre de déclaration de politique de développement rural (LDPDR) by the government in June 1991, after Soglo won the first presidential election in April 1991.[42] The LDPDR stipulated that the government should transfer the main functions of the supply chain to the private sector (primary and final marketing, supply and distribution of inputs, and processing).

D 1992–1999: Public Mode of Organisation under Liberalisation of Inputs and Ginnery Functions

Following the LDPDR, Benin began the liberalisation of the cotton sector in 1992 under the Soglo regime, which ruled the country till 3 April 1996. A gradual approach was taken. First, the input function was gradually liberalised in 1992–1995. Second, the private sector was licensed to operate in the processing component, starting from 1995. Third, the government initiated a broader agricultural restructuring project, the Projet de Restructuration des Services Agricoles (PRSA), in 1992–1999. PRSA aimed to promote a better quality of agricultural services by the private sector in the context of structural adjustment programmes that prescribed the reduction of government in various sectors of the economy. In the framework of PRSA many extension agents of the CARDERs were fired. In order to strengthen the capacity of the producers to take over new responsibilities in the sector, the Fédération des Producteurs du Bénin (FUPRO-Benin) was created in 1994 as the national professional trade union of the GV (Wennink et al., 2013). The project was supported by seven donors: the Danish International Development Agency (DANIDA), FED, AFD, the German Technical Cooperation Agency (GTZ), IFAD, the United Nations Development Programme, and BOAD.

The liberalisation of the input component proceeded gradually from 20 per cent in 1992 to 100 per cent in 1995. In 1992–1994 SONAPRA was responsible for the residual shares of input supply. The details of the liberalisation were as follows:

1. In 1992 20 per cent of input supply and distribution was attributed to the private firm Société de Distribution Internationale (SDI), of which Talon was a major shareholder.
2. In 1993 the share of SDI increased to 40 per cent.
3. In 1994 60 per cent was attributed to the private sector, now to be shared among two firms:
   - SDI obtained 50 per cent; and
   - a new firm, Société Africaine de Management, d'Affrètement et de Commerce (SAMAAC), entered with 10 per cent, but it seems that it collaborated with SDI.

[42] The first parliamentary election took place in February 1991.

4 In 1995 100 per cent of input supply was transferred to the private sector, as follows:
   - SDI (46 per cent), SAMAAC (15 per cent), Société des Industries Cotonnières du Bénin (SODICOT; 15 per cent); Société Générale pour l'Industrie et le Commerce (SOGICOM; 8 per cent); and Fruits et Textiles (FRUITEX) Industries (16 per cent).

The selection procedure of these firms for the input supply was done by SONAPRA according to its procurement system, which was limited to Beninese firms in the liberalisation process.[43] Why did the government not allow foreign firms to compete directly with domestic firms? There are suggestive indications that the procurement and licensing procedures were not totally transparent. For instance, in a recent open letter in 2018, the then president Soglo argued that he took the cotton activities from the CFDT and assigned the input supply activities to a group of ten entrepreneurs, including Benin's current president Talon.[44] Moreover, in 1992, SDI received the inputs from SONAPRA directly and it only reimbursed SONAPRA for them afterwards (Yérima and Affo, 2009). It is also interesting to see that the number of firms increased greatly in 1995. We do not yet have a clear understanding of why this happened. However, 1995 was the year of the second parliamentary election in Benin and it is possible that the competition to win that election could be related to the one to enter the input market.

In addition to these reforms, the CFA Franc value of the world cotton price improved following the rise of the US$ value of the world cotton price and the CFA Franc's 50 per cent devaluation in 1994 (Figure 5.2). Figure 5.2 shows that the producer price also increased over the period, but the gap between the two series became wider over the second half of the 1990s.[45] Following these changes, cotton production continued its increase further after 1991 and reached a high value of 430,398 tonnes in 1996. The improvement in cotton production was such that Benin outperformed Burkina Faso in 1993–1996, and there was an under-capacity ginnery problem in 1994.

Note, however, that this improvement in cotton production was primarily driven by land extension. In particular, while yields increased in 1993, they declined in 1994 and followed a declining trend till 1998. Several explanations can be provided for declining yields in that period. First, the result could be due to the price effect of imported inputs following the CFA Franc devaluation. As the price of inputs increased, producers were likely to reduce their input consumption and this could have potentially caused yield to decrease. Second, this outcome could relate to liberalisation having reached more farmers and hence

[43] Only the declining residual share was procured by international firms.

[44] See details of the letter in Soglo (2018).

[45] The devaluation also made the inputs more expensive in CFA Franc terms, but we do not have the necessary information to further pursue this analysis here.

the observed increase in land area. If the newcomer farmers were less efficient in cotton production or if they applied the cotton input for other crops, average cotton yields would have decreased. Third, the new private input suppliers could have been less efficient in managing and distributing inputs, causing delays in supply inputs or supplying a lower quality of inputs.

After President Kérékou took power on 4 April 1996, the number of private firms that obtained a licence to distribute inputs in the cotton sector further increased to eleven in 1996 and twelve in 1998. It is possible that this increase was related to the competition for the presidential election of 1996, in the sense that the Kérékou regime wanted to compensate some entrepreneurs for their support in winning that election. In the absence of clear evidence, this remains speculative, however. In any case, the quality of inputs deteriorated after the number of private firms increased in 1997–1998. Part of the explanation is that some of the newcomers were less efficient. We further elaborate on other institutional causes in what follows. We first discuss the liberalisation of the processing component.

In order to address the under-capacity problem of the processing factories, the Soglo regime initiated a liberalisation in 1995, when three new private ginnery factories of 25,000 tonnes capacity each obtained their licence to operate in Benin: ICB at Pehunco (Atacora), CCB in Kandi (Borgou), and SOCOBE in Bohicon (Zou). These three private factories are known as *first-generation* (of the liberalisation period) ginneries.[46] They were granted preferential treatments by the government in a number of areas. First, they obtained a preferential investment code regime (*régime* C), which grants 100 per cent tax exoneration on profit and an exoneration of duty on imported equipment and intermediate inputs for about seven years. Second, according to a regulation SONAPRA buys seed cotton from farmers and sells it to the private ginneries. This implies that SONAPRA supported part of the risk that should normally be taken by the producers and the private ginneries. Third, the amount of seed cotton to be allocated to the private firms should be proportional to their ginnery capacity and the total seed cotton production. Fourth, SONAPRA contributed 35 per cent to the capital of each of these three private ginneries. Applying this preferential treatment created problems in the future when the number of gin factories increased.

In 1997–1998, the Kérékou regime granted licences to the *second generation* of ginnery factories. Their total capacity ranged from 40,000 to 60,000 tonnes. These included three new factories for SONAPRA (one ginnery in Bohicon in the Zou department and two ginneries in Parakou[47] in the Borgou department) and five new private factories: Industrie Béninoise d'Egrenage et des Dérivés du Coton (IBECO) in Kétou (Patteau); Label Coton du Bénin (LCB) in Pouipnan (Zou); Société d'Egrenage Industriel de Coton du Bénin

[46] It seems that the current President Talon was the owner of these three gin factories.

[47] One of the new factories replaced the old government ginnery in Parakou.

(SEICB) in Savalou (Collines), Marlan's Cotton Industry (MCI) in Nikki; and SODICOT in Ndali (Borgou). This gives a total of eighteen gin factories, of which ten were owned by SONAPRA and the remaining eight were owned by the private sector. With these new gin factories in business, there was again over-capacity, with a total capacity of 442,500 tonnes compared to a production of 377,370 tonnes. In 1998 the gin capacity further increased to 587,500. The management of this over-capacity problem has been a major issue facing the Benin cotton sector.[48]

Following these changes, production started on a declining trend from 1997 onwards. The decrease in 1996 and 1997 was not systematically related to the producer price, which did not decline. The producer price even increased from 1997 to 1998, despite the fact that the world price marginally decreased (Figures 5.2 and 5.3a, b). This implies that an alternative factor was responsible for the decrease in cotton production. A number of governance problems coincided with this poor performance. We first briefly discuss the change in producer prices and later elaborate on the factors behind the decline in cotton production. In April 1996 the FSS was replaced by the Office Nationale de Stabilization et de Soutien des Prix aux Producteurs (ONS) and a new price-setting rule came into effect. The new rule took into account the world price of cotton and also explicitly defined a margin for each of the main actors along the supply chain: producer; input supply and distribution, and ginnery factories.

As regards governance issues, the cotton sector experienced two conflicts in 1996–1997. The first conflict involved the government and the first generation of gin factories. In 1995 the private ginnery factories accumulated a lot of profit given the high production of cotton processed, but also because the CFA Franc devaluation implied a high value of the world cotton price in CFA Franc, but producer prices only marginally increased.[49] Given, however, that the firms were granted a preferential tax regime, an agreement was reached between the government and the firms that the latter would exceptionally contribute to government revenue in that year in the amount of CFA Franc 35 per kg of cotton processed. In compensation for this contribution, the agreement stated a decrease in the share of the government in the capital of those firms from 35 to 10 per cent. When the Kérékou regime came in 1996, the preferential tax treatment for these firms was reversed and the government wanted firms to continue to make the CFA Franc 35 per kg contribution. The firms contested this in the judicial court (as well as the Constitutional and Supreme Courts) and when they won the Kérékou government's action was reversed.

[48] For details on ownership and geographical locations of the gin factories, see Fludor Benin (2012) and Honfoga et al. (2019).

[49] A lower producer share price following the CFA Franc devaluation was also observed in other West African countries. It was criticised and fuelled further pressure for reforming the cotton sector in these countries (e.g. Badiane et al., 2002, Baghdadli et al., 2007).

The second conflict started in 1997 and related to issues between SONAPRA and the first private input providers (SDI and SAMAAC). The issues led SONAPRA to exclude these two companies from the input procurement in 1997. Following this decision SDI and SAMAAC brought the case to the judicial court (and the Supreme Court), where they won. In addition, SONAPRA had to pay fines to these firms, but an agreement was reached between the two parties. The agreement stipulated that SDI and SAMAAC would take 50 per cent of the input supply. This decision was applied from 1998 onwards and it contributed to further conflict, because the other suppliers were left with a lower amount of input to be supplied; they contested this rule. This situation led to increased problems in the input component: higher price of input, lower quality of input, and delays in the distribution of inputs (e.g. Bidaux and Soulé, 2005).

In order to resolve the problems, a number of actions were taken to privatise the management of the cotton sector. In 1998, for instance, the producer organisation FUPRO created the Coopérative d'Approvisionnement et de Gestion des Intrants Agricoles (CAGIA) for the management of input quotas between private firms, to which the government transferred the management of input supply and distribution in 1999. Other professional associations were created in 1999: the Association Professionnelle des Egraineurs du Bénin (APEB) for ginners, and AIC for the management of the whole supply chain.

E 2000–2007: Private Mode of Organisation by AIC

The important rules of privatisation were decided at a national workshop in May 2000, which saw the participation of the sector's representatives. The seminar decided between two modes of private governance for cotton: (1) a unique private and vertically integrated mode of organisation at the country level; and (2) a private integrated mode of organisation at the regional level. Stakeholders decided in favour of the first mode. Moreover, a number of rules were put in place, such as fixed prices for inputs and cotton seeds across the whole country.

In June 2000 the government suspended the monopoly of SONAPRA on primary marketing, but the latter continued to manage its ten ginneries. Primary marketing was thus passed on to the Centrale de Sécurisation des Paiements et de Recouvrement (CSPR), which played a key institutional regulatory role in achieving the recovery of input loans to farmers and the payment of cotton seeds purchased by ginners. A development project funded by the World Bank, the Projet d'Appui à la Réforme de la Filière Coton (PARFC), was implemented in 2002–2007 by the inter-professional cotton association (AIC) to strengthen its capacity. One important change in this period was the fact that AIC started to manage the critical[50] functions of the cotton's sector, including

[50] The other critical functions include research for new variety development; quality control; production and distribution of cotton seed; statistical data production; and rural road maintenance.

technical and extension services that were previously under the responsibility of the CARDERs. It was also in this context where the CARDERs had to fire many workers as required by the PRSA. As a result, AIC had to recruit private extension agents, which had to join forces with the remaining CARDERs' technical staff to do the extension work.

It is striking that this period of intense organisational change did not have any effect on cotton production. Moreover, conflicts emerged among the actors starting from 2002–2003. For instance, farmers complained about expensive input prices. In the same way, a number of private firms contested the outcomes of the input procurement procedure, whereas some ginneries found fault with the quotas of cotton seeds. As a result, they boycotted the AIC–CSPR–CAGIA system and started parallel activities. For instance, the dissident distributors attracted some farmers by proposing lower prices than those the official system was offering. However, the quality of the output delivered was not properly monitored. Likewise, the quality of privately supplied inputs could not be guaranteed and producers frequently complained that they were cheated in this regard. The ground was laid for a genuine crisis in the cotton sector. In particular, a lot of confusion was generated by the plurality of input sources and output outlets, and a number of farmers and ginners became severely indebted as the CSPR could no longer track their activities. The cotton sector in Benin thus experienced the side-selling problem discussed in Section II. As a consequence, the system encountered delays in payments, which discouraged farmers. Many of them turned away from cotton production, which was depressed in 2005. The GV also experienced conflicts. The joint liability performed poorly and farmers also complained about poor financial management by their leaders. Another issue experienced by the sector was poor extension services, because there were coordination problems between the private extension agents recruited by AIC and the ones that used to work in the CARDERs. The private agents also lacked technical skills. In fact, all the critical functions faced serious problems during that period.

The government's reaction consisted of stepping in to finance the debt shortfall. Moreover, it introduced in 2006 institutional reforms to strengthen the professional associations. The producer organisation became the Conseil National des Producteurs de Coton (CNPC) and was limited to cotton producers, in contrast to the old FUPRO; the association of the input distributors became the Conseil National des Importateurs et Distributeurs d'Intrants Coton (CNIDIC); CAGIA was replaced by the Centrale d'Achat des Intrants Agricoles (CAI); and, finally, the organisation of gin factories was replaced by the Conseil National des Égreneurs (CNEC). Furthermore, the government adopted a framework agreement (*accord-cadre*) in 2006 with AIC, but with no significant effect on the sector's performance.

In April 2007 the newly elected president (Boni Yayi) dissolved the agreement with AIC and an ad hoc Commission Nationale was established to manage cotton inputs. Moreover, the government allowed SONAPRA in that year to compete for input supply with private firms. This decision was surprising given that SONAPRA was already excluded from these activities.

F 2008–2012: Private Mode of Organisation and Privatisation of SONAPRA

In 2008, the industrial assets of SONAPRA were privatised and a new group, known as the Société de Développement du Coton (SODECO), was created to take over these assets after several problems in procurement management became manifest in 2006–2007. A first attempt to privatise the assets of SONAPRA failed in 2004–2005. The second also failed in 2007 due to problems involving a violation of the regularity procedure. SODECO was created as a joint venture between the government, accounting for a share of 66.5 per cent, and a private company led by Talon, accounting for the remaining share of 33.5 per cent.

In 2008 the government granted another licence for a new ginnery factory, SCN, in N'dali (Borgou), adding a capacity of 40,000 tonnes, despite the fact that the processing component was already experiencing an over-capacity problem. In 2009, a new framework agreement was signed between the government and AIC.

Overall, the domination by Talon's group further increased in the sector because it merged with the majority of gin factories to create the ICA group. Consequently, the sector came under the control of a private monopoly. The government continued, however, to intervene in the sector. Moreover, the new organisational changes failed to improve the situation in Benin's cotton sector. Yields and the cultivated area remained low.

G 2012–2016: Public Mode of Organisation Is Back

In April 2012 an international commission reported serious management problems by AIC. The problems included an over-estimation of the value of input supplied in the field, under-estimation of seed cotton submitted at gin factories, and mismanagement of government subsidies. Hence, the government cancelled the agreement signed in 2009 with AIC and a public mode of organisation took over its management. An inter-ministerial commission assumed the responsibilities of AIC, and SONAPRA and ONS were the main operational organisations. This new public management remained in place till April 2016, when President Boni Yayi finished his term. During this period the cotton sector continued to suffer, however. One positive change perhaps was a strategy introduced to check input consumption in the field. The national statistics institute went into the field with GPS to check accurately the size of land area of cotton in order to verify the input consumption requested. Several times discrepancies were found, and the additional money was recovered. This system continues to be implemented today.

H 2016–Present: Private Mode of Organisation Remains

In May 2016 President Talon re-established AIC after he was voted into office in April. An audit requested by the Talon government reported several mismanagement problems in the public governance of the cotton sector in 2012–2016. The new regime abolished around ten agricultural government agencies, including SONAPRA, ONS, and the CARDERs. Moreover, it initiated a broader reform agenda in the agricultural sector, where nine new regional development agencies were created. In addition, the government abolished subsidies to the cotton sector.

During the institutional survey developed for Chapter 3, the experts were not enthusiastic about these reforms.[51] Since 2016, however, seed cotton production has been increasing, according to data published by Benin's Government[52] (451,124 tonnes in 2016, 597,397 tonnes in 2017, 678,000 tonnes in 2018, 714,714 tonnes in 2019, and 728,000 tonnes in 2020). These figures suggest that the sector has been improving since 2016. The data presented in reports by PR/PICA also confirm this improvement in 2016–2018. The available information from AIC and INSAE indicates that the recent improvement can be explained by increases in both yields and acreage. Other this period (2016–2018) the producer price has not changed. As a result, this recent improvement in production, yields, and acreage could be related to changes in the organisation and the management of the sector by AIC and the government.

It is too early to further elaborate on the recent performance, as we currently lack systematic and consistent information in this regard; we therefore leave this analysis for future research. Gérald Estur, an expert who is familiar with the issues Africa's cotton industry is facing, argued in May 2019 that this recent improvement in Benin's cotton performance is related to changes in the management of the sector since the new government took power over the last three years. According to the expert, the changes have helped to restore trust among the stakeholders in the sector. The changes include a vertically integrated coordination approach by the government, timely payment of cotton growers, and efficient delivery of inputs.[53]

V CONCLUDING REMARKS

The cotton sector presents a unique opportunity to understand the causes and consequences of institutional changes in Benin over a long historical period.

[51] During the survey the experts had to provide a score between a value of 0 (strongly negative opinion) and 4 (strongly positive opinion) on questions related to institutional performance. In addition, respondents were allowed to reply with 'I do not know' when they could not provide relevant answers to a question. The average score related to the reform in the agricultural sector was around 2 and 23 per cent of respondents either reported a neutral opinion or did not answer the question. See Chapter 3 for more detail.

[52] See this link for details: www.gouv.bj/actualite/1243/evolution-production-coton-10-dernieres-annees-benin.

[53] See here for details: www.rfi.fr/emission/20190517-le-benin-nouveau-champion-coton-africain.

The sector has operated under different modes of organisation, oscillating between public and private monopolies over time, as summarised in Table 5.1. Initially, the cotton sector was managed by French entrepreneurs. From the end of the 1940s the sector came under the control of a French parastatal monopoly, the CFDT, which helped to modernise the sector with the support of development aid. In 1972, the Marxist–Leninist regime of Kérékou nationalised the CFDT, which was replaced by a number of government agencies. The system thus disintegrated, which increased coordination costs and resulted in poor performance. Thereafter, the sector entered a first restructuring period in the early 1980s and the government agencies were re-integrated into a single state agency, SONAPRA. Poor management problems and adverse world price shocks undermined the sector's performance in 1986. After another restructuring plan the sector started a liberalisation period in 1992, after the country achieved a successful democratic transition in 1990. In particular, a liberalisation plan was implemented in 1992–1998 and private Beninese entrepreneurs started operating in the inputs and ginnery components of the sector. Thereafter, the sector experienced a crisis from the late 1990s and an interprofessional association of private entrepreneurs, AIC, became responsible for the management of the sector in 2000–2006, but the government continued to play an important role. In 2007 a new government suspended AIC. Thereafter, SONAPRA was privatised in 2008 and a dominant private group emerged. AIC became responsible again for the sector in 2009, but new problems in the sector led the government to suspend AIC from 2012 until 2016, when AIC was again given the management of the sector.

What are the common causes of these institutional changes? What are the common institutional weaknesses in the cotton sector in Benin? What are their consequences for economic development in Benin? Can Benin develop a long-term development strategy based on cotton?

A Institutional Changes and Institutional Weaknesses: Causes and Consequences

There are a number of institutional weaknesses that can be derived from the foregoing analysis in the chapter: the discontinuity of regulations, reforms, policies, planned actions, or mandates of an organisation; the weak regulation of businesses (privatisation and liberalisation, licence management, financial management, accounting and auditing systems); weak capacity in public administration (including issues related to data management); vulnerability to world price shocks; excessive government and political interference; political appointments; overlapping responsibility; weak coordination; and imperfect credit markets, asymmetrical information, and weak contract enforcement. These weaknesses are potentially caused by rent-seeking; election and mass support; low technical and financial capacity; donors' ideologies and their interests; poor management of conflict of interest; the ideology of political actors; colonisation and national anti-colonial revolution; culture; weak campaign

TABLE 5.1 *Overview of mode of organisation of cotton across political regimes in Benin, 1960–present*

Periods	1960–1971	1972–1990	1991–1998		1999–2005	2006–2015		2016–present
Quick outlook	Post-independence	Revolutionary period	Onset of liberalisation		Liberalisation's rectification, cotton boom, and disastrous management	Dwindling private and public management, and last crash in the sector		Recovery of the cotton sector
Trends in cotton exports			Upward Trend	Downward Trend		Mixed upward trend		Upward trend
Successive presidencies	1960–1971	1972–1991	1991–1995	1996–2000	2001–2005	2006–2010	2011–2015	2016–
Presidents	Triumvirate*	Mathieu Kérékou	Nicéphore Soglo	Mathieu Kérékou	Mathieu Kérékou	Boni Yayi	Boni Yayi	Patrice Tallon
Approach of political control of the cotton subsector	Private oligopoly under spurious public control	Public monopoly under spurious collectivism	Embracing liberalisation and privatisation at the onset of democracy	Reconsidering privatisation, search for humanity in sectoral democracy	Political in-meshing and disastrous management of the cotton subsector	Enhanced private oligopoly and political interests in the cotton subsector	Strong clash between political interests and private benefits	Private mode of organisation under AIC
Export performance and sector's competitiveness								
Cotton exports (1000 US$)	2 193	22 416	98 800	162 990	160 716	135 347	216 895	

Source: Authors' calculations.

* The triumvirate (Maga, Apithy, Ahomadégbé) was disturbed by many military coups d'états: Alley, Zinsou, Kouandété, etc.

financing; power concentration at the executive level; and distortions caused by subsidies in the dominant world cotton producers. We will now elaborate on a few of these institutional bottlenecks.

1 Discontinuity of Regulations, Reforms, Policies, Planned Actions, or Mandates of Cotton Organisations

This characterises a situation in which a government abruptly overturns existing regulations, reforms, policies, or planned actions by the previous government, or re-assigns the mandates of organisations in the cotton sector. This type of institutional weakness has been common over the whole historical period. In 1972, for instance, the military regime unexpectedly reversed the agreed decision between donors and the previous government that SONACO would contract with CFDT and SATEC to manage field activities (distribution of inputs, technical and extension services, transport, marketing). In the same way the governance of AIC was sharply interrupted several times by successive governments in the period 2006–2016. Furthermore, SONAPRA suddenly re-appeared in input supply and distribution in 2007 and 2012–2016, whereas a regulation already excluded it from participating in these activities in 1995.

Several factors may cause this type of institutional bottleneck: for instance, the Marxist–Leninist ideology of the revolutionary regime of the 1970s, the pronounced anti-colonial revolution at that time, and rent-seeking by supporters of the regime may explain why CFDT did not continue to play a dominant role in the cotton sector in Benin, but instead SONACO and other newly created government agencies suddenly took over the responsibilities. In the same way, rent-seeking, weak campaign financing, and electoral institutions, as well as the poor regulation of businesses, that characterise Benin may promote business–politics clientelist contracts, as elaborated in Chapter 4, and this could potentially explain the conflicts that emerged following the liberalisation and privatisation of the cotton sector in the 1990s. The dominant power of the new actors in the cotton sector, the excessive power of the executive, together with weak campaign financing and electoral institutions, could in turn explain the fluctuation between the public and private types of governance that we have witnessed since the 2000s.

This institutional weakness causes an increase in uncertainty in the cotton sector and increases the cost of agricultural services and the quality of input required by the farmers. As a result, it will discourage the production of cotton and/or induce low yields, which in turn will undermine the welfare of producers.

2 Weak Capacity in Public Administration, Colonisation, Donors' Ideology and Their Interests

Donors, essentially France and the World Bank, have played a key role in the development of the cotton sector in Benin. The French colonisation and

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the interest of France in outsourcing its industries were the first explanatory causes of the development of the modern cotton industry in Benin. The French cotton institutions, such as the vertically integrated system of the value chain and the price stabilisation mechanism, initiated in the colonial period continue to persist today in Benin. Because the public administration of Benin has weak capacity, Benin requested the World Bank to join forces in developing the cotton sector further. The World Bank's view of the organisation of the value chain is a bit different from that of France, in that it promotes a competitive-type system. The World Bank's view has dominated in the institutional choices made for the management of Benin's cotton sector, because the Marxist–Leninist government undermined the French interests in the 1970s given the anti-colonial sentiment that was observed at that time. Moreover, the pioneering role of Benin in its democratic transition and market economy in francophone Africa further contributed to making Benin different in the liberalisation and privatisation process in the cotton sector in West Africa.

In the 1990s, however, the liberalisation and privatisation of Benin's cotton sector generated problems, as already explained. These problems then attracted more donors to the sector (Hougni and Moreira, 2019). If the new donors differed also in ideology as regards the organisation of the cotton sector, then the increase in the number of donors could be expected to have increased the coordination cost to manage the influx of aid in the sector, and also further contribute to the problems the sector experienced. In the absence of evidence for this, however, it remains speculative.

B Long-Term Development Issues

We end the analysis with a discussion of two issues. First, is the current mode of organisation of the Benin cotton sector the most welfare enhancing for the country? Second, should Benin still rely on cotton for its long-term development strategy?

On the first question, the current system of a national integrated value chain is certainly less efficient than the alternative of regionalisation in the management of cotton's activities. It is now clear why the former was selected at the national workshop in May 2000. The other francophone countries in West Africa (Burkina Faso, Côte d'Ivoire, and Mali) currently operate with a regionalisation system, although a pan-national pricing system is still in place in some of them. Perhaps one explanation for Benin's choice is because the system has created a dominant player that was afraid to lose power if the management were to be regionalised at that time, when the privatisation of SONAPRA had not taken place. The national integrated system is inefficient because cotton issues are being addressed in the same manner in the country as if the regional producing areas were the same. We know, however, that the regions are different. For instance, because the Zou–Collines region's climatic conditions generate humidity, more specific solutions should target that region. As a result, the research body should develop specific crop varieties that resist the specific crop diseases of each region, instead of imposing a unique crop variety for the whole country as is currently done. In a recent study, Hougni et al. (2016) show among seven varieties of cotton – E 944-2, E 956-2, H 769-5, H 782-3, I 875-3, K 768-3, and H 279-1 – that cotton-producing regions in Benin show significant differences in yield and production across these seven varieties. The pan-national pricing system of seed cotton and input cost is also inefficient, because farmers are spread across different geographical locations and the current system implies that some farmers are subsidised by others. The system is therefore more egalitarian because it transfers resources from farmers that are more productive to the ones that are less productive. Note, however, that the farmers that seem to be less productive are more likely to be located in the central region where the majority of gin factories are located. As such, it is not clear a priori how the system actually works, and a more in-depth study would be needed to shed light on the distributional aspect of the current system. A distributional analysis of the value-added across the different actors in the cotton sector is also needed, as we currently lack information for such an analysis.

With regards to the second question, the answer will depend on the conditions related to the world demand for cotton fibres if Benin were to continue to specialise in the export of this type of output.[54] The discussion presented in Section II suggests that in absolute terms the world demand for cotton fibre is continuing to grow. The question that thus arises is to what extent Benin is competitive in producing cotton fibre, allowing it to maintain its market share in the world market. Benin has a comparative advantage in producing cotton, certainly in the Borgou region, where the agro-climatic conditions are the most favourable. A number of studies also claim that Benin has a revealed comparative advantage in the production of cotton (e.g. World Bank, 2017). Ideally, we would like to compare consistent production costs across countries and over time, but we currently lack such data and we leave it for further research. Instead, we examine the market share of cotton exports in Benin and a number of comparator countries in Africa in the period 1995–2017 using data from the Observatory of Economic Complexity.[55] Overall, the market shares of the majority of countries started to decrease from 2015–2016. If this trend continues, then there is reason to worry about this issue. We will investigate this point further by including comparators outside Africa.

[54] The textile sector is currently less efficient, mainly because of electricity costs and excessive imports of second-hand clothes from Europe and Asia.

[55] For details see Honfoga et al. (2019).

Burkina Faso easily outperforms the other countries. Benin displays an average performance, although its situation improved significantly in the 1990s, but it deteriorated dramatically following the introduction of the AIC governance. The situation improved again in 2011–2015.

APPENDIX

- First elected president – Hubert Maga: 1 August 1960–24 October 1963.
- Coup d'état by Colonel Christophe Soglo, chef d'état major: 27 October 1963–January 1964.
  - New constitution 11 January 1963.
- Sourou-Migan Apithy became president after election: January 1964–November 1965.
- Coup d'état – military government took power: November 1965.
  - Sourou-Migan Apithy set back and Tahirou Congacou, president of the parliament, became president and ran a transition to a new government.
- Tahirou Congacou: 29 November 1965–22 December 1965.
- Coup d'état – General Christophe Soglo: 22 December 1965–16 December 1967.
  - Development project CFDT, SATEC.
  - Coup d'état by low-ranking officers.
- Coup d'état – Colonel Maurice Kouandété: 17 December 1967–21 December 1967.
- Coup d'état – Colonel Alphonse Alley: 21 December 1967–17 July 1968.
  - New constitution 11 April 1968.
  - New election 15 May 1968, for which the three regional leaders were excluded as candidates; in the election only 26 per cent of voters showed up.
  - Among the five candidates Adjou Moumouni obtained 84 per cent of the votes.
  - The results of the election were annulled.
- Alphonse Alley formed a new government in May 1968.
- The military regime appointed Emile Derlin Zinsou as the new president: 31 July 1968–December 1969.
  - But he accepted only on the condition that a referendum regarding his appointment be held. His candidacy was supported by 76.4 per cent of voters, with a 72.6 per cent turnout.
- Coup d'état by Colonel Maurice Kouandété: December 1969.
- Election in 1970, but the results were annulled because of an issue of low turnout during the election.
- Conseil Présidentiel was a triumvirate (Apithy–Maga–Ahomadégbé) system of government: 7 May 1970–26 October 1972.
  - Hubert Maga: 7 May 1970–May 1972.
  - Justin Ahomadégbé: 7 May 1972–26 October 1972.
- Coup d'état – Mathieu Kérékou: 1972–1989.

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Discussion of 'The Cotton Sector: History of a Capture'

Discussion by Véronique Thériault

Along with starchy staple crops, cotton dominates the farming landscape in West Africa. Cotton is primarily cultivated under rainfed conditions in rotation with maize, sorghum, and/or millet on small family farms that average fewer than ten hectares. Being the primary source of income for millions of smallholder farmers, cotton can help reduce poverty and improve food and nutrition security. As a main source of export revenue, cotton has wide-reaching implications for poor developing economies in West Africa.

The extent that cotton contributes to the socio-economic development of West African countries depends heavily on the economic performance of their cotton sectors. In turn, the incentive structure embodied in institutions influences the cotton sector's economic performance. Supportive institutions positively affect the ability of individuals and organisations to respond to new opportunities and challenges. Well-designed institutions provide incentives for individuals and organisations to invest, can limit the economic and political power of the elites, and create more economic equal opportunities for a greater share of the population (Acemoglu, 2003).

Over the last several decades, major institutional changes have been experimented with in West African cotton sectors, with the goal of increasing economic performance. These have included changes in social, political, and economic institutions, coming especially from market liberalisation and privatisation. With institutional changes come shifts in incentives and distributional power. These shifts have affected the economic performance of multiple West African cotton sectors, including those of Benin, Burkina Faso, and Mali.

West African cotton sectors compete in a highly competitive and global environment. Although cotton production and exports are key to their economies, West African countries play a relatively small role in the international cotton market compared to larger cotton producers and exporters, such as China, India, and the USA. As smaller players on the global stage, they need the ability to adapt to external forces (e.g. price fluctuations, tariffs, subsidies).

In addition, West African cotton sectors face internal constraints that can impede economic development, such as missing or imperfect access to inputs, financing, and insurance. Well-designed and implemented cotton-based institutions can help mitigate both external and internal challenges and support the socio-economic development of their countries.

Many institutional changes have occurred in the West African cotton sectors since achieving independence and a common goal has been improving economic performance. These changes can be grouped into four general periods: (1) contract with the French parastatal; (2) nationalisation of cotton gins; (3) implementation of market-oriented reforms; and (4) post-market reforms. Several indicators have been used to assess the economic performance of West African cotton sectors. These include production and yield; price; access to inputs, credit, and extension services; cotton quality; farm technical efficiency; research and development; export revenues; and profitability (Thériault and Serra, 2014; Thériault and Tschirley, 2014; Tschirley et al., 2009).

John R. Commons' institutional economic framework is well adapted to understanding the evolution in institutions and their related effects on economic performance (Thériault and Sterns, 2012; Commons, 1934). According to Commons' framework, actions to address limiting factors are the drivers of institutional changes. These actions have both intended and unintended consequences that affect economic performance, which in turn can lead to the advent of a new set of limiting factors. New sets of limiting factors resume the cycle of institutional change. Each institutional change generates a new incentive structure and affects power dynamics within the sector. Stakeholders are more likely to resist changes that would decrease their power.

I CONTRACT WITH THE FRENCH PARASTATAL (1960 TO MID-1970S)

Before the country's independence, the French parastatal, CFDT, had significant control over the cotton sectors in which it operated, managing farm input delivery and the grading and weighing of seed cotton, as well as exports. In return for its monopoly status, the French parastatal agreed to purchase all cotton production at guaranteed fixed prices announced before the planting season. During this period, production went up and the CFDT was profitable. However, much of the profits were retained by the French parastatal and little was reinvested in West Africa, and this impeded economic development.

II NATIONALISATION OF COTTON GINS (MID-1970S TO MID-1990S)

One of the major institutional changes corresponds to the end of the monopoly contract with the CFDT. To encourage economic development after independence, several West African governments nationalised their cotton sectors, which gave them control over the allocation of cotton export revenue. During this nationalisation period, cotton became a primary vehicle for boosting agricultural productivity and helped to promote integrated rural development (Thériault and Tschirley, 2014). Both cotton and cereal yields benefited from greater public investments. State-owned enterprises played an important role in developing and maintaining rural roads infrastructure, providing access to drinkable water, and reducing illiteracy. Yet, in the absence of strong institutions, greater power created incentives for rent-seeking behaviours and political interference. Farmers were still lacking a voice in decisions related to cotton activities. The combination of low farm-gate prices, mismanagement, and inefficiencies in ginning operations led to significant debts and discontent among farmers.

III MARKET-ORIENTED REFORMS (MID-1990S TO LATE 2000S)

In response to poor financial performance, donors started to push for market privatisation and liberalisation. The market-oriented reform process gave farmers the opportunity to better organise themselves to increase their voice within the cotton sector. Village-wide, multipurpose farmer associations were transformed into formal groups focused on cotton farmers. More responsibilities, such as the management of farm input credit, were transferred to them. Even though farmers, through their organisations, became more involved in management activities, their limited negotiation power in the determination of the price they received from the gins remained a limiting factor (Thériault and Sterns, 2012).

Market reforms were unevenly and partially implemented (Thériault and Serra, 2014). Benin made stronger attempts to privatise and liberalise its cotton sector than Burkina Faso and Mali. However, the establishment of several new cotton ginneries in Benin did not lead to increased competition, since the vast majority of them fell under the same, private rather than public, ownership. Despite the creation of new gins in Burkina Faso, the former state-owned enterprise continues to be the dominant player. After years of privatisation discussions, the Malian cotton sector remains managed by the state-owned enterprise, although it did undergo a change in management. Several factors can explain the uneven and partial implementation of the reforms, including resistance to change due to a loss of governmental power, as well as scepticism about the need for change and expected outcomes.

IV POST-MARKET REFORMS (LATE 2000S TO DATE)

In the post-market reform era, most efforts have been channelled towards increasing production. When world prices are high, increased production translates into greater export revenues. With greater export revenues, poor financial performance is less apparent, and therefore there is less push for market reforms. Cotton has been and continues to be produced under contract farming conditions, with guaranteed purchase of seed cotton at fixed pre-planting pan-territorial prices, and provision of inputs on credit. Both farm-gate and input prices have been key limiting factors to increased production. Price incentives, in particular through governmental fertiliser subsidies, have been used to encourage farmers to increase cotton production and productivity. But this has not always been enough to keep farmers content, as evidenced by the repeated farmer boycotts in Burkina Faso recently. After years of decline, Benin cotton production has been rising again over the last few years. This increase coincides with the arrival of the new president, who has a vested interest in the Beninese cotton sector (Honfoga et al., 2019).

The current economic performance of West African cotton sectors remains highly affected by institutional structure. There is a trade-off between competition and effective coordination (Tschirley et al., 2009). Effective coordination tends to facilitate the provision of services and improve the quality of cotton. Market competition tends to provide incentives for higher farm-gate prices and greater cost efficiency at the gin level. In more regulated cotton sectors, such as in West Africa, farmers are provided with extension services and inputs on credit, but receive lower farm-gate prices due to limited competition. The fact that no institutional structure performs unambiguously better across all performance dimensions can, in part, explain the abandonment of market reforms.

The institutional structure also affects the ability of cotton to spur food crop productivity (Thériault and Tschirley, 2014). This indicator has been the strongest in the regulated cotton sectors of West Africa. Direct and indirect pathways, through which state-owned enterprises have contributed to food crop intensification, include input provision and extension advice for food crops and agronomic spill-overs. Moving from a regulated to a more competitive market structure could have affected the food–cotton crop interdependence in West Africa, which may have threatened food security in the region.

Other limiting factors to the economic performance of West African cotton sectors include climate change, invasive species, low technology adoption, and lack of market influence. The increasingly erratic rainfall as a result of climate change has a detrimental impact on cotton production and productivity. The proliferation of counterfactual pesticides makes it more challenging to control for pests, while posing human, environmental, and financial risks to cotton farmers. With limited investment in agricultural research and development, West African cotton sectors are facing low and stagnant yields. Low adoption of technologies by farmers and gins results in low yields, limited traceability, and quality issues from contamination. With low processing capacity and domestic consumption, they are vulnerable to global development.

Moving forward, it is essential that any proposals to reform the West African cotton sectors take into account the institutional setting, such as the strong intertwined relationship between food and cotton crops, in order to avoid major discrepancies between expected and realised economic performance. Increasing farm productivity, while strengthening farmer resilience as well as ginning efficiency, is key to improving the economic performance of the West African cotton sectors. The promotion of regional integration is a viable approach for West African cotton sectors to increase their influence in the international market. Building strong institutions take times, but once built, they help to ensure that economic development occurs in an effective, accountable, and inclusive way.

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6

The Tax Effort[*]

A Comparison between Sub-Saharan Africa and Benin

Emilie Caldeira and Grégoire Rota-Graziosi, with Discussion by Nicaise Médé

1 INTRODUCTION

The 2015 Addis Ababa Conference highlighted the central role of domestic revenue mobilisation for financing development in the context of the Sustainable Development Goals. Improving tax revenue contributes not only to the financing of public spending, but also to reinforcing the accountability of the government (see Brautigam et al., 2009).

With a tax revenue to gross domestic product (GDP) ratio equal to 13.5 per cent in 2017 (IMF, 2018),[1] Benin remains below the West African Economic and Monetary Union (WAEMU) criterion of 20 per cent. Meanwhile, at the same date, Togo, a neighbouring country, managed to raise 18.3 per cent of its GDP in terms of tax revenue. Such a gap (between Benin and Togo) is not temporary, but seems to be lasting and has even increased in 2010–2015 (see Figures 6.1a and 6.1b).

Both countries inherited the same tax law, the French Tax Code, when they gained their independence – on 1 August 1960 for Benin and on 27 April 1960 for Togo. Both countries belong to the same customs and monetary union, WAEMU. The WAEMU Commission has produced several tax Directives, covering the main taxes (corporate income tax, value-added tax, excises, etc.), which aims to bring about tax harmonisation or coordination among the eight member states[2] (see Mansour and Rota-Graziosi, 2013). These Directives strictly limit any potential divergence of Beninese and Togolese tax laws after 1960. However, some

[*] We thank the participants of the Workshop Benin Institutional Diagnostic, which took place on 22 and 23 March 2019 in Grand Popo (Benin), for their fruitful comments.

[1] Total revenue, including tax arrears and telecommunications royalties, reached 15.4 per cent of GDP.

[2] The original member countries are Benin, Burkina Faso, Côte d'Ivoire, Mali, Niger, Senegal, and Togo; Guinea-Bissau became the eighth member on 2 May 1997.

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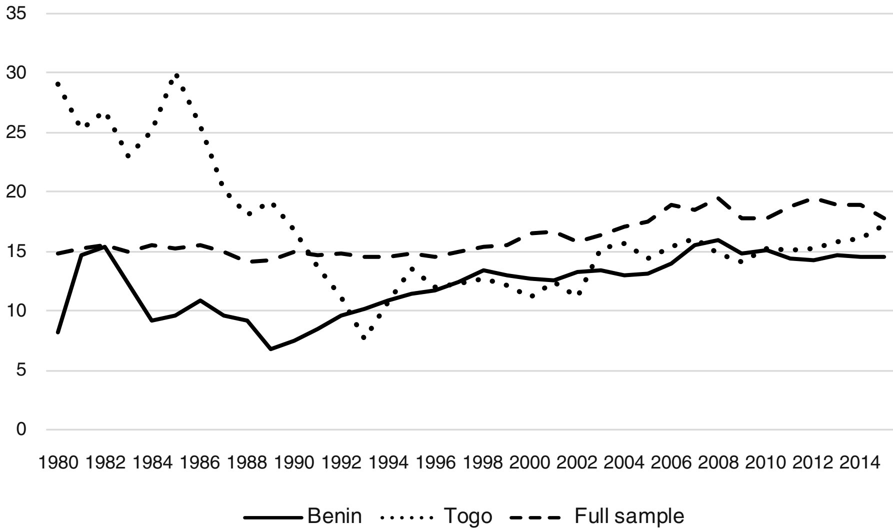

FIGURE 6.1a Share tax over GDP
Source: Authors' calculations.

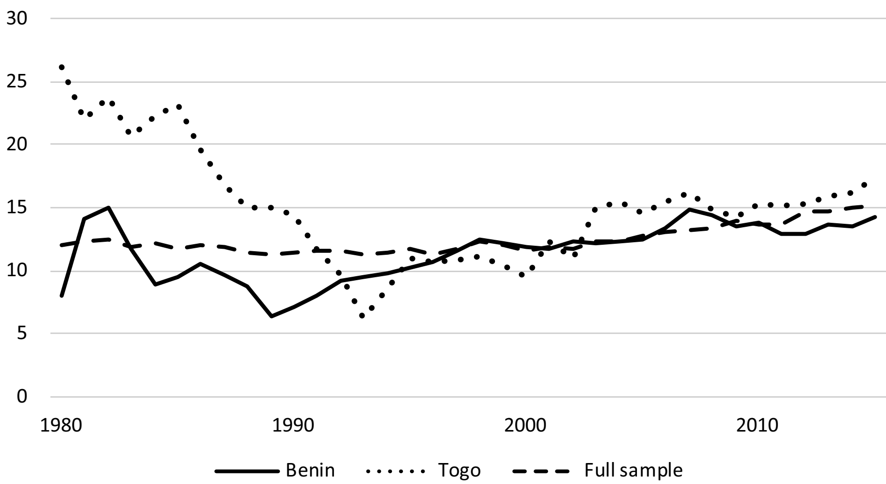

FIGURE 6.1b Non-resource tax over GDP
Source: Authors' calculations.

discrepancy may still emerge not only in the enforcement of these tax laws by the tax and customs administrations, but also as a result of the scope of derogatory regimes (for instance, the Investment Code) that generate tax expenditures.[3]

[3] Tax expenditures are tax revenue losses due to tax exemptions or tax rate reductions, for instance (see OECD, 2010). They may total 3–5 per cent of GDP. In 2015, the WAEMU Commission

An important difference between Togo and Benin relates to the administrative side. In 2014, Togo transformed its tax and customs administrations into a single revenue authority (the Office Togolais des Recettes), while Benin has a more 'classic' organisation for French-speaking countries, with two separate administrations: tax and customs administrations.[4]

First, using a database providing information on tax revenue over the period 1980–2015, covering forty-two sub-Saharan African (SSA) countries,[5] we analyse the efforts by Benin to raise tax revenue, as relates to its structural characteristics. The analysis aims to compare the non-resource tax-to-GDP ratio in Benin with its peers, to identify whether Benin is near to, or far away from, its tax frontier, before exploring possible scope for greater tax revenue raising and for tax policy and administration reforms.

We conclude that the tax effort in Benin has remained relatively stable during the period, with an average of 63.5 per cent of its total potential tax revenue over the period, ranked fourteenth out of forty-two countries. A tax effort of 63.5 per cent means that the level of non-resource tax revenue is at 36.5 per cent of the country's maximum capacity. Knowing that, on average, Benin collects 11.45 per cent of its GDP in non-resource tax revenue and is at 63.5 per cent of its capacity, it would have raised 18.03 per cent of its GDP as non-resource tax revenue if it had used all its potential, given its characteristics. The estimated gap is higher than that estimated by Cui et al. (2016), which was 1.5–2 per cent of GDP based on a sample of SSA countries for the period 1995–2011.

The analysis identifies a higher tax effort in Togo, which exhibits a tax effort of 69.9 per cent on average and is ranked fifth out of forty-two countries. Togo would have mobilised 21.61 per cent of non-resource tax revenue as a percentage of GDP if it had made the maximum tax effort. This result appears intuitive. Indeed, Togo has a lower GDP per capita than Benin (US$6,280 for the former and US$6,480 for the latter) and its agricultural share is more important (35.73 per cent of GDP in Togo; 35.11 per cent in Benin). These characteristics penalise the mobilisation of non-resource tax. At the same time, Togo mobilises more non-resource tax revenues (15.11 per cent of GDP in Togo; 11.45 per cent in Benin). Hence, unfavourable characteristics of Togo, combined with its relative success in mobilising revenues, translate into a higher tax effort of Togo with respect to Benin.

produced a Decision committing member states to assessing their main tax expenditures and publishing these in an appendix of their respective finance law. This exercise is still ongoing in Benin and Togo.

4 Burundi is the only other French-speaking country that has experimented with the switch to a Semi-Autonomous Revenue Authority (SARA).

5 The country list is provided in the Appendix to this chapter.

Second, we study the effect of some economic and institutional variables on tax effort. While the calculation of the tax effort includes only structural supply factors of the tax pressure as inputs to the stochastic frontier analysis, we then study the effect of demand factors on the estimated level of tax effort.[6] Using a logistic regression, we study in particular the effect of the presence of natural resources, aid, transparency, corruption, and accountability, and the political regime and stability. We find that aid is associated with a lower probability of belonging to a quartile of high tax effort, while institutional quality – measured by the Country Policy and Institutional Assessment (CPIA) index – increases the probability of belonging to an efficient quartile in terms of tax effort. If the effect of the political system is not clear, political stability is strongly and positively associated with a greater likelihood of having a high tax effort.

Third, we analyse the potential policy and administrative sources of the tax gaps. We shed light in particular on the human resource policy of the tax administration[7] and the remuneration mechanisms, which may be obsolete.

The chapter is structured as follows: Section II presents the tax effort estimation; Section III proposes an empirical study of the effect of some institutional and economic factors on the estimated tax effort scores; Section IV reviews some tax policy and tax administrative issues and proposes reforms, with a view to improving tax mobilisation; and Section V concludes.

II EMPIRICAL ESTIMATION OF TAX EFFORT IN BENIN: A STOCHASTIC FRONTIER ANALYSIS

We define tax effort as the extent to which the actual tax revenue collected is near the maximum level of tax resource that could be collected. In other words, tax effort in Benin is the extent to which Benin makes use of its potential for tax revenue regarding its tax base and its structural supply characteristics.

The empirical analysis is based on a sophisticated stochastic frontier analysis in which commonly used supply factors driving government tax revenue are considered as the inputs and the total non-resource tax revenue as the output (see Box 6.1). The rationale behind these methods is that an economic agent cannot exceed an 'ideal frontier', which is the optimal level of output, given the limited endowment of inputs. The tax frontier refers to the tax capacity, which represents the maximum tax revenue that a country could raise given its structural characteristics. The model used in the study by Kumbhakar et al. (2014) makes it possible to distinguish country effects, persistent inefficiency, and time-varying inefficiency. Hence, we control for

[6] The distinction between supply and demand factors is made in Bird et al. (2014).

[7] Similar information was not available for the customs administration.

Box 6.1 Estimation Strategy: Stochastic Frontier Analysis

An approach that is increasingly being used to capture countries' tax effort is the stochastic frontier method, which was introduced in the seminal work of Aigner et al. (1977) to model firms' production behaviour (see Pessino and Fenochietto, 2010; Langford and Ohlenburg, 2015). The literature proposes several parametric and non-parametric models for stochastic frontier estimation. Data envelopment analysis (Charnes et al., 2013) and the free disposal hull (Deprins et al., 1984) are the two main – and increasingly popular – methods used for non-parametric stochastic frontier models. The main disadvantage of such methods lies in the fact that the production function is more heavily influenced by outliers, and thus more vulnerable to measurement errors (Clements, 2002).

We draw on a parametric model to estimate the tax effort as we are dealing with a single output (the total non-resource tax-to-GDP ratio). In panel data analysis, parametric models can be categorised into five groups: (1) time-invariant technical inefficiency models; (2) time-varying technical inefficiency models; (3) models that separate firm heterogeneity from inefficiency; (4) models distinguishing persistent and time-varying inefficiency; and (5) models separating firm effects, persistent inefficiency, and time-varying inefficiency. We use the model by Kumbhakar et al. (2014) that makes it possible to distinguish country effects, persistent inefficiency, and time-varying inefficiency. We estimate the following equation:

$$NRTAX_{i,t} = \alpha + X_{i,t-1}\beta + \psi_i + \phi_{it} \tag{1}$$

$$\text{where} \begin{cases} \phi_{it} = \epsilon_{it} - \eta_i - \mu_{it} \\ \mu_{it} > 0;\ \eta_i > 0 \end{cases} \tag{2}$$

The dependent variable $NRTAX_{i,t}$ (Equation 1) represents the natural logarithm of total non-resource tax revenue. The subscripts i and t and denote country and time dimensions, respectively. $X_{i,t-1}$ is a vector of structural and institutional factors explaining countries' tax ratios, which are one period lagged to mitigate endogeneity issues and to account for delays in their effect on non-resource tax revenue. Time-invariant country-level characteristics that could potentially affect government non-resource tax revenue are captured by ψ_i. The last term, ϕ_{it}, is a three-component error term (Equation 2) including time-invariant tax inefficiencies η_i (i.e. persistent tax inefficiencies owing, for instance, to sociological, cultural, religious, or geographical factors) and time-varying tax inefficiency μ_{it} (e.g. tax losses due to tax policy, tax administration, or tax officials' qualifications, which can change over time). Thus, the model makes it possible to identify persistent and time-varying factors determining SSA countries' tax effort.

The combination of Equation 1 and Equation 2 can be rewritten as follows:

$$NRTAX_{i,t} = \alpha_0^* + X_{i,t-1}\beta + \alpha_i + \vartheta_{it} \tag{3}$$

with:

$$\alpha_0^* = \alpha - E(\eta_i) - E(\mu_{it}) \tag{4}$$

$$\alpha_i = \psi_i - \eta_i + E(\eta_i) \tag{5}$$

$$\vartheta_{it} = \epsilon_{it} - \mu_{it} + E(\mu_{it}) \tag{6}$$

Equation 3 is then estimated following a three-stage procedure: (1) In *stage 1*, the $\hat{\beta}$ is estimated by performing a random-effect-based regression (Equation 3). This stage gives the predicted values $\hat{\alpha}_i$ and $\hat{\vartheta}_{it}$ of α_i and ϑ_{it}, respectively. (2) In *stage 2*, the time-varying tax inefficiency, μ_{it}, is estimated using the predicted values $\hat{\alpha}_i$ and $\hat{\vartheta}_{it}$ from the first stage. To do this, Equation 6 is estimated by performing a standard stochastic frontier technique. Using Battese and Coelli's (1988) model, this procedure gives the prediction of the time-varying tax effort, $exp(-\mu_{it} \mid \vartheta_{it})$; (3) Finally, in *stage 3*, the persistent tax inefficiency component η_i, is estimated by performing a stochastic frontier model on Equation 5 as in the previous stage. The persistent tax effort is then predicted and given by $exp(-\eta_i)$. Hence, the overall tax effort is obtained by the product of the time-varying tax effort and the persistent tax effort.

country effects – which capture the effect of time-constant variables for each country – and obtain a total level of inefficiency that is the result of an identified persistent inefficiency and of a time-varying inefficiency for each country.

In the first stage of the estimation, countries' tax ratio is regressed on a vector of structural explanatory variables. The calculation of the tax effort includes only structural supply factors of the tax pressure as inputs to the stochastic frontier analysis. Demand factors are excluded from the estimation of the tax effort: the impact of these factors on the level of tax effort is studied in the second part of the analysis. Based on the relevant literature on the determinants of government tax revenue, we introduce the following set of inputs in the stochastic frontier analysis:

i. *The level of development*: Countries' tax capacity is positively associated with the level of economic development (proxied by real GDP per capita), which is linked to the efficiency of tax administration, the degree of economic and institutional sophistication, and the demand for public

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goods and services (see Lotz and Morss, 1967; Tanzi, 1987; Pessino and Fenochietto, 2010; Crivelli and Gupta, 2014).

ii. *Agriculture value-added (percentage of GDP)*: In addition to the numerous sectoral tax exemptions and tax holidays typically provided in developing countries, agriculture is often considered hard to tax in developing countries. Focusing on SSA countries, Stotsky and WoldeMariam (1997) emphasise that the share of value-added of this sector in GDP is negatively associated with tax revenue.

iii. *Trade openness*: Trade liberalisation policies implemented in most developing countries in the early 1970s have substantially increased trade volume in these countries. Therefore, trade openness expressed as total trade (imports and exports) as a share of GDP is expected to influence tax revenue, in particular through household consumption and domestic corporate profits (Stotsky and WoldeMariam, 1997; Pessino and Fenochietto, 2010; Keen and Perry, 2013, among others).

iv. *Financial development*: High financial development combined with high access to credit allows individuals and firms to finance profitable projects, which favour tax collection (Gordon and Li, 2009). On the other hand, in the presence of an ineffective financial system, firms can successfully evade tax payment by conducting business in cash, which is harder for tax administrations to monitor.

Table 6.1 displays the pairwise correlation between interest variables. As expected, all variables are positively associated with non-resource tax revenues, except the agriculture sector, which is significantly and negatively correlated with non-resource tax revenues. The detailed sources and definitions of variables are provided in the Appendix to this chapter (Table 6.A1).

Table 6.2 presents the summary statistics for the full sample and for Benin and Togo. Benin is generally below the mean for the full sample (except for the agriculture share). It is slightly above the average of its income group, the low-income countries. Benin and Togo have very similar characteristics. As we noted, however, the ratios of tax and non-resource tax over GDP are higher

TABLE 6.1 *Pairwise correlation between interest variables*

	[1]	[2]	[3]	[4]	[5]
(1) Non-resource taxes (% GDP)	1				
(2) GDPPC (constant 2010 US$)	0,51*	1			
(3) Total trade (% of GDP)	0,43*	0,63*	1		
(4) Agriculture, value-added (% GDP)	−0,54*	−0,62*	−0,62*	1	
(5) Financial development index	0,62*	0,37*	0,37*	−0,59*	1

Source: Authors' calculations.

* Coefficient significant at 10% level. GDPPC, gross domestic product per capita.

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TABLE 6.2 *Descriptive statistics*

Variable	Mean	Standard deviation (SD)	Median	Min	Max
Full sample					
Total taxes (% GDP)	16.19	8.97	13.79	0.57	53.33
Non-resource taxes (% GDP)	12.46	6.67	11.14	0.55	49.85
GDPPC (constant 2010 US$)	6.92	1.06	6.68	4.87	10.16
Agriculture, value-added (% GDP)	27.64	15.74	29.14	0.89	72.03
Total trade (% of GDP)	73.97	47.07	60.98	6.32	531.74
Financial development index	0.11	0.08	0.10	0.00	0.64
Benin					
Total taxes (% GDP)	11.92	2.57	12.45	6.76	16.04
Non-resource taxes (% GDP)	11.46	2.29	12.02	6.36	14.96
GDPPC (constant 2010 US$)	6.50	0.09	6.48	6.36	6.70
Agriculture, value-added (% GDP)	35.11	1.92	31.92	31.54	39.01
Total trade (% of GDP)	55.37	8.00	56.24	38.30	76.53
Financial development index	0.09	0.01	0.09	0.07	0.11
Togo					
Total taxes (% GDP)	16.89	5.96	15.28	7.71	30.15
Non-resource taxes (% GDP)	15.11	4.57	15.07	6.27	26.17
GDPPC (constant 2010 US$)	6.26	0.09	6.26	6.01	6.53
Agriculture, value-added (% GDP)	35.73	4.22	35.20	26.96	44.14
Total trade (% of GDP)	90.22	15.61	92.32	56.48	125.03
Financial development index	0.10	0.01	0.10	0.07	0.12

Source: Authors' calculations.

on average in Togo than in Benin (Figure 6.1), while Benin has a higher GDP per capita and a lower agriculture share, which should facilitate tax revenue mobilisation. Although Togo has a higher trade openness and a better financial development index, this is not sufficient to explain the far higher tax over GDP ratio for Togo relative to Benin. While Benin's performance is growing relatively steadily, Togo's performance is more unstable. Except over the period 1992–2002, the ratios of tax and non-resource tax over GDP have been lower in Benin than in Togo (for more details see Caldeira and Rota-Graziosi, 2019).

Table 6.3 presents the three-stage estimation results. The first-stage estimation involves regressing countries' tax ratio on a vector of explanatory variables. All variables have the expected sign and are strongly significant at the 1 per cent level: per capita real GDP, trade openness, and financial development are positively associated, while the share of the agriculture sector is negatively and significantly correlated with non-resource tax revenues (Table 6.3 A). The level of development measured by the per capita real GDP has a significant effect on countries' non-resource tax ratio: a 1 per cent increase in real GDP per capita is associated with a 0.243 percentage point increase in non-resource tax revenue.

From that first stage, the Kumbhakar et al. (2014) model determines the maximum tax potential for each country, given its structural characteristics, estimates the persistent and time-varying inefficiencies, and computes the total inefficiency. On average in the period, SSA countries are at 53.96 per cent of their potential, so that they have room for about 46.04 per cent additional non-resource tax revenue (see Table 6.3 D). Knowing that, on average, countries collect 12.46 per cent of their GDP in non-resource tax revenue, *they would have raised 23.09 per cent of their GDP as non-resource tax revenue if they achieved their maximal capacity, given their characteristics*. The differences in total tax effort across SSA countries are mainly driven by persistent factors: the full sample average stands at 0.8005, 0.6724, and 0.5396 for the time-varying, the persistent, and the total tax effort, respectively. That room includes both tax administration (e.g. corrupt tax officers, tax evasion, inadequacy of tax administrations, tax exemptions, etc.) and tax policy. It is hard to determine whether persistent and variant inefficiencies are attributable to a tax gap or an administrative gap. If there is a tendency to associate the persistent inefficiencies with an administrative gap, and time-varying inefficiencies with a tax policy gap, significant administrative reforms may be implemented over time while tax policy may experience some persistence over time. In any case, the persistent factors – whether they come from administrative or tax policy inefficiencies – explain the major part of the inefficiencies.

Table 6.4 provides a country ranking over the period studied based on their total tax effort scores.[8] Lesotho, Burundi, and Malawi appear to be the

[8] Table 5 in Caldeira and Rota-Graziosi (2019) gives the tax effort over time for the full sample.

TABLE 6.3 *Three-stage estimates of the tax effort in sub-Saharan African countries*

(A) First-stage random-effect estimates

Dependent variable	**[1] NRTAX**		**[3] CIT**	**[4] PIT**	**[5] Goods and services**
Log GDPPC$_{(-1)}$ (constant 2010 US$)	0.235***	(0.0331)	0.457***	0.240***	0.202***
		(0.0361)	(0.0552)	(0.0565)	(0.0725)
Agriculture, value-added$_{(-1)}$ (% of GDP)	−0.056***	(0.0141)	0.406***	0.456***	0.141*
		(0.0420)	(0.0625)	(0.0682)	(0.0847)
Total trade$_{(-1)}$ (% of GDP)	0.018***	(0.0042)	−0.0128	−0.440***	−1.018***
			(0.0121)	(0.0137)	(0.0173)
Financial development$_{(-1)}$	0.526***	(0.1238)	−0.0827***	−0.142***	0.0274
		(0.133)	(0.199)	(0.223)	(0.269)
Constant	0.622***	(0.247)	−4.452***	−2.260***	1.028
		(0.405)	(0.580)	(0.617)	(0.818)
Observations	1190	1.204	1.117	1.12	1.185
R-squared	0.1994	0.794	0.656	0.739	0.568
No. of countries	39	41	40	40	41
Country FE	yes	yes	yes	yes	yes

(B) Second stage, estimation of the time-varying tax inefficiency (stochastic frontier)

Log likelihood = 73.1133		**Number of observations = 1,190** **Wald chi²(1) = 430.30** **Prob > chi² = 0.000**				
	Error	**Coefficient**	**Standard error**	**z**	**P>|z|**	**[95% confidence interval]**
frontier	one	0.238***	0.0114	20.74	0.000	0.2159
						0.2609
usigmas	_cons	−2.385***	0.0911	−26.16	0.000	−2.5637
						−2.2064

(*continued*)

TABLE 6.3 (*continued*)

	Error	Coefficient	Standard error	z	P>|z|	[95% confidence interval]
vsigma	_cons	−3.875***	0.1076	−36.02	0.000	−4.0862 −3.6645
(C) Third stage, estimation of time-varying tax inefficiency (stochastic frontier)						
Log likelihood = −543.512		**Number of observations = 1,190 Wald chi²(1) = 1447.19 Prob > chi² = 0.000**				
	Error	**Coefficient**	**Standard error**	**z**	**P>|z|**	**[95% confidence interval]**
frontier	one_te	0.509***	0.0133	38.04	0.000	0.482 0.535
usigmas	_cons	−1.009***	0.0584	−17.27	0.000	−1.124 −0.894
vsigma	_cons	−3.463***	0.1078	−32.12	0.000	−3.6747 −3.2520

(D) Summary of the estimation results

	Observations	Mean	Standard deviation	Min	Max
Time-varying tax effort	1,190	0.8005	0.1043	0.1689	0.9577
Persistent tax effort	1,190	0.6724	0.1702	0.0444	0.9307
Total tax effort	1,190	0.5396	0.1548	0.0218	0.8268

Source: Authors' calculations.

Standard errors in parentheses; *** p<0.01, ** p<0.05, * p<0.1. CIT, corporate income tax revenue; NRTA, non-resource tax revenue; PIT, personal income tax revenue.

TABLE 6.4 *Full sample tax effort-based ranking*

Country	Average tax effort	Rank	Country	Average tax effort	Rank
Lesotho	0.767	1	Swaziland	0.555	21
Burundi	0.758	2	Uganda	0.547	22
Malawi	0.72	3	Seychelles	0.545	23
Ethiopia	0.704	4	Mali	0.539	24
Togo	0.699	5	Cabo Verde	0.524	25
Gambia	0.695	6	Ghana	0.495	26
Senegal	0.669	7	Guinea	0.484	27
Mozambique	0.669	8	Cameroon	0.474	28
Namibia	0.658	9	South Africa	0.462	29
Kenya	0.658	10	Sierra Leone	0.446	30
Zambia	0.656	11	Mauritius	0.405	31
Côte d'Ivoire	0.652	12	Guinea-Bissau	0.384	32
Rwanda	0.649	13	Botswana	0.366	33
Benin	0.635	14	Congo Republic	0.331	34
Comoros	0.615	15	Gabon	0.274	35
Niger	0.6	16	Chad	0.274	36
Burkina Faso	0.598	17	Nigeria	0.257	37
Central African Republic	0.583	18	Angola	0.219	38
Madagascar	0.579	19	Equatorial Guinea	0.033	39
Tanzania	0.571	20			

Source: Authors' calculations.

most efficient countries, while Equatorial Guinea, Angola, and Nigeria record the lowest tax efforts. The tax revenue ratio as a percentage of GDP is high in efficient and low in non-efficient countries. At the same time, Angola and Equatorial Guinea have GDP per capita levels well above the average. Thus, Angola and Equatorial Guinea's poor performance are the result of the combination of low output and advantageous inputs. These two countries are rich in natural resources and the effort made to raise non-resource tax revenues appears to be very low. By contrast, Burundi manages to raise more revenues than the average while its characteristics are very unfavourable. Over the 2001–2015 subperiod, Togo emerges as the top performer, with a tax effort score of 0.78 in 2015 (rank 1).

The average tax effort score for the full sample – which amounts to around 54 per cent – remained on average relatively stable (Figure 6.2) during the period. Starting in the late 1980s for Benin and early 1990s for Togo, the performance in terms of tax effort for both countries has improved. The trend for Togo is more one of boom and bust, but the gap in performance between the

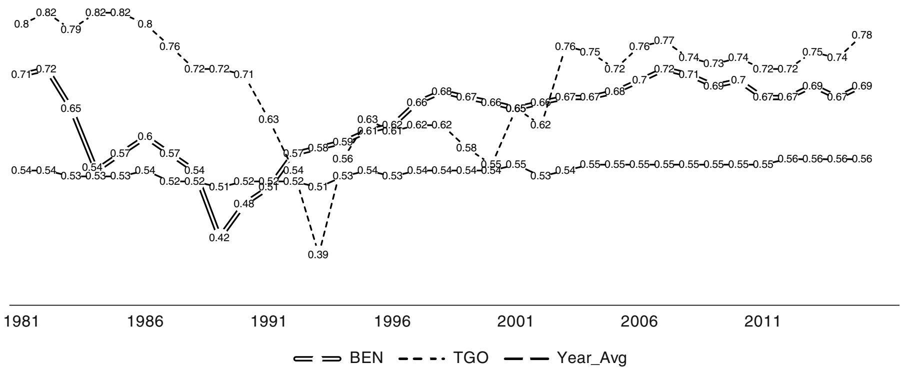

FIGURE 6.2 Tax performance over time
Source: Authors' calculations.

two countries stands around 6 percentage points. Togo has 9 percentage points more than Benin at the end of the period and ranks first among all countries. However, with a total tax effort level of 0.78 and 0.69 in 2015, Togo and Benin have not recovered their level of tax effort of the beginning of the period. Nigeria, Côte d'Ivoire, Cameroon, and Malawi also experienced an overall decline in performance during the period. Togo has experienced an increase in the last fifteen years (Figure 6.3). By contrast, Benin's tax effort has declined over the same period.

We extend the analysis by estimating the tax effort by type of tax: value-added tax (VAT), corporate income tax, personal income tax, trade tax, and excise (Table 6.5). These results should be interpreted with caution. Indeed, tax revenue determinants of the different taxes (inputs) may differ. At the same time, comparison would be complex if a different model were determined for estimating the tax effort for each type of tax. We therefore chose to maintain the same model.

The tax effort is heterogeneous according to the type of tax. In particular, Benin appears relatively better ranked in terms of VAT (rank 4) and corporate income tax (rank 13) than in terms of trade tax (rank 28), excise (rank 15), and personal income tax (rank 14). The tax effort for VAT is 0.686 and on trade tax 0.666, and only 0.344 and 0.396 on average for corporate income tax and personal income tax. The ranking in terms of Togo's performance is more homogeneous, but the values of the tax effort vary according to the type of tax: from 0.676 for trade tax to 0.504 for corporate income tax and only 0.452 for personal income tax. These results tend to corroborate those of Cui et al. (2016), which show an under-performance in terms of income tax relative to the performance in terms of trade tax in Benin.

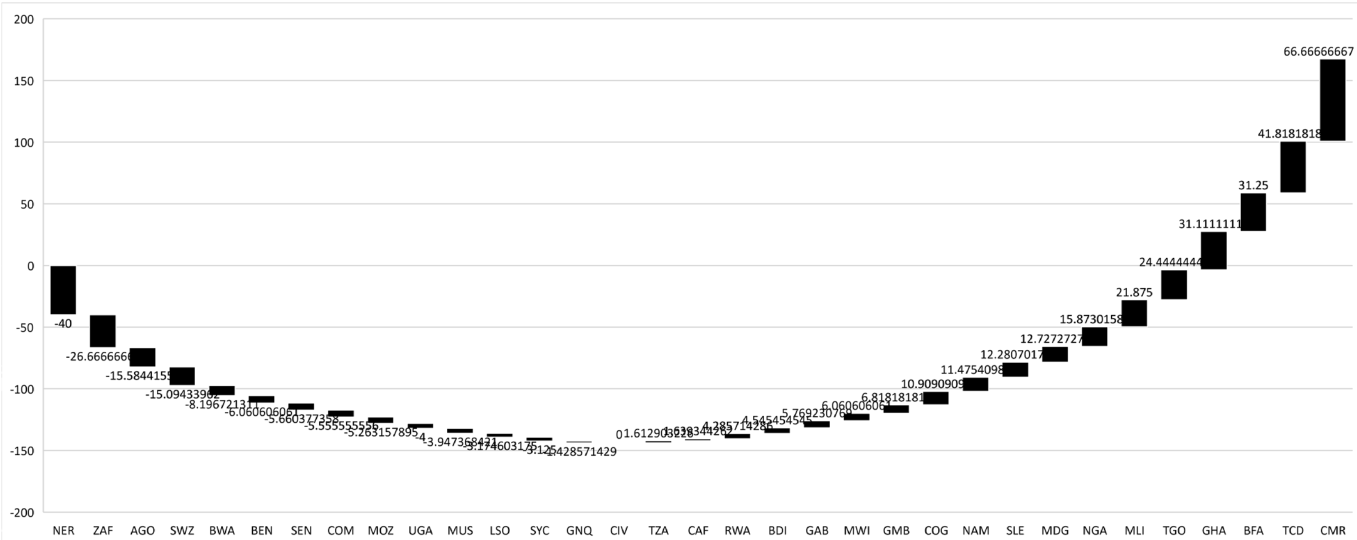

FIGURE 6.3 Growth rate of tax effort over the period 2000–2015
Source: Authors' calculations.

TABLE 6.5 *Tax effort by type of tax*

VAT	Tax effort	Rank	Corporate income tax	Tax effort	Rank	Personal income tax	Tax effort	Rank	Trade tax	Tax effort	Rank	Excise	Tax effort	Rank
Angola	NA	NA	Angola	NA	NA	Angola	NA	NA	Angola	0.683	5	Angola	NA	NA
Burundi	NA	NA	Burundi	0.712	2	Burundi	0.544	2	Burundi	0.663	31	Burundi	NA	NA
Benin	0.686	4	Benin	0.344	13	Benin	0.396	14	Benin	0.666	28	Benin	0.739	15
Burkina Faso	0.677	6	Burkina Faso	0.326	14	Burkina Faso	0.445	10	Burkina Faso	0.677	10	Burkina Faso	0.748	6
Botswana	0.634	12	Botswana	0.169	33	Botswana	0.14	35	Botswana	0.677	9	Botswana	NA	NA
Central African Rep	0.469	27	Central African Rep	0.184	31	Central African Rep	0.456	6	Central African Rep	0.657	37	Central African Rep	0.739	16
Côte d'Ivoire	0.479	25	Côte d'Ivoire	0.24	27	Côte d'Ivoire	0.339	22	Côte d'Ivoire	0.673	15	Côte d'Ivoire	0.708	28
Cameroon	0.664	9	Cameroon	0.279	22	Cameroon	0.315	23	Cameroon	0.669	25	Cameroon	0.746	7
Congo, Dem. Rep.	NA	NA	Congo, Dem. Rep.	NA	NA	Congo, Dem. Rep.	NA	NA	Congo, Dem. Rep.	NA	NA	Congo, Dem. Rep.	NA	NA
Congo, Rep.	NA	NA	Congo, Rep.	0.199	29	Congo, Rep.	0.197	32	Congo, Rep.	0.662	33	Congo, Rep.	NA	NA
Comoros	0.446	30	Comoros	0.283	20	Comoros	0.208	30	Comoros	0.671	19	Comoros	0.738	17
Cabo Verde	0.709	3	Cabo Verde	0.282	21	Cabo Verde	0.299	26	Cabo Verde	0.683	4	Cabo Verde	NA	NA
Ethiopia	0.61	15	Ethiopia	0.666	4	Ethiopia	0.273	28	Ethiopia	0.67	21	Ethiopia	0.734	20
Gabon	0.476	26	Gabon	0.177	32	Gabon	0.142	34	Gabon	0.697	2	Gabon	NA	NA
Ghana	0.571	21	Ghana	0.296	19	Ghana	0.39	18	Ghana	0.678	7	Ghana	0.738	18
Guinea	0.569	22	Guinea	0.105	37	Guinea	0.186	33	Guinea	0.663	32	Guinea	0.731	22
Gambia, The	0.669	8	Gambia, The	0.574	5	Gambia, The	0.446	9	Gambia, The	0.68	6	Gambia, The	0.723	25
Guinea-Bissau	0.462	29	Guinea-Bissau	0.157	34	Guinea-Bissau	0.202	31	Guinea-Bissau	0.67	22	Guinea-Bissau	0.727	24
Equatorial Guinea	0.236	33	Equatorial Guinea	0.031	38	Equatorial Guinea	0.018	38	Equatorial Guinea	0.651	39	Equatorial Guinea	NA	NA
Kenya	0.595	17	Kenya	0.729	1	Kenya	0.519	3	Kenya	0.667	27	Kenya	0.748	5
Lesotho	NA	NA	Lesotho	0.267	24	Lesotho	0.394	16	Lesotho	0.726	1	Lesotho	NA	NA
Madagascar	0.587	18	Madagascar	0.301	18	Madagascar	0.307	24	Madagascar	0.672	17	Madagascar	0.744	12

Mali	0.643	11	Mali	0.271	23	Mali	0.348	21	Mali	0.675	12	Mali	0.703	29
Mozambique	0.679	5	Mozambique	0.478	7	Mozambique	0.449	8	Mozambique	0.669	24	Mozambique	0.741	14
Mauritius	0.318	31	Mauritius	0.141	35	Mauritius	0.136	36	Mauritius	0.666	29	Mauritius	0.662	30
Malawi	0.608	16	Malawi	0.69	3	Malawi	0.546	1	Malawi	0.667	26	Malawi	0.745	10
Namibia	0.677	7	Namibia	0.35	12	Namibia	0.426	11	Namibia	0.684	3	Namibia	0.728	23
Niger	0.581	19	Niger	0.386	11	Niger	0.393	17	Niger	0.671	18	Niger	0.733	21
Nigeria	0.315	32	Nigeria	0.265	25	Nigeria	0.125	37	Nigeria	0.669	23	Nigeria	0.71	27
Rwanda	0.624	14	Rwanda	0.435	10	Rwanda	0.473	5	Rwanda	0.66	36	Rwanda	0.746	8
Senegal	0.715	2	Senegal	0.303	17	Senegal	0.36	20	Senegal	0.675	13	Senegal	0.742	13
Sierra Leone	0.463	28	Sierra Leone	0.26	26	Sierra Leone	0.42	13	Sierra Leone	0.664	30	Sierra Leone	0.737	19
Sao Tome and Principe	NA	NA	Sao Tome and Principe	NA	NA	Sao Tome and Principe	NA	NA	Sao Tome and Principe	NA	NA	Sao Tome and Principe	NA	NA
Swaziland	0.646	10	Swaziland	0.212	28	Swaziland	0.305	25	Swaziland	0.673	16	Swaziland	0.712	26
Seychelles	0.749	1	Seychelles	0.304	16	Seychelles	0.298	27	Seychelles	0.677	8	Seychelles	0.756	1
Chad	NA	NA	Chad	0.141	36	Chad	0.362	19	Chad	0.67	20	Chad	NA	NA
Togo	NA	NA	Togo	0.504	6	Togo	0.452	7	Togo	0.676	11	Togo	0.745	9
Tanzania	0.553	23	Tanzania	0.323	15	Tanzania	0.423	12	Tanzania	0.662	35	Tanzania	0.744	11
Uganda	0.581	20	Uganda	0.19	30	Uganda	0.213	29	Uganda	0.674	14	Uganda	0.748	4
South Africa	0.532	24	South Africa	0.456	9	South Africa	0.394	15	South Africa	0.662	34	South Africa	0.749	3
Zambia	0.627	13	Zambia	0.46	8	Zambia	0.48	4	Zambia	0.657	38	Zambia	0.75	2
Zimbabwe	NA	NA	Zimbabwe	NA	NA	Zimbabwe	NA	NA	Zimbabwe	NA	NA	Zimbabwe	NA	NA

NA, not available.

Source: Authors' calculations.

III THE DETERMINANTS OF TAX EFFORT: A LOGISTIC REGRESSION ANALYSIS

Using a logistic regression, we now study the effect of some variables – natural resources, aid, institutional quality, political regime, and political stability – on tax effort.

As a first step of the analysis we present some general descriptive statistics. We can observe that non-resource-rich countries and non-fuel exporters have higher tax effort scores than their resource-rich peers. This may support the view that governments in resource-rich countries have less incentive to mobilise tax revenues when they have resource rent. Similarly, landlocked countries make a more intense tax effort and countries that are considered as offshore financial centres have low performance in terms of tax effort. East African Community (EAC) and WAEMU member countries appear to have better performance than Communauté Economique et Monétaire d'Afrique Centrale (CEMAC) and South African Community (SAC) countries. If we look at the evolution of tax effort in the WAEMU and CEMAC countries, it appears that WAEMU countries are on average better performing, which lends some support to the arguments in favour of regional harmonisation (of both customs and domestic tax policies).

Benin has little room to increase tax revenues unless it addresses the reasons why it is below weak taxable capacity by conducting institutional reforms to expand its tax revenue potential. Using the International Country Risk Guide (ICRG) database and following Frankel et al. (2013), we compute an index of institutional quality based on an average of four normalised variables: investment profile, corruption, law and order, and bureaucratic quality. Higher values of the index are associated with better economic and political institutions that should favour tax revenue collection.

In order to study rigorously the determinants of tax effort, we carry out an econometric analysis to complement the previous statistical analysis. Based on an international comparison, we examine the effect of some variables on tax effort scores. Our focus here is on the effect of natural resources, official development assistance (ODA), transparency, corruption and accountability (CPIA indicator), and the political regime and stability.

The analysis of the factors explaining the level of tax effort is based on a logistic regression. Tax effort scores range from 0 to 1, the most efficient countries having the highest scores. The ranking is grouped in quartiles according to the score obtained: we have four classes, from Q_1 to Q_4. Thus, the observations with the lowest scores belong to the first quartile, while the observations with the highest scores are in the fourth quartile. These quartiles are considered as the dependent variable. Using quartiles allows us to estimate the effects associated with each group of countries.

As the dependent variable is thus an ordinal variable, we use a mixed-effects ordered logistic model (see Liu and Hedeker, 2006; Rabe-Hesketh and Skrondal, 2012). This model is an ordered logistic regression containing both fixed and random effects. The identification strategy makes it possible to control for the characteristics of countries that can affect the evolution of efficiency over time. We use a two-tier model. For M countries, the cumulative probability that a Y_{it} observation belongs to an efficiency quartile greater than q is given by:

$$Pr\left(Y_{it} > q \mid X_{it}, \varphi_q, u_i\right) = H\left(X_{it}\beta + Z_{it}u_i - \varphi_q\right)$$

with X_{it} a set of covariates, φ_q a set of cut points,[9] and u_i a set of random effects (i=1,…,M country, each i has a given number of occurrences in time t=1,…,n occurrences). H() is the cumulative logistic distribution function that represents the cumulative probability. The X_{it} vector of dimension 1*p represents covariates for fixed effects with β coefficients. The 1*q vectors of Z_{it} are covariates corresponding to random effects and can be used to represent intercepts and random coefficients.

While the estimation of tax effort scores requires focusing on structural supply variables, we now consider the potential effect of demand factors on the estimated level of tax effort: natural resource rent, aid, institutional quality (transparency, corruption, and accountability), political regime, and political stability.

The effect of natural resource rent on tax revenue ratio is widely evidenced in the literature. Natural resource endowment is associated with lower non-resource tax revenue, suggesting a natural resource curse (Sachs and Warner, 2001; Eltony, 2002; Melou et al., 2017). In particular, during commodity price upswings, governments in resource-rich countries have less incentive to mobilise tax revenues so that resource rent crowds out tax revenue. We consider in our model total natural resource rents (percentage of GDP) as the sum of oil rents, natural gas rents, coal rents (hard and soft), mineral rents, and forest rents.[10]

ODA can also modify government behaviour (Bahl, 2000; Bird and Smart, 2002). The literature highlights several effects. Among the most documented, the flypaper effect is an empirical regularity: any increase in transfers/aid leads to greater public spending than an equivalent rise in the private revenue of the population (Hines and Thaler, 1995). In a context of informational asymmetries, aid challenges the fiscal discipline of recipient governments by raising a moral hazard problem (Pisauro, 2001; Kornai et al., 2003): it can be perceived as a kind of windfall resource, which crowds out own-source revenue by reducing the willingness of governments to improve their tax effort. More broadly, aid dependency seems to erode governments' accountability, a prerequisite for the quality of public expenditure and taxpayers' voluntary compliance. Hence, we consider in our model 'Net ODA' (from the World Bank). This consists of 'disbursements of loans made on concessional terms (net of repayments of principal) and grants by official agencies of the members of the Development Assistance Committee (DAC), by multilateral institutions, and by non-DAC

[9] The cut-off points φ are φ1, φ2, φ3, because we have four efficiency groups (quartiles).
[10] World Bank estimates based on sources and methods described in Lange et al. (2018).

countries to promote economic development and welfare in countries and territories in the DAC list of ODA recipients'.[11]

Institutional quality may also play a key role in mobilising resources. Indeed, it can improve tax policies and administrations' ability to collect revenues, as well as taxpayers' voluntary compliance. In particular, the degree of transparency, accountability, and corruption in the public sector determines the extent to which citizens can hold the executive accountable for its use of funds, and for the results of its decisions and actions. It also determines the extent to which public employees within the executive are required to account for administrative decisions, use of resources, and the final results obtained. Using the 'CPIA transparency, accountability, and corruption in the public sector rating' variable makes it possible to account for these potential effects. The three main dimensions assessed in that indicator are 'the accountability of the executive to oversight institutions and of public employees for their performance, access of civil society to information on public affairs, and state capture by narrow vested interests' (World Bank, 2009, p. 301).

Beyond the institutional aspects, the political regime in place may explain the level of tax effort. A growing body of literature suggests that political regime type matters in determining taxation. Garcia and Von Haldenwang (2016) identify three different causal mechanisms that affect the relation between regime type and taxation: economic growth, redistribution, and legitimacy. First, based on a positive link between democratic rule and economic growth, democracy should lead to higher tax collection because of growing taxable income. Second, based on the median voter theorem (Milanovic, 2000; Acemoglu and Robinson, 2006), the expansion of suffrage induced by democracy should lead to higher levels of redistribution and more public services, which may impact the level of taxation. Third, tax contractualism emphasises the importance of legitimacy and credibility in bargaining processes and tax compliance (Moore, 2008; Timmons, 2005; Levi and Sacks, 2007; Bates and Lien, 1985; Mahdavi, 2008). In this context, democracy should lead to higher tax collection, as taxpayers can be more confident that fiscal resources are spent for the common good and that the distribution of the tax burden is fair. Empirical research on the relationship of political regimes to taxation yields mixed results and it appears that there is no linear trend in favour of democracy. To test for these potential effects, we use a modified version of the 'Polity' variable proposed by the Center for Systemic Peace that allows the use of a regime measure in time-series analyses. This variable captures the political regime authority spectrum on a 21-point scale ranging from −10 (hereditary monarchy) to +10 (consolidated democracy).[12]

[11] It includes loans with a grant element of at least 25 per cent (calculated at a rate of discount of 10 per cent). World Bank DataBank, https://databank.worldbank.org/metadataglossary/sustainable-development-goals-(sdgs)/series/DT.ODA.ODAT.CD1.

[12] The Polity scores can also be converted into regime categories in a suggested three-part categorisation of 'autocracies' (−10 to −6), 'anocracies' (−5 to +5 and three special values: −66, −77, and −88), and 'democracies' (+6 to +10). The performance score is from 0 to 100. The highest score reflects the best situation.

TABLE 6.6 *Logistic regression results*

Quartiles of tax effort	(I)	(II)	(III)	(IV)	(V)	(VI)
ODA	−0.001***					−0.001*
	(0.000)					(0.000)
Natural resource rent		0.048				−0.003
		(0.017)				(0.032)
CPIA			1.626***			1.030*
			(0.203)			(0.770)
Political regime				−0.027		−0.060**
				(0.022)		(0.026)
Political Stability					0.617***	−0.207
					(0.160)	(0.386)
Cut1	−2.351***	−1.501***	0.418	−1.891***	−1.833***	1.549
	(0.305)	(0.263)	(0.966)	(0.489)	(0.258)	(2.596)
Cut2	−0.554	0.176	2.316**	−0.064	−0.106	3.696
	(0.296)	(0.258)	(0.972)	(0.481)	(0.251)	(2.613)
Cut3	0.567*	1.286***	3.769***	0.821*	1.093***	5.222**
	(0.299)	(0.262)	(0.981)	(0.484)	(0.255)	(2.620)
Var (Const)	1.475*	1.474***	1.454***	1.465***	1.453***	1.515**
	(1.097)	(0.203)	(0260)	(0.345)	(0.212)	(0.842)
Observations	851	845	684	288	864	216
Number of groups	24	24	19	8	24	6
Log-likelihood	−779.05	−795.29	−662.16	−261.35	−801.82	−223.43

Source: Authors' calculations.
* Coefficient significant at 10% level.

Tax effort may also be influenced by political instability. An important literature shows that political stability determines the level of taxation (Cukierman et al., 1992; Aizenmana and Jinjarak, 2008; Melo, 2011). A rise in the level of political instability generates a decrease in the resources available and public expenditure in the next period. Moreover, the risk of radical policy changes in the future can have a detrimental effect on the tax behaviour of governments and on tax compliance. We include in the empirical analysis a variable from the World Bank that measures 'perceptions of the likelihood of political instability and/or politically-motivated violence, including terrorism. The estimate gives the country's score on the aggregate indicator, in units of a standard normal distribution, i.e. ranging from −2.5 to 2.5'.[13]

Table 6.6 presents the results of the regression of the logistic model. We regress successively each of the interest variables (columns 1 to 5) and then

[13] World Bank DataBank, https://databank.worldbank.org/metadataglossary/worldwide-governance-indicators/series/PV.EST.

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all these variables at the same time (column 6). Aid is associated with a lower probability of belonging to a quartile of high tax effort, while institutional quality (measured by the CPIA index) increases the probability of belonging to an efficient quartile in terms of tax effort. If the effect of the political system is not clear, political stability is strongly and positively associated with a greater likelihood of having a high tax burden. When the model is regressed across all variables, the effects of aid, institutional quality, and the political system appear to be significant.

IV TAX POLICY OR REVENUE ADMINISTRATION REFORMS

In this section, we review some tax policy and tax administrative issues in Benin, and suggest some reforms to improve tax mobilisation.

A Tax Policy and Tax Expenditures

The Beninese government sets the tax policy under the control of the legislative authority and following the WAEMU tax Regulation (*Règlement* in French), Directives, or Decisions.[14] WAEMU tax Directives define the rates and bases of the main taxes: VAT, corporate income tax, excises, portfolio incomes, and so on. Therefore, WAEMU member countries share a similar set of tax laws, which are encompassed in their respective national tax codes. However, tax effort analysis highlights the leading role of Senegal, which belongs to WAEMU too. Senegal displays a tax effort above 70 per cent, meaning a tax gap of less than 30 per cent of potential tax revenue over the most recent period (2015).

A potential explanation of this discrepancy between Benin and Senegal (or Togo) is a derogatory tax regime, such as the Investment Code (IC). Indeed, all the WAEMU countries, like almost developing countries, provide some tax incentives through their IC (or Act). Such a policy, sometimes suggested by the World Bank, aims to attract foreign direct investment. The main issue is in the details of these incentive schemes, which may also reflect the effects of lobbying.

The comparison of the Beninese IC, enacted in 1990 and modified in 1998 and 2008, with the Togolese one (in force since 2012) yields the conclusion of a greater generosity towards investors in Benin. Indeed, the Beninese IC offers a complete corporate income tax exemption over a period from five to nine years (even fifteen years if the investment is located in remote areas). Moreover, tax advantages and their duration increase with the investment

[14] These three regional legal texts do not have the same power of enforcement. While the WAEMU Regulation has immediate force of law and must be transferred into national legislation, WAEMU Directives and Decisions can be interpreted when they are integrated into the national laws.

amount. Meanwhile, the Togolese IC does not provide such a corporate income tax break, but only a 50 per cent rebate on corporate income tax owed. Moreover, this advantage is limited to five years and does not apply to some sectors, such as mobile phone companies, banks, insurance companies, retailers, or firms in charge of seaport and airport infrastructure. Another noticeable difference between the Beninese IC and the Togolese one concerns the importation of second-hand materials necessary for projects: Togo raises a unique 5 per cent tax for VAT and duty purposes, while Benin provides a complete exemption.

If the efficiency of such incentives in attracting foreign direct investment remains uncertain (see Van Parys and James, 2010), tax revenue losses captured through tax expenditure assessment are more obvious.[15] Consequently, despite similar tax laws between Benin and Togo, tax expenditures such as these provided in ICs may differ significantly, partly explaining the gap in tax effort between these two countries. Yearly tax expenditure assessments and publications contained in the appendices to finance laws, in accordance with the 2015 WAEMU Decision, would contribute to streamlining these incentives, and improving the tax effort by reducing the policy gap.

B Tariff Policy and Informal Trade with Nigeria

Beyond tax policy, an important component for Benin is the tariff policy, which is determined by the WAEMU Commission and, officially since 2015, by the Economic Community of West African States (ECOWAS) Commission. ECOWAS is a customs union with fifteen members.[16] The ECOWAS Common External Tariff implementation is still ongoing, but it will impact Benin's tax revenue, given the weight of the transit activity in this country. Tax revenue collected at the border represented almost half of total tax revenue in 2015: 4.41 per cent of GDP for trade taxes and 2.64 per cent of GDP for VAT collected at the border.

A large part of Beninese imports is not for the domestic market, but for the Nigerian one, and for landlocked countries (Burkina Faso, Mali, and Niger). Indeed, Nigeria has developed a protectionist trade policy by banning the importation of some goods (e.g. poultry meat, beer, used clothes, tyres, used

[15] Anderson (2008) defines tax expenditures as 'provisions of tax law, regulation or practices that reduce or postpone revenue for a comparatively narrow population of taxpayers relative to a benchmark tax'. The assessment of tax expenditures usually follows such a revenue loss approach, which involves assuming unchanged (investment or consumption) behaviour: the investor (consumer) would have invested (consumed) the same amount with or without the derogatory tax regime (see OECD, 2010). Such an assumption may induce an overestimation of tax expenditure.

[16] In addition to the eight WAEMU members, ECOWAS also includes Cabo Verde, Gambia, Ghana, Liberia, Nigeria, and Sierra Leone.

cars, etc.) or raising high tariff rates on some other goods (e.g. 50 per cent on rice or sugar). This trade policy fuels smuggling activity in Benin and Togo. The former manages to extract significant tax revenue from this activity, which is estimated at 14 per cent of total tax revenue, or equivalent to 2.4 per cent of GDP in 2008 (see Golub, 2012; IMF, 2012). Despite a geographical advantage for Benin given the common border with Nigeria, there is competition between Benin and Togo to attract this illegal transit activity. This competition may seriously limit efforts to improve domestic revenue mobilisation, at least at the border. For instance, despite or because of the WAEMU Common External Tariff in place in Benin and Togo since 2000, competition takes place on the reported value of imported goods for the Nigerian market. Such competition does not respect the World Trade Organization transaction value principle. Hence, special attention should be given to tariff policy in Benin, taking into account the existence of the informal trade with Nigeria.

C Administration Capacity

Tax effort is closely related to the tax and customs administration capacity. Benin still has a ‘classic’ organisation of these administrations, while Togo implemented a SARA in 2014. While it may be too early to assess the efficiency of such a reform in this particular case, Ebeke et al. (2015) found a significant positive impact of SARA on domestic revenue mobilisation: an increase by 4 percentage points of GDP. A natural question, then, would be whether Benin should switch to a revenue agency.

First implemented in Africa by Ghana in 1985, the SARA is a drastic reform, which can be understood as a strategic delegation of taxation power to an autonomous agent. The autonomy, which differs significantly across countries, is a signal of a more credible audit policy, since control occurs, at least theoretically, without any political interference. Two main advantages of SARAs are advanced in the literature. First, SARAs involve the merger of tax and customs administrations in order to (1) exploit synergies, in particular for VAT on imports (Keen, 2008); and (2) save costs by combining operational functions in tax collections (World Bank, 2010). The second advantage is human resource management. Recruitment, promotion, and dismissal do not have to respect civil service rules, allowing a number of flexibilities, such as higher wages (Fjeldstadt and Moore, 2009; Moore, 2014). Table 6.7 shows preliminary evidence of a positive correlation between public-sector wages and salaries[17] and estimated tax effort.

Switching to a SARA is a radical reform and the transition may be costly and risky, as it involves the replacement of a significant share of the staff. Alternative reforms may focus on the payment and incentive mechanisms in

[17] Data concerning civil service wage bill come from the Banque Centrale des Etats d’Afrique de l’Ouest (BCEAO) database: https://edenpub.bceao.int/index.php.

TABLE 6.7 *Correlation between civil service wage bill and tax effort*

	[1]	[2]	[3]	[4]
Payroll [1]	1.0000			
Total tax effort [2]	0.1766*	1.0000		
Time-varying tax effort [3]	0.1473*	0.9697*	1.0000	
Persistent tax effort [4]	0.1423*	0.3395*	0.1017	1.0000

Source: Authors' calculations.

place in the Beninese tax and customs administrations. In 2016, the Beninese tax administration numbered less than 500 staff[18] (there are more than 1,500 in Togo and there are 1,200 in Senegal). These staff receive several premiums in addition to their wage: *prime de rendement*, *prime d'incitation*, *prime d'impulsion*, and potentially a risk premium. A large part of these premiums remains collective, reducing their incentive dimension. Several empirical studies have highlighted the advantage of reviewing such incentives. For instance, Khan et al. (2016) show that a reward scheme based on collected revenue significantly improved property tax revenue in Pakistan. However, they emphasise also that the revenue gain resulted from a small number of properties, the values of which were reassessed, and that a risk of higher bribes emerged with the increase in collectors' bargaining power because of this new incentive mechanism. Thus, the introduction of individual performance contracts may be necessary, but is not sufficient to reduce the risk of corruption. As with a SARA, this mechanism should be complemented by extensive and effective monitoring (see Fjeldstad, 2002).

In 2017, Benin carried out a reform of its tax administration through a significant reorganisation,[19] which follows the segmentation approach of taxpayer population. It introduced a risk analysis for its audit policy and human management based on results. The details of this reform are unknown and the previously described incentive mechanisms seem to remain.

The 2017 tax administration reform also established a tax policy unit. This unit is in charge of defining the tax policy, forecasting expected tax revenue and the effect of tax reforms, and assessing tax expenditure. If the creation of a tax policy unit is an improvement in designing the Beninese tax system, the location of this unit inside the tax administration itself may seriously limit the efficiency of such a reform. First, it reflects a common inconsistency in French-speaking countries, and even in France, in which the tax administration not only collects taxes, but also designs the tax policy. Moreover, given the role of the tax policy unit in forecasting tax revenue,

[18] Data are not available for customs administrations.

[19] Decree N°3005/MEF/DC/SGM/DGI/SP.

the tax administration seems to have complete control over the goals to be achieved in terms of tax revenue, and the bonuses to be distributed to its staff. Second, customs remains an important tax collector and should be included in any tax reform and tax expenditure assessment. A natural location of the tax policy unit would have been 'above' both revenue administrations, headed by the special tax adviser of the Ministry of Finance. There is a need to clarify the role of each stakeholder: the revenue authorities, which collect taxes, and the Ministry of Finance, which designs the tax policy, with parliamentary control.

V CONCLUSION

Based on a large database covering forty-one SSA countries and the period 1980–2015, we analysed the effort by Benin to raise non-resource tax revenue in light of its structural characteristics. The stochastic frontier analysis, by comparing the non-resource tax-to-GDP ratio in Benin with its peers, identified whether Benin was away from the tax frontier: the tax effort in Benin remained relatively stable during the period, with an average of 65.1 per cent over the period and a rank of thirteen out of forty-two countries. A tax effort of 65.1 per cent means that the level of non-resource tax revenue is at 34.9 per cent of the country's maximum capacity. Knowing that, on average, Benin collects 11.14 per cent of its GDP in non-resource tax revenue and is at 65.1 per cent of its capacity, it would have raised 17.11 per cent of its GDP as non-resource tax revenue if it had used all its potential, given its characteristics. Hence, Benin has little room – insufficient to reach the WAEMU criterion of 20 per cent of tax revenue to GDP – to increase tax revenues, unless it addresses the reasons for the weak taxable capacity and conducts institutional reforms to expand its tax revenue potential.

In order to study rigorously the determinants of tax effort, an econometric analysis then complemented the previous statistical analysis. Based on an international comparison, we examined the effect of natural resources, ODA, transparency, corruption and accountability (CPIA indicator), and the political regime and stability on tax effort scores. We found that aid is associated with a lower probability of belonging to a quartile of high tax effort, while institutional quality (measured by the CPIA index) seems to increase the probability of belonging to an efficient quartile in terms of tax effort. Political stability appears to be strongly and positively associated with a greater likelihood of having a high tax burden.

Analysing potential policy and administrative sources of these tax gaps, we shed light on the human resource policy of the tax administration and the remuneration mechanisms, which may be obsolete. The payment and incentive mechanisms in place in Beninese tax and customs administrations should be reviewed and associated with extensive and effective monitoring to improve tax effort and limit the risks of corruption. The 2017 tax administration reform may improve tax revenue through a more efficient organisation of departments and divisions. However, it also raises a critical issue of providing the decision-making power in tax policy to the tax administration through the creation of a tax policy unit.

APPENDIX

The countries included in the study are Benin, Botswana, Burkina Faso, Burundi, Cabo Verde, Cameroon, Central African Republic, Chad, Comoros, Democratic Republic of the Congo, Republic of the Congo, Côte d'Ivoire, Equatorial Guinea, Ethiopia, Gabon, The Gambia, Ghana, Guinea, Guinea-Bissau, Kenya, Lesotho, Madagascar, Malawi, Mali, Mauritius, Mozambique, Namibia, Niger, Nigeria, Rwanda, Sao Tome and Principe, Senegal, Seychelles, Sierra Leone, South Africa, Swaziland, Tanzania, Togo, Uganda, Zambia, and Zimbabwe.

Table 6.A.1 reports the definition and sources of data used.

TABLE 6.A.1 *Data sources and definitions*

<table>
<tr><th>Variables</th><th>Definition</th><th>Sources</th></tr>
<tr><td>Total non-resource tax (% GDP)</td><td>Total tax revenues excluding resource rent</td><td>Mansour (2015)</td></tr>
<tr><td>Total natural resource rent (% GDP)</td><td>Sum of oil rents, natural gas rents, coal rents (hard and soft), mineral rents, and forest rents over GDP</td><td rowspan="4">World Bank World Development Indicators (WDI), https://databank.worldbank.org/source/world-development-indicators</td></tr>
<tr><td>GDP per capita (constant 2010 US$)</td><td>Volume of imports and exports divided by GDP</td></tr>
<tr><td>Total trade (% of GDP)</td><td>Volume of imports and exports over GDP</td></tr>
<tr><td>Agriculture, value-added (% GDP)</td><td>Net output of forestry, hunting, and fishing, as well as cultivation of crops and livestock production, after adding up all outputs and subtracting intermediate inputs, divided by GDP</td></tr>
<tr><td>Financial development index</td><td>Aggregate of nine indices that summarise how developed financial institutions and financial markets are in terms of their depth, access, and efficiency</td><td>Svirydzenka (2016)</td></tr>
</table>

Source: Authors' calculations.

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Discussion of 'The Tax Effort: A Comparison between Sub-Saharan Africa and Benin'

Discussion by Nicaise Médé

The chapter by Emilie Caldeira and Grégoire Rota-Graziosi presents the tax collection situation in Benin in comparison with the performance of tax collection in Togo. The text is clear and easy to read. However, there are some observations to make:

- The theoretical question is whether the increase in the tax burden is an end in itself. Is a lower tax burden not an incentive to invest? The question needs to be asked. The USA has a lower tax burden than Denmark, but it has a per capita income and higher productivity. The tax burden should not be viewed as an absolute goal.
- In practical terms, the study would be more useful for both Benin and Togo if it indicated the causal relationship between the various indicators cited and the difference in tax collection rates between the two countries. The study cites as possible causes corruption, motivation of staff, the merger of the tax and customs administrations, the status of the staff (contract or civil servant), and so on. If the Government of Benin seeks to use this document to correct its tax policy, it will not know what lever to act on to improve the tax return.
- The bibliography contains no items by authors from the countries concerned and more generally from French-speaking West African countries. The only bibliographical references are to authors from/writing about English-speaking countries in Africa.

1 OVERALL POINT OF VIEW

The study chooses the institutional perspective as an angle of analysis regarding the issue of brakes on and adjuvants to growth for development in Benin. In this regard, we can advance ideas that complete the comparison between

Benin and Togo, especially on the tax issue. Togo has created a revenue office and this has improved tax revenues. The Togolese scheme, which is similar to those in place in Rwanda and Burundi, addresses a major obstacle in Benin: the power of the trade unions in the finance sector (customs and taxes). The government has reduced by law number 2017–05 of 29 August 2017 the rights of workers by limiting to ten days per year the annual statutory period of walkout. The unions are therefore reduced to grumbling without a real threat capacity as regards the continuity of public services. However, there is reason to fear a similar manoeuvre to that adopted by Burkina Faso trade unionists in the finance sector, which led to the departure of their minister of guardianship and a ministerial reshuffle after a work-to-rule strike (presence at the office but not actually working through the entire period), in February 2019. For its part, the Government of Benin has shown no intention of going in the direction of a revenue agency. On the other hand, it has strongly oriented its administrative policy towards the creation of agencies in all sectors. In general, the agency as a management institution appeared in the course of the reforms undertaken with the advent of new public management in the 1980s. The goal is to apply the managerial methods of the private sector to allow public administrations to become more competitive while guaranteeing a quality public service. Countries like Sweden, the UK, New Zealand, Japan, Canada, and many others have followed this path. An agency makes it possible to combine the advantages of a public administration (regulatory power, power of constraint, general interest) with the managerial flexibility enjoyed by private individuals: a merit pay system, recruitment according to need, simplified dismissal, ease of appreciating individual and collective performance.

In the space of three years of government, the new President of the Republic, elected in 2016, has created about fifty agencies. In the particular field of taxes, the National Agency of Domain and Land was created (by decree no. 2015–10 of 29 January 2015). This agency deals with cadaster issues and facilitates upstream collection of property tax.

The question of the modernisation of public administration goes back a very long time (as mentioned by Pisani, 1956). Today we speak more often of development administration, in the logic of what we could call the 'government by corporations'. The dynamics of differentiation present the attraction of the flexibility of management rules, the ease with which managers are recruited, and the rules of public accounting. Development administration resembles a management administration in the durability of its existence and its power of constraint. On the other hand, it is closer to mission administration in the resulting requirements and its management flexibility. Development administration is more concerned with performance. The question of the performance of administrations is evident in the massive 'agencification' underway in Benin, which is the beginning of a solution to the problem of administrative institutions and their impediment to growth in Benin.

By multiplying agencies in Benin, the government provides solutions to two types of problems:

- First of all, the large numbers in general administration with profiles that often do not correspond to job positions. Public administration is often a refuge for incompetent people who cannot find jobs in the private sector. Very often, offices are cluttered with staff who work little because there are five or ten in a position that only one person can occupy with adequate working means. This overpopulation of the public administration goes hand in hand with insufficient staffing for certain managerial or high-tech positions. We are thus witnessing a contradictory phenomenon where on the one hand some people get bored at work, and on the other hand other agents are on the verge of burnout.
- The question of motivation of the staff could also be regulated by the 'agencification'. Indeed, public officials receive premiums and are subject to a promotion system that is usually based on seniority and not on the quality of work. This is the standard contained in the General Code of the Civil Service (Law No. 2015–18 of 2 April 2015 on the General Statute of the Civil Service). In an agency, staff should be periodically evaluated on their professional performance, results achieved, innovations made, and quality of work done (attendance, relations with colleagues, etc.). This evaluation of the agent could be sanctioned by bonuses, promotions, and many other things. Poor performance should lead to punishments, downgrades, and even dismissal if necessary. The agent in an agency knows that he or she is recruited because of his or her skills and abilities, and not because of his or her relationships.
- Then comes the question of recruitment and dismissal: officials are guaranteed employment and can only be dismissed from their job in extreme circumstances. They are safe from economic redundancy and even if a nurse receives only two patients in the day for his or her village infirmary, this work is enough to guarantee the salary at the end of the month. The notion of return has no place in public administration. Officials obey the rules of the public service of the state. Labour productivity is not evaluated, and neither is yield. The agency offers the possibility to its leaders to leave the administrative framework of the civil service. Recruitment is carried out on the basis of a need for staff. The employment contract that binds the agent to his or her agency will be able to continue on two conditions: first, whether the agent fulfils his or her professional obligations correctly. He or she does what he or she must do on time and perfectly, under the appreciation of his or her managers. Then, the overall performance of the agency will justify the maintenance of the agency or not. An agency that is not performing can be dissolved, merged with another, or its team renewed entirely to give it a new lease of life. The fate of an agency is not very different to that of a private company, and nor is its management.

- Finally, there is the question of remuneration: civil servants are considered to be poorly paid and are not motivated at all to do quality work. It is popularly believed that the state pretends to pay officials and officials in turn pretend to work. The management of an agency makes it possible to combine an optimum workforce, satisfactory remuneration, and good motivation of the agents. It is total quality management.

II AGENCIFICATION OF THE REVENUE SERVICES IN QUESTION

In the African countries that have adopted this approach (Togo, Rwanda, Kenya, etc.), the agencification of the services responsible for collecting taxes (domestic taxation and door taxation) has had consequences for:

- The motivation of staff.
- A synergy effect that favours revenue optimisation.
- The system of corruption.

Benin has not chosen this solution of agencification. The option is to be able to push on other levers to achieve the same results regarding staff motivation and the system of corruption.

- *The promotion of results-based management*: The African Center for Training and Administrative Research for Development pleaded in 2010 for accountability and transparency in tax administrations. These are values promoted by governments in general government. The African Union has adopted the Public Service Charter (2001) to highlight the concepts of productivity, objectives, and evaluation. For its part, the General Tax Directorate of Benin has started to apply a results-based management system: defining objectives, issuing mission letters, evaluating performance, and implementing positive and negative sanctions. The record of this policy is mixed, but the method may have a more convincing impact with the development of other managerial techniques, notably the dematerialisation of procedures.
- *The dematerialisation of procedures*: This means that information technology is used to reduce contact between tax and customs agents and users. At the customs port of Cotonou, the importer does all of his or her own operations, without ever encountering a customs officer. Import documents are entered into the electronic platform and the amount of customs duty is generated automatically. Payment of tax and customs is made in a commercial bank. The number of the payment receipt is entered into the computer system, which immediately issues the notice with the right to remove the goods. However, customs posts at land borders are not yet equipped with this computer system. As for the Directorate General of Taxes, it has also started a system of dematerialisation of these procedures of calculation and payment of tax. The immediate consequence is the reduction of

opportunities for contact between users and the tax administration. This should reduce the risk of corruption involving tax officials.

- *Saving time*: Dematerialisation must also enable time savings in the execution of formalities with the tax authorities. According to the 2017 Paying Tax Report, it takes 908 hours (37 days) to fulfil tax obligations in Nigeria, 630 hours (26 days) in Cameroon, 124 hours (5 days) in Rwanda, and 82 hours (3.5 days) in Djibouti. Time management is related to the management of paperwork. It has a cost for the tax administration and generates additional costs for taxpayers. In South Africa, the use of electronic platforms has improved tax revenue mobilisation and reduced the cost of corporate tax compliance by 22.4 per cent.

III CONCLUSION

The Government of Benin is using the technique of agencification to modernise the public administration and to make it more efficient.[20]

Curiously, the same government seems not to be moving towards agencification with respect to tax management. We understand that the decision is to achieve the same results that allows agencification using other managerial techniques: the promotion of results-based management, the dematerialisation of procedures, and the reduction of the time that taxpayers dedicate to their tax obligations.

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7

The Political Economy of Land Reform[*]

Philippe Lavigne Delville, with Discussion
by Kenneth Houngbedji

I INTRODUCTION

This chapter analyses the recent land reform that was enacted by the 2013 Code Foncier et Domanial (Land and Domain Code) and its results at end 2018, five years after.[1] Its orientation is significantly different from the other chapters, both in its purpose and approach. It is not so much a question of highlighting desirable areas for reform as it is of analysing an ongoing reform. In particular, it deals with the political economy of the reform. It provides a detailed history of a complex and contradictory process, discussing the reform's political and economic stakes, the groups of actors and interests that pushed it, those who are opposed to it, and those who seek to shape it for their own benefit.[2]

[*] This chapter does not include recent developments, which represent a new step but will only be evoked in the Afterword. For space considerations the discussion is limited in some instances. For further details, see Lavigne Delville (2019). The analysis presented here is based on long-term research on land reforms in West Africa, with the main focus on Benin, that was initiated some fifteen years ago, and in particular on a two-month research trip in autumn 2018 specifically devoted to the political issues of the 2013 reform and its 2017 update. It has also benefited from a complementary research mission carried out in March 2019 as part of the Economic Development and Institutions project. I would like to thank the discussants and participants of the workshop organised by the project in Grand Popo in March 2019, in particular Mr Djibril-Akambi, Agence Nationale du Domaine et du Foncier Deputy General Manager, Kenneth Houngbedji and Jean-Philippe Platteau, for their contributions. I also thank Clement Dossou-Yovo, lawyer and land expert, for our numerous exchanges on this reform during all these years. Finally, I thank Romain Houssa for his careful review.

[1] In French-speaking African countries, land law makes a distinction between 'land' issues, which are about private property, and 'domain' issues, which are about state (and local government) owned or controlled land. Several countries have a Land and Domain Code, which deals with both dimensions. This is the case in Benin since the advent of the 2013 Land and Domain Code, which I will simply call the 'Land Code' or 'Code' in this chapter.

[2] See Plançon (2017) for a legal point of view.

A matter of 'power, wealth, and meaning' (Shipton and Goheen, 1992), land is at the heart of societies and of the formation of the state: (1) the way of thinking and organising access and control of land and its resources reflects the conception of the society, its forms of authority, and the differentiations that structure it; (2) the distribution of rights over land and resources determines, in part, statutory and socio-economic inequalities; and (3) the capacity to define rules governing land rights, and to grant or validate them, is at the heart of political power and construction of the state (Boone, 2014). Any land policy necessarily has power-related stakes (politics) and societal stakes (polity) (Léonard and Lavigne Delville, 2022). Land reform processes are also linked to the interests of the different groups of economic and political actors, the weight of professional corporatism, the conflicts of societal projects, and the question related to the plurality of norms that run through the society (Lund, 2001).

Since the middle of the 1980s the land issue in Africa has come back again onto the agenda of development policies, in a context of state crises, economic liberalisation, and increased conflicts in rural areas. Two major visions clash, both challenging the colonial and post-colonial state's monopoly on land. The first one promotes the replacement of informal customary rights, considered as obstacles to productivity, by private ownership rights, supposed to be a condition for economic development. The other one, described as 'adaptative' (Bruce, 1992) or 'pro-poor' (Borras and Franco, 2010; Zevenbergen et al., 2013), acknowledges the dynamics of local/customary land rights and considers that they are not, as such, a constraint on productivity. Thus, the issue of land reforms is to build a favourable institutional environment that secures people's rights and allows these rights to evolve peacefully.

Both paradigms emphasise the issue of the security of land rights, but with different assumptions regarding what 'tenure security' means. For the privatisation paradigm, it means private ownership rights recognised by the state and full capacity of transfer and sale. It is however a biased definition. Land tenure security means that one's rights (of whatsoever kind) cannot be challenged without good reason, and that legitimate authorities (customary, state, or hybrid) are able to settle conflicts (Lavigne Delville, 2006).[3] Tenure security is above all an institutional issue: it requires rules and authorities able to design and enforce them; one can be in security with informal rights, which is the case in most customary contexts. While emphasising tenure security, the 'adaptation' paradigm also largely supports the formalisation of customary informal land rights in rural areas. However, according to this paradigm, formalisation has to adapt to the diversity of rights and to be implemented through progressive frameworks, and the development of innovative, adapted, inexpensive, and accessible approaches.

[3] For an more detailed theoretical discussion see Lavigne Delville (2019) and a recent literature overview in Lavigne Delville et al. (2022).

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In French-speaking Africa, the debate on the legal recognition of property rights is strongly structured around land titles,[4] issued after 'immatriculation'. Immatriculation is a land registration procedure that had been specifically designed for colonial areas (decrees of 1906 and 1932). In contrast to France, where the proof of ownership is the sale contract prepared by notaries, it is based on the granting by the state of a quasi-absolute private ownership, incontestable and guaranteed by the state, based on the purging of all pre-existing rights. Every plot that does not have a land title is subject to informal rights or 'presumed ownership' and is considered to be part of the state's private domain. Immatriculation (hereafter referred to as standard titling or registration) allows for 'the entry into legal life' of land that previously had 'informal' status. However, it is a complex and costly procedure and colonial powers never tried to generalise it (Chauveau, 2016). Historically, it has been at the service of colonial power and its allies, and not of the recognition of the rights of inhabitants, who were considered as subjects and not citizens (Mamdani, 1996). It has been retained after independence and remains accessible only to a minority.

For the majority of West African land professionals and policy makers, the land title is the only conceivable form of legal property right and the aim of a reform is to unify land rights and to generalise private ownership and land titles. For some of them, and for most sociologists or anthropologists, standard titling is an obstacle to large-scale access to land rights formalisation, since its very logic – not to mention its cost – is contradictory to the aim of recognising the various existing land rights. In this conception, it is the law that has to adapt to society in order to overcome the colonial legacy.

The debate on agricultural productivity and on the relations between society and law is not only a technical one. It encompasses diverse conceptions of society, of relations between individuals, social collectives, and the state, of the place of market relations, of the role of law, and so on. It challenges people's historical exclusion from access to the law. These various and intricate issues explain why, even though almost every West African country has launched attempts at land reform, the processes and outcomes, as well as the degree of implementation of adopted reforms, have been very different from one country to another (Seck et al., 2018).

The case of Benin is particularly interesting from this point of view because, within the space of a few years (from 2007 to 2013), Benin adopted two different contradictory land reforms. The first was led by the Ministry of Agriculture and supported by European donors. It focused on rural areas and promoted an alternative to standard registration and land titles, which the promoters considered fundamentally unsuitable for rural areas. It resulted in the 2007 Rural Land Law.[5] The second has a national focus. It was led by the Ministry

[4] I write 'land title' when I am talking about *titre foncier'*(TF), this specific kind of title over land.

[5] I use 'communes' and not 'municipalities' because in Benin most communes are rural and urban, and include a central town and a number of villages.

of Urban Planning[6] and the Millennium Challenge Account Benin (MCA-Benin).[7] It aims to standardise land law and develop access to private land titles by reforming the national land administration. It was embodied by adoption of the Land and Domain Code in 2013 (which abolished the 2007 law and was slightly revised in 2017), and the establishment in 2016 of the Agence Nationale du Domaine et du Foncier (ANDF, National Agency of Land and Domains).

The succession, within a few years, of two reforms based on different paradigms, carried out by different networks of actors, supported by different donors, and having experienced varying degrees of implementation, represents a textbook case for highlighting the intricate issues of land reform, and questioning the stakes and the actors' interests around the reform's framing and implementation. It also offers an opportunity to question the diverse conceptions of land tenure security and of land governance and the conditions for institutionalising a land reform.

In this chapter, I study the history of these two intricate land reforms, with a focus on the second one, which – at the end of 2018 – won the battle. I begin with a brief institutional analysis of the land sector in the early 2000s. Section II discusses the different, concurrent reform projects that took place during the 2000s. Section III details the vision and process of the second reform, with its dual focus on field registration projects and land law formulation. I then analyse the 2013 Land Code, its orientations and the controversies around it, and finally discuss the strengths and limitations of this reform, particularly in terms of citizens' inclusion.

My analysis relies on a perspective of 'socio-anthropology of public action in countries under aid regime' (Lavigne Delville, 2016), which aims at studying through qualitative enquiries the way public policies are framed, negotiated, contested, and implemented in aid-dependent countries. In an ethnographic and constructivist approach, it studies the interplay of actors and conflicts of representation and interests throughout the policy process, taking into account the multiple disjunctions between its different stages. By empirically following networks of actors, ideas, and instruments, from the global to the local, this approach shows the intertwining of ideas, interests, and institutions (Hall, 1997), and the intricate issues of *policy*, *politics*, and *polity*. This analysis focuses on a reform that is still being implemented and ends with the National Workshop on Land organised in October 2018. The chapter therefore concerns an incompletely stabilised process, and in no way claims to evaluate it. Focusing on retracing the reform's history, it offers primarily a retrospective

[6] This Ministry had different names during the period studied.

[7] The MCA is the national team set up under the aegis of the Presidency of the Republic to develop and manage projects submitted to the Millennium Challenge Corporation (MCC), an American aid agency founded following the Monterrey Conference in 2004.

look, and does not intend to take note of recent developments. However, some of them are presented in the Afterword.

II COMPETING PROJECTS FOR REFORMING LAND LAW AND ADMINISTRATION (1990–2005)

A State Ownership, Informality, Semi-formal Arrangements and 'Confusion Management': A Brief Analysis of the Land Sector in the 1990s–2000s

From independence up to the 2007 Rural Land Law, land in Benin was governed by a legal framework resulting from the early years of independence (Gbaguidi, 1997):

- Law No. 65–25 of 14 August 1965 on land ownership in Dahomey,[8] which largely incorporates the colonial registration procedures defined by the 1932 decree.
- Law No. 60–20 of 13 July 1960, established the system of 'housing permits' in Dahomey, which made it possible to grant 'essentially personal, precarious and revocable' rights to urban actors established on the private domain of the state.
- Law No. 61–26 of 10 August 1961 defining and regulating rural development schemes (*périmètres d'aménagement rural*).

As in most French-speaking African countries, the colonial decrees of 1955 and 1956 were set aside by the new authorities. Enacted at the end of the colonial period, those decrees allowed 'indigenous' people to obtain legal recognition of their land rights. Rarely implemented, they have never formally been repealed before the 2013 Code, and were sources of inspiration for the 2007 rural land reform (Lavigne Delville and Gbaguidi, 2022).

Throughout this period (1960–1990), the widespread informality was not necessarily perceived as a policy problem in rural areas, where customary and semi-formal regulations continued to organise access to land and conflict arbitration. Land tenure insecurity was mostly found where the state was involved in development projects, and where the land market was developing, mainly in urban or peri-urban areas. This section describes the situation around 2000, when reform processes began. Since the reform is still partly implemented, it has not changed very much in most of the country.

Decentralisation policy in 1999 transformed the former districts into communes, giving them expanded powers on land and housing, and land became a central part of the local political economy (Aboudou et al., 2003).

[8] This was the name of the country until the 1975 revolution.

1 Generalised Informality, Institutional Weaknesses and Semi-formal Arrangements

Around 2000, land tenure informality (or semi-formality) was largely dominant. Across the entire country only 1,980 titles were issued between 1906 and 1967 (Comby, 1998b, pp. 11–12). Demands for land titles, mostly from urban well-off citizens, have risen since the 1990s, along with economic liberalisation and democratic transition. However, in 2004 there were only 14,606 land titles (MUHRFLEC, 2009) for a population of 6,769,914 inhabitants in 2002 (Zossoungbbo, 2016). Titles covered less than 20,000 ha or 0.17 per cent of the national territory. They concerned fewer than 15,000 households (1.23 per cent of the total number; République du Bénin, 2004). In 2007, only 5 per cent of urban residents and 0.8 per cent of rural residents had land titles (INSAE, 2009, p. 166), with high inequalities by wealth level: 4.4 per cent of the 'richest' had a land title, compared to 1.1 per cent of the 'poorest' (INSAE, 2009, p. 167). While the demand for titles increases, the pace is slow: 'the proportion of parcels or land with a land title rose from 2.1% in 2006 to 3.4% in 2010 and 3.0% in 2011' (INSAE, 2012, p. 53).

The responsibility for the management of both the state domain and private land titles is entrusted to the Direction des Domaines, de l'Enregistrement et du Timbre (DDET, the Directorate of Land Tenure, Registration and Seals), within the Ministry of Finance. DDET is a highly centralised body: it has only two offices, in Cotonou and Porto Novo, for the full country. Under-equipped, the land administration delivers few titles. Many files are incomplete or outdated. A survey done for a World Bank Project (Comby, 1998b) states that many old titles are practically unreadable, due to poor storage conditions, and that some are even destroyed or missing. In the absence of a cadastral plan, the existence of a land title can only be known through a survey among neighbours. The plot maps drawn up by the surveyors are not connected to a general system of topographical markers, and the location of some titled plots is inaccurate. A new title can thus be issued on a plot of land that has already been titled in whole or in part (see Comby, 1998b and Lavigne Delville, 2019 for details).

The titling procedure is supposed to guarantee the reliability of the information. However, the number of steps in that procedure increases its costs and duration. This also increases the risk of the file becoming bogged down, and therefore the opportunities for personalised and clientelist, if not corruptive, processing of the files. Contradictory demarcation on the plot itself is supposed to ensure the legitimacy of the claimed rights. However, demarcation notices are to be published in the State Gazette, and posted in the Court of First Instance and in the subprefecture or town hall. They are rarely posted on the plot of land itself. Information on neighbours and possible local rights holders is fragmentary or non-existent. Applicants can thus obtain a title even with incomplete or sometimes illegal files and/or without the customary holders of the land in question being informed. The impossibility of contesting a title, which is supposed to protect the owner, serves in practice to ratify errors, fraud, and spoliation.

Applicants for titles are essentially wealthy urban actors, who are familiar with land administration and who want to secure their rights on the plots they have purchased, mainly in peri-urban areas. However, many executives – and even lawyers – acknowledge that they do not go through with the procedure: they start it in order to have a surveyor demarcate the plot on the field to discourage possible claims. Then they stop. The state itself rarely carries out registration procedures on its own land and the consistency of the state's domain is unclear. The text defining the price for buying state land has not been updated since the 1960s, allowing actors familiar with the procedures to buy at low prices portions of the private domain of the state, which has been largely discounted over the years (Lassissi, 2006).

The revolutionary regime (1974–1990) did not bring significant changes. It did not nationalise the land and forbid land sales. The 1977 Basic Law recognised and protected private property. This period saw the creation of numerous state farms on land expropriated from farmers, and the allocation of 'uncultivated' land to state companies and administrative services, with redistribution to clients and political allies (Le Meur, 1995). The promotion of palm groves led to the creation of cooperatives where state agents could gain land. Until today those cooperatives remain sites of conflict between members of cooperatives and former customary owners. Furthermore, the official ban on owning more than one urban plot of land has multiplied bypass strategies, at the risk of subsequent conflicts during succession when some plots were put into the name of children (Andreetta, 2019, p. 118).

Sitting beside the land law, or reinterpreting it, various procedures, most of them dating from the colonial period, have gradually constituted a 'semi-formal system' (André, 1999; Mathieu, 1996) of land regulation; that is, a set of procedures and documents not explicitly integrated into the legal framework but nevertheless implemented in a relatively stable way, by official authorities. This is the case for customary/unregistered land. For example, local authorities (formerly the district heads, now the mayors) issue administrative certificates – normally after a field survey but not always – to attest the ownership of a plot of untitled land. They also validate sales contracts on untitled land by signing and stamping them, with reference to the colonial 1906 decree on agreements between indigenous people. Local authorities also widely distribute housing permits, including outside land registered in the name of the state, which is illegal (Le Meur, 2008).

In other countries, transactions on unregistered plots can be formalised through written contracts, handwritten or typed, which are officialised with the signature of an administrative or communal authority. This is much more institutionalised in Benin, despite some variations: municipalities print and sell specific forms with the commune stamp. Most land sales are officialised this way, against payment of a tax. However, this institutionalisation does not prevent all conflicts over sales, for several reasons. Field surveys are not always done before issuing administrative certificates. When signing a land sale contract, the mayor has no means to ensure that the seller is really the owner and has the right to sell. A 'certificate of non-litigation' (*attestation de non litige*) is requested from the village chief, but is not enough as the chief has no obligation to check the property rights on the plot and to alert in case of risk. Moreover, while numerous sales concern family land, the form has room only for an individual seller, and there is no obligation to have formal approval of the sale by the family rights holder before endorsing a sale. Archives are not properly managed. Communes have multiple responsibilities in terms of housing and planning, without having the tools and staff that would be necessary to carry on these responsibilities. Commune leaders are often engaged in land business, due to its political and financial issues.

Outside buyers cannot rely on their knowledge networks to check whether the person claiming to sell a plot of land is really the owner and whether the plot is a family property or not, and are not on site after the purchase to protect the plot against fraudulent sales. They are thus are particularly vulnerable to conflict and insecurity. Palm plantations in the Ouémé Valley, and more generally all land purchased in peri-urban areas, are thus equipped with cement pillars, and panels indicating the name and telephone number of the owner, in the hope of avoiding having the plot taken over by others.[9]

While lack of staff plays a role,[10] the weaknesses of untitled land management by communes come first from the fact that the state has never structured and supervised it. In practice, the land law only deals with titled land and the process of immatriculation. Untitled land (customary land, but also plots in housing estates having housing permits) is left to these commune-level semi-formal procedures. However, at the same time, the state recognises them: administrative certificates and endorsed land sales contracts are part of the necessary documents for requesting a land title. By acknowledging them, and even more so by leaving citizens' needs in terms of securing unregistered land without a political and institutional response, the state endorses these practices.

As access to a title is in practice impossible for most citizens, these procedures are the only way by which most interested citizens – mainly urban or peri-urban – can obtain official documents attesting to their land rights. They can be seen as 'palliative solutions' that attempt to provide practical responses to the problems encountered, given the shortcomings of public

[9] See Sotindjo (1996) on land speculation in Cotonou; Adjahouhoué (2013) on land transactions in the urban periphery in Abomey Calavi; Magnon (2013) on speculation in anticipation of the new airport project in Glo-Djigbé; and Kapgen (2012) and Avohouémé (2016) in the Djidja region.

[10] For example, in 2014 the Department of Land Affairs of the municipality of Abomey-Calavi, with 600,000 inhabitants and the highest population growth, had only thirteen employees, including four permanent staff and nine collaborators (Kakai, 2014, p. 12).

services. As stated by Olivier de Sardan (2014), those behaviours are 'unofficial', 'out of step with what the texts provide', 'at the limit of legality' (and sometimes even illegal), but they provide informal solutions to bottlenecks in public services.

2 Land Markets, Conflicts, and Insecurity: A High Regional Diversity

In 2007, 40 per cent of plots of land in urban areas, and 10–13 per cent in rural areas, have been purchased (INSAE, 2009, p. 165). However, only 5 per cent of individuals have a land title in urban areas and 0.8 per cent in rural areas (INSAE, 2009, p. 106). In 2011, 6.6 per cent of plots had a housing permit and 44.4 per cent had a sale agreement from the town hall. In Cotonou, 72.0 per cent of individuals who own a plot of land have a sale agreement from the commune and 7.5 per cent a land title (INSAE, 2012, p. 53). The proportion of loan amounts secured by a land title is very low (1 per cent at most; Steward International, 2010, p. ix).

Legal uncertainty is widespread, due to an absence of legal documents or to poorly managed land information. However, this does not impede land transactions. Land markets are absent in most rural areas, but they are common in urban and peri-urban contexts, as well as in countryside in the south.[11] Moreover, it does not always translate into real insecurity, or into a proven risk. Informality does not mean insecurity as long as land rights are not contested and legitimate authorities are able to solve conflicts. Insecurity and conflicts are concentrated in some areas, some configurations, and for the least powerful actors.

In the cities, a large part of the territory has been subdivided for housing, people's rights on the plot they live on are quite stabilised by occupation, and the inhabitants frequently hold one or more documents: residence permits, sales agreements, and administrative certificates. Cases of conflicts or insecurity arise due to contradictory overlapping rights, or conflicts over inheritance or sales. Some houses in cities are marked 'contentious, not to be sold'. Family rights holders may contest sales made without their consent, even a long time after the fact. Sellers' heirs can even go to trial when they see that the value of land has dramatically increased and they can win in court. In some cases, buildings have to be destroyed because of a court decision, due to a conflict relating to a sale, but there are few reliable data on the number of such cases.

Conflicts frequently involve disputes over past sales, or inheritance disputes. Family houses are occupied by different family members and the eldest son often takes responsibility for them upon the father's death, postponing the distribution among the heirs. He manages the income from the rented property for his benefit. The youngest, and especially women, are increasingly claiming their share of

[11] From 5 to 7 per cent of the surveyed plots (both agriculture and housing) have been bought in Atacora, Donga, and Collines departments, against 30–40 per cent in Atlantique and Ouémé, and 90 per cent in Littoral (Cotonou) (INSAE, 2009, p. 164). Also see Lavigne Delville (2018).

inheritance, based on the recent Family Code (2004), and are less hesitant to go to court, which has led to an increase in the number of such cases (Andreetta, 2019).

In rural areas, land governance is largely by customary or neo-customary[12] norms and by 'traditional' authorities, whose power varies greatly from one area to another, with the intervention of state agents and the territorial administration or municipal elected officials in the event of conflicts. Depending on the region, population density and land-use patterns, land tenure relationships are more or less individualised. The contrast is striking between the southern regions (Mongbo, 2002) – densely populated, highly individualised, where an inter-farmer land market for purchase and sale has existed for a long time – and the rest of the country, where such a market is non-existent or almost non-existent. Urban buyers, with financial resources that are disproportionate to those of rural families, are one of the major factors in the commodification of land, in – sometimes even remote – peri-urban areas, along roads and in pioneering areas, where land is still available. Sales contracts are sometimes based on a mutual agreement, but can also rely on corruption, manipulation, or even force (Kapgen, 2012).

Investing in land is indeed one of the preferred strategies of urban elites and the middle classes. This rush on land fuels acute land speculation, which is felt far inland. All those who can afford it buy plots of land on the periphery or in remote suburban areas according to the available opportunities and their financial means. 'Land mafias' expand around large cities, which bring together landowners' lineages and 'canvassers', surveyors, and municipal or state agents. Multiple sales of the same plot of land, and contestation of former sales by rights holders (shortly after a sale made without their knowledge, or years or even a generation later when they discover that the plot's value has increased significantly) are frequent, causing insecurity for buyers. Nevertheless, these buyers rush to take advantage of all opportunities, hoping to secure at least part of the plots they buy.

Numerous actors highlight the high prevalence of land conflicts. However, solid figures are rare. Existing surveys are often ambiguous in their definitions of conflicts.[13] In 2007, a survey shows that the proportion of plots that have been the subject to a dispute is 1.4 per cent in urban areas and 1.1 per cent in rural areas, which is considered 'a low proportion' (INSAE, 2009, pp. 169–70), but the difference in figures between 2006 and 2007 is astonishing. The percentage of conflicts is highest in the urban and peri-urban departments of the south of the country (around 4 per cent) and very low elsewhere (less than 1 per cent). Numerous communes in rural areas recorded no land conflicts in 2007.

[12] 'Neo-customary' means that the norms are primarily local norms and that local land authorities claim customary legitimacy. However, norms, rights, and authorities change with economic and social change, and due to state intervention.

[13] In Enquête Modulaire Intégrée sur les Conditions de Vie des Ménages (EMICoV) surveys, it is not clear whether the conflicts are the ones that emerged during the year before the survey or the pending conflicts, including those that began earlier.

Contestation of property rights (inheritance, land sales, land grabbing) is the most frequent source of conflict (33.9 per cent; INSAE, 2012, p. 122).[14] Plots of land with a written document are less prone to conflict, but the title does not provide much more of a guarantee than other documents. Land conflicts affected 3.4 per cent of plots with no administrative documents, against 2.7 per cent for plots with a non-formal sales agreement, 2.4 per cent with a sales agreement established by municipal authorities, 2.3 per cent with a residence permit, and 2.0 per cent of plots with a land title (INSAE, 2012, p. 121). Having a document reduces the risk of conflicts, but a land title does not provide complete security.

These data show clearly that conflicts are more frequent in urban and peri-urban contexts. There is no direct link between informality and conflict, and a land title is not much more secure than a sales agreement issued by a commune. Most conflicts are solved outside courts and at a lower cost. Only 12 per cent of property rights disputes are settled by the courts (INSAE, 2012, p. 130). Most of them are solved at family level (26 per cent), at commune level (25 per cent), and at village or subcommune level (24 per cent).

3 Institutional Bottlenecks before Reforms: Vested Interests in Confusion

We can summarise the situation at the end of the 1990s as in Table 7.1, proposed by the research project.

Some forty years after independence, land governance is still based on the colonial duality between private titles for land and informal or semi-formal plots. Most of the country's plots are governed following customary or semi-formal procedures at commune level. Instead of designing sound commune-level procedures to make them more reliable, and answer to the needs of the majority of citizens, government has allowed them to develop unchecked, leaving gaps for manipulation and power grabs. For Piermay (1986, 1992), who studied urban land practices in central Africa, and Mathieu (1996), who was interested in the rural situation in Sahelian Africa, the situation of informality and vagueness about the land rules does not result from chance. It is the product of a deliberate strategy of 'managing confusion' by political and administrative elites, who are well integrated into the political and administrative networks and able to take advantage of it.[15] The situation of Benin confirms this analysis. The obsolete nature of the texts, the vagueness of the rules, the institutional shortcomings, the complex procedures, the lack of resources for the administrations are greatly responsible for the current situation. These institutional deficiencies are partly the product of a lack of interest – and budgeting – on the part of the state. Constraints on human and financial resources in state administration bodies have been aggravated by structural adjustment.[16] However, their maintenance over time cannot be attributed

[14] Conflicts not classified elsewhere represent 22.2 per cent of the conflicts cited, which is very high and shows a problem in the survey.

[15] See also Berry (1993); Platteau (1992, pp. 177–83).

[16] See Bierschenk (2008) on justice and a comparison of the ratio of judicial personnel in Benin to that in Europe.

TABLE 7.1 *Institutional bottlenecks*

Deep factors	Proximate causes	Identified weaknesses	Economic consequences
Plurality of social and land norms within society	Obsolete legal texts	Legal recognition of land rights inaccessible to the vast majority of the population	Importance of informality
Normative conception of the law, not seen as being in the service of the society	Unregulated legal duality between state law and neo-customary norms	Registration procedure that does not guarantee reliable publicity and protection of existing rights No affordable solution for ordinary people	Conflicts, especially in peri-urban areas
Conception of ownership as 'absolute' and given by the state, 'from the top'	Centralised land tenure administration	Unorganised plurality of state and neo-customary bodies in land governance and conflict resolution	Spoliations, in particular in land subdivisions and plots of land purchases
Colonial legal framework, left in place without major change since independence	Expensive procedures for having a land title	Poor reliability of 'semi-formal institutions'	Transaction costs in land purchases
Multiple interests in 'confusion management'	Duplicate procedures and rent-seeking strategies by land administrations and professionals	Unsecured sales (for family rights holders and for buyers)	Cost of conflict for households and businesses
Rent-seeking financial system	Semi-formal palliative institutions	Little/no access to credit for rural producers, nor in the case of urgent need	Distress sales
	Shortcomings in the supply of credit to rural people	No taxation on purchased land not valued	Unproductive or speculative Accumulation by elites

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solely to negligence and it is advantageous for certain parties. Informality in rural and peri-urban land allows urban dwellers to buy it at a cheap price; the lack of updating of the state property register and the obsolescence of the state land transfer scale clearly favour the grabbing of the state's domain by actors who know the rules and have relations with land administration agents; land title registers are not maintained properly, which allows for manipulation.

Land subdivisions are a privileged place for land corruption (Aboudou et al., 2003; Kakai, 2014, pp. 16–18). Surveyors apply an exaggerated 'reduction coefficient' that allows them to illegally create new plots that they share with local elected officials. The heads of communal land services and elected officials are also involved in land speculation. The ministry for urbanism states that 'some land canvassers maintain a land mafia which sometimes leads to the counterfeiting of Land acts with the complicity of the Land affairs services of the Mayor Office' (MUHRFLEC, 2011b, p. 58). These deficiencies and the lack of resources open up many opportunities for negotiation, privatisation, and informal transactions, and even manipulation or corruption. As Bayart (1993) explained thirty years ago, in Africa land and property ownership is the wealth par excellence and the main source of accumulation for national and local politicians, and state agents and the institutional shortcomings do not only result in losers.

B Adaptation versus Replacement: Competing Attempts at Reform[17]

1 The Emergence of the Debate on Land Security in the 1990s

In Benin, the first seminar on housing and land tenure security, in 1984, is regularly quoted as the starting point for further reflection. But it was only around 1990 that the spoliations linked to a collapsing revolutionary regime, the land grabbing by the elite on the private domain of the state, and the abuses by state agents against the population led to the state's land monopoly being called into question (Gbaguidi, 1997). The context was one of economic liberalisation and democratic transition. Land rights' informality and tenure insecurity started to be raised as a problem, in both urban (Comby, 1998b) and rural areas (Hounkpodoté, 2002). In both contexts, the issue was to favour wide access to legal recognition and to prevent land conflicts. Several reform projects were raised in different ministries.

2 In Urban Areas, Tool for Commune-Level Land Taxation and Unsuccessful Discussions on Legal Reform

In the early 1990s, the French cooperation set up local land taxation tools, called *Registres Fonciers Urbains* (RFUs – urban land registers), in Cotonou and Parakou (Charles-Dominé, 2012). An RFU consists in a map of land occupations – regardless of their legal status – built from field surveys, allowing the

[17] See Lavigne Delville (2010) for a first analysis, centred on rural issues.

issue of tax notices. The RFU allows a significant increase in tax resources, but remains incompletely mobilised by the municipalities, both because elected officials are reluctant to increase the pressure to pay taxes, and because of weak institutional anchoring in the municipalities' administrative system (Simonneau, 2015). RFUs have then been disseminated to other municipalities, by various donors, in various forms and with limited success (Simonneau, 2015). While RFUs are primarily a fiscal tool, their designers thought they could help to register ownership: the presence on a plot for a sufficient period, as evidenced by the regular payment of property tax, could be considered after a given number of years as a proof of ownership, avoiding the complexity of immatriculation.

As part of the Urban Rehabilitation and Management Project (Projet de Gestion et de Réhabilitation Urbaine [PGRU], with World Bank financing), a series of studies conducted in the 1990s laid the groundwork for possible land reform. Comby (1998b) identified four possible strategies. The first was 'an improvement of practices and reorganization of administrative means in compliance with existing law'. The second was 'a policy of occasional improvements leading to a significant improvement'. The third built on the development of group registrations. The last strategy was based on deep modification of the conception of ownership and land rights legalisation: 'in a more radical break with current legal and administrative practices, making ownership a matter to be settled between private persons. The State and its administrations no longer deal with the recognition and allocation of property. The peaceful owner of a piece of land is presumed to be the owner, with the burden of proof to any interested person to the contrary by taking legal action' (Comby (1998b, p. 17). This would mean abandoning the colonial conception of state-guaranteed land ownership in favour of a contractual approach, like in the French Civil Code.

'For many people', according to Comby (1998b, p. 17), 'all the current difficulties stem simply from a lack of respect for existing texts. They think that it is not the law that needs to be changed, but that it is the practices that must be brought into conformity with the law, all the evil coming from the fact that the law was no longer respected'. However, this expert supported the 'bottom-up ownership' perspective and thus an exit from the standard registration model. He explained that the scenario for implementing existing law was doubly unworkable: first, it would imply being able to prohibit sales of unregistered land, and then the cost and pace of issuing land titles are incompatible with a desire to address the problem on a significant scale.

Prepared by Beninese experts, the collection of legal texts compiled for the PGRU (SERHAU, 1999) timidly opens the question of alternatives to land titles, or in any case significant changes in procedures: 'It may be necessary to study at the State level how to make it accessible to as many people as possible and *if it must always be maintained as the mother of evidence of land ownership* [...]. There is a need to simplify the procedure along the lines of the procedure for *establishing* customary land rights [...] and to restore the *contract* as an essential role in the acquisition of property' (SERHAU, 1999, p. 350, emphasis added).

In practice, however, it is the first scenario that the Beninese authorities adopted, with the establishment in 2001 of a 'Commission for the transformation of housing permits into land titles', which was supposed to accelerate the issuance of land titles. The 'Land and residential security' programme driven by the Ministry for Urban Planning planned to issue 45,000 land titles between 2005 and 2007 (Le Meur, 2008, p. 10). Blocked by complex procedures and by the entry of land professionals raising bids on procedures, this has been quite ineffective (see later). At the same time, the Ministry of Urban Planning launched a reflection on a possible reform of land and urban planning.

3 In Rural Areas, the PFRs and the Draft Rural Land Law: The Search for an Alternative to Land Title

In rural areas, two successive development projects, under the supervision of the Ministry of Agriculture and with French and German funding,[18] have integrated the issue of land tenure security, first as a tool for encouraging farmers to invest in anti-erosion techniques. The project began in 1992 and experimented in different regions in the country with the *Plan Foncier Rural* (PFR) approach, imported from Côte d'Ivoire, where it had been invented a few years earlier (Chauveau et al., 1998; Gastaldi, 1998).

In the PFR approach, land rights are identified through cross-checked field surveys, conducted on a plot-by-plot basis. Each plot holder explains the rights he or she has and how – and from whom – he or she has obtained them. The boundaries of the plots are measured with a decametre and then drawn on an aerial photo.[19] Two types of situations are considered: those of individual owners ('presumed owners' in legal language) and those of family communities, represented by their 'manager', in other words the representative of the group of rights holders, who has authority to make decisions on the plot in question. The plot holder and the holders of the neighbouring plots sign the survey report. After a publicity phase, which is supposed to allow everyone to verify or correct the collected information, the final plot map and rights-holders' register are given to the village committee, which is supposed to register future changes in rights (inheritances, sales, leases, etc.) and to keep the land documentation up to date. PFR is thus a kind of village land cadastre, without legal value. However, in the idea of its promoters, the demonstration that it is possible to map 'informal' customary rights, which are often considered difficult to understand from the outside, should contribute to promoting a legal reform. This reform could create a new and more appropriate legal status for rural land and thus enable rural actors to obtain legal recognition

[18] And the World Bank for the first phase.

[19] After 2005, GPS and tablets were used, thanks to the implementation of a geodesic network funded by the MCA.

of their rights.[20] Some forty pilot PFRs have been carried out in two successive projects in different regions of the country, which allowed the methodology to be put to the test and to be improved. However, the idea of a coherent village territory constituted of juxtaposed farmers' plots is a simplification. It does not really consider the diversity of customary land rights (CIRAD-TERA, 1998); pastoral rights, commons, and agricultural areas where land rights are not stabilised (Edja et al., 2003) are not taken into account.

Present from the outset, the legal reform was put on the agenda in 1998 when a second project was negotiated between the Ministry for Agriculture and donors. Working under the supervision of several ministries (agriculture, justice, economy), a group of Beninese experts (lawyers, anthropologists, economists) drafted a law that was a potential legal revolution: it renounces the presumption of state ownership of unregistered land and provides that every plot subject to 'rights established or acquired according to custom and, more generally, local practices and standards' (art. 7) is part of private land. The draft law institutionalises PFRs and gives them, as an outcome, a new legal document, the CFR (*certificate foncier rural*, rural land certificate). A CFR is a 'document of recognition and confirmation of land rights established or acquired according to custom or local practices and norms' (art. 111). It can be individual or collective, it is transferable, assignable, and usable as collateral for credit (arts. 9 and 112). 'A presumption of acquired rights is attached to it as proof until proven otherwise, established before the judge' (art. 111).

In line with the recent administrative reforms creating elected local governments (1999), the draft law sets up a local land management framework, anchored in the communes and integrating village-level bodies. Communes deliver land certificates for plots registered in the PFR and maintain land information. Villages benefit from PFRs at their request and can define their own rules for managing natural resources on their territories. All transfers of land rights must be formalised at the village level, and permanent transfers (sales, heritage) have to be recorded at commune level, so that new certificates can be issued.

This reform clearly relies on an 'adaptation' paradigm. It rests on a legal innovation, thought to be more fitted to rural areas and much cheaper. The objective is to expand PFRs and thus land certificates with a progressive approach, relying on villages' demand. Meanwhile, the institutional framework at commune and village level has to be put in place everywhere, to allow

[20] PFRs are presented as a radical innovation. While they were created in Côte d'Ivoire in the 1990s, the approach takes inspiration from the decrees of 1955 and 1956 on land and domain reorganisation in French West Africa. It also reinvents – without knowing them – the detailed proposals designed to create a cadastre of the Dahomey palm-tree area (Clerc et al., 1956). For an analysis of these two periods when the question of the legal recognition of customary rights was raised, see Lavigne Delville and Gbaguidi (2022).

for local registration of land transfers even without PFR. The land certificate can be transformed into a land title but, for its promoters, most farmers will stay with a land certificate, which answers to their needs and is supposed to become dominant. With that draft law, new land legal and management frameworks are proposed for rural areas, alongside the land title and the state land administration.

The paradox is that this ambitious reform is made of a policy tool, the PFR, and a law, without a policy statement stating its objectives. It benefits from a relative consensus in MAEP (the Ministry of Agriculture, Herding and Fishing, where some actors support agribusiness and land titling) and more generally among the actors involved in the rural zones and decentralisation policies. Nevertheless, it faces opposition from actors in the Ministry of Urban Planning: for them, specifically rural legislation makes no sense and raises insoluble problems at the boundaries between rural and peri-urban areas; CFR can only be an intermediate document, of much lower status than the land title, and is contradictory to the provisions of the Organisation pour l'Harmonisation en Afrique du Droit des Affaires (OHADA, Organisation for Harmonising Business Law in Africa), which provides (art. 119) that only the land title (or failing that, an ongoing application) is recognised as the basis for a mortgage.

Partly because no policy statement defines the vision, different conceptions of the reform coexist. For its promoters, it creates a long-term alternative to land titles, allowing rural dwellers to have access to legal recognition of their rights. Among them, some want to quickly generalise PFRs over the country, while others prefer a more progressive strategy for expansion, depending on means and needs, starting from areas where PFRs are most useful (Lavigne Delville, 2009). For those who support classic land titling, PFR is only a temporary framework, and land certificates must quickly be transformed into titles. The diversity of policy options that PFR can serve helps to build adhesion around it.

Ready since 2002, the 'law on rural land tenure' was initially blocked by the MCA team. It was finally passed in 2007 with MCA support. In the meantime, an action plan for implementation had been designed, which proposed a progressive strategy under the aegis of an Agency for Rural Land Tenure Management, to be created to take charge of coordination, technical support to communes, and management of a multidonor fund.

4 *In the Mid-2000s: The MCA-Benin and the Emergence of a Global Reform Project*

In the mid-2000s two separate policies were thus ongoing (Figure 7.1): in urban areas, the Committee for Transforming Housing Permits, which was practically ineffective (see Section II.B.2), and in rural areas, the PFRs, a draft law on which was ready (see Section II.B.3). A new initiative emerged at that time, carried out by the MCA-Benin, with a view to harmonising land law at the national level. Following the 2004 Monterrey Conference on aid funding, the US government created the MCC to support economic development projects proposed

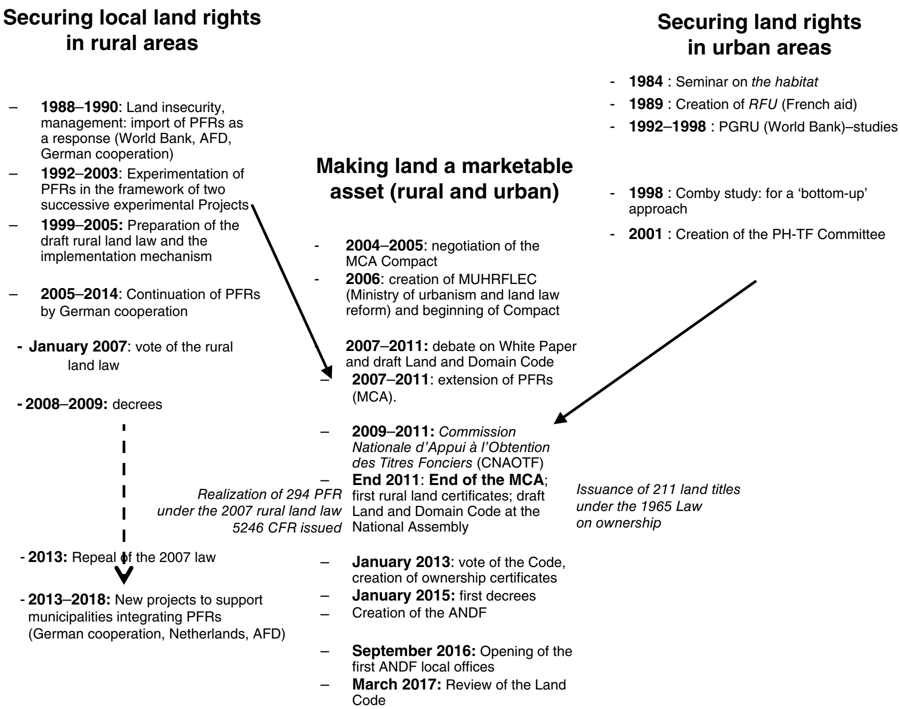

FIGURE 7.1 Chronology of land reforms in Benin.

by beneficiary countries, officially selected based on good governance criteria. Benin was among the first countries selected. Its government set up a series of workshops to identify the themes around which to build a proposal. Land issues emerged from discussions between the government and the MCC. The Compact was signed in 2006 and implementation took place between 2007 and 2011. The Compact's 'Access to Land' project aimed at overcoming the divide between rural and urban and promoting a global land reform, making access to land title easier and cheaper (Figure 7.1). It had two components: at institutional level, a legal reform that aims to standardise land law, overcome legal dualism, and provide the country with updated legislation; at operational level, field projects were supposed to scale up previous initiatives, in both rural and urban areas. Positioned under the aegis of the Presidency of the Republic, the MCA was the central actor, and the centre for the design and preparation of the land reform. In 2007, shortly after the launch of the Compact, the new President of the Republic, Boni Yayi, officially placed responsibility for land reform under the aegis of the Ministry of Urban Planning. These two bodies have steered the reform.

The MCA project has been clearly oriented towards the promotion of land titling. During its formulation, the fight has been fierce between the Ministry for Agriculture, defending the PFR and the draft Rural Land Law, and MCA and the Ministry of Urban Planning, claiming leadership of the global reform and wanting to use PFRs as a tool for issuing land titles. Having high-level political support and a strong budget, the MCA reform took the lead after 2006 and signature of the Compact.

Several initiatives towards land reform emerged in Benin in the 1990s–2000s, from several ministries and with the support of different donors (Figure 7.1). All of them tried to answer the issues of informality and insecurity in a context of economic liberalisation and democratic transitions. All relate to what Muller (1990) calls a global/sectoral adjustment: a situation where a given policy sector, built and organised in coherence with a former global policy paradigm, has to adapt to a change in this paradigm, because its vision, tools, and institutions are now outdated. These competing reform projects were all attempts to adjust the land policy and administration to the liberalisation of the economy and to the democratic turn. However, the answers were different, illustrating the contrast between replacement and adaptation paradigms.

In rural areas, titling is almost non-existent, individual ownership is not the rule and most land is held by family groups, and the value of land does not justify supporting the high costs of titling. Specialists in rural areas promoted adaptative strategies, based on a new land administration and new legal documents, to allow for cheaper, affordable access to legal recognition of individual or collective land rights. While the centrality of the land title has been timidly questioned in urban areas, and the shortcomings of classic strategies for developing access to law have been explained by World Bank experts, state bodies clearly chose to push to titling.

III EXPANDING ACCESS TO LAND TITLE THROUGH A DEEP REFORM OF LAND ADMINISTRATION: THE MCA-BENIN-LED REFORM (2006–2018)

A 'Making Land a Marketable Asset': MCA-Benin and Its 'Access to Land' Project (2006–2011)

With a budget of about US$30 million, out of the US$350 million in the Compact, the MCA Access to Land project had the stated objective of 'making land a marketable asset', consistent with a vision of the land issue in terms of economy, or in any case with the MCC's priorities: 'The aim is to facilitate access to land ownership for the greatest number of people, to remove people from land insecurity by formally registering them, to increase their capacity to access credit and to stop the "slumming" of urban centres that have become areas for receiving massive flows of rural people in search of better living conditions' (République du Bénin, 2004, p. 4). The reform aims at making access to land title faster (one year against three or more) and cheaper (CFA Franc 100,000 – €150 – instead of a minimum of CFA Franc 300,000 – €450).

In five years, the project wanted to (1) reform land legislation to modernise and standardise it; (2) implement 300 village-level PFRs, issue 80,000 rural

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land certificates (CFRs), and transform 75,000 CFRs into land titles;[21] and (3) reform the 'Commission for the transformation of housing permits into land titles' and issue 30,000 urban land titles. With its significant resources and its tight timetable, the Compact was for its promoters an opportunity to fight against conservatism, force institutional reforms, and finally make it possible to get rid of informality. The initial schedule of the Land Project provided for the first year to be devoted to land reform, after which the operational components would be implemented in a clarified framework during the following four years. This tight timeframe has been largely overwhelmed.

1 The Institutional Component: Updating the Land Law and Negotiating the Agencification of Land Administration

While the will to reform the land administration was clear, the institutional vision was not yet designed at the beginning. The MCA team recruited an American consulting firm specialising in the sale of technological solutions for the legal security of land transfers to manage the process. The relationship between the MCA and the firm has been stormy, due to conflicts of vision. The diagnosis made (on conflicts, land speculation, women's access to land) did not take into account current economic and social science results or field studies (Edja, 1996, 2001; Mongbo, 2002; Le Meur, 2006; Magnon, 2013). It was based on the standard but biased assumptions that customary laws were outdated, and that informality was the source of the problems. The diagnosis partly included the misdeeds of surveyors during housing developments, the monopolisation of the private domain of the state by the elites, and the absence of regulation and supervision of real estate agents. Nevertheless, the operational strategies then took little account of these problems, and seemed to consider that legal and organisational change would suffice to prevent them in the future.

State bodies and professionals involved in land management (surveyors, notaries) were involved in the 'participatory' process of policy formulation, civil society organisations, scholars, and other resource people being largely put aside. Debates between interest groups, state structures, and professional corporations were lively. While the initial principle had been to reform the DDET and push for creating local offices, DDET strongly resisted this to keep centralised control over titling. To overcome this blockage, the study on the institutional framework suggested in 2009 a more ambitious reform, with the creation of a National Agency for Land and Domain taking over a set of functions previously carried out by different technical departments spread over several ministries, and issuing and managing land titles, though local offices. Agencification is supposed to bring more professionalism, efficiency, and transparency in land administration.

[21] As 300 PFRs were scheduled and CFRs needed, MCA supported the vote on the rural land law that created them, even if it disagreed with the proposed commune-level land administration of CFRs. This allowed this draft law, ready since 2002, to be passed in 2007.

The white paper (MUHRFLEC, 2011b) was adopted and translated into a policy document (MUHRFLEC, 2011a), itself adopted in June 2011. At the end of the contract with the consulting firm, only a first draft of the Code had been written. The process was then taken up directly by the MCA team, which enabled finalising a draft Code that was finally voted on in January 2013.

2 *The Operational Component: Trying to Deliver Legal Documents at a Large Scale*

Field operations were supposed to take place after the legal reform. In practice, both took place simultaneously, which led to institutional contradictions, in particular for PFRs. The progress and difficulties that MCA's operations faced in the field highlight the practical and managerial issues of land rights registration, shedding light on issues that the reform's implementation will also face.

PFRs and land certificates: institutional contradictions, implementation in a hurry, and a sudden ending The Land Project aimed to create PFRs in 300 villages, covering around one-tenth of Benin. Due to delays in the land legislation component, it was implemented under the 2007 law that had just been enacted and not under the Code in preparation. This led to different biases in the implementation process. The MCA could not rely on a national body for the implementation of PFRs; by mutual agreement, it contracted a consulting firm. Moreover, the MCA team did not support the commune-level institutional framework created by the 2007 Rural Land Law and had little interest in its effectiveness and sustainability. While the existence of a sustainable system for the administration of registered rights is a prerequisite for the sustainability of land rights formalisation operations, the project put the emphasis on the production of maps and registers and the issuance of CFRs, in a non-stabilised institutional framework.

In the pilot PFRs, the priority for field operations was the legitimacy of registered rights. The firms leading the process were committed to sociological surveys, the surveyors being subcontractors. During the tenders for the implementation of PFRs in the villages, the surveyors' firms claimed to be the leaders of the consortia. They won after a year of struggle, which had consequences for the quality of land rights surveys, which were considered secondary compared to delimitation. The high quantitative ambition in a few years also had many impacts on the quality of the work, by multiplying inexperienced teams, who had to complete the work in a limited time. Moreover, the coordination team did not carry out any real training and support work for the field teams they hired, in order to help them overcome the problems they encountered. While identifying land rights is subtle work, they did not exercise any quality control, leaving the investigations to be carried out by teams of varying quality and sensitivity. The record of rights was heterogeneous depending on the teams, which sometimes pushed for collective registration to limit the number of plots to survey, and sometimes pushed to register individual use rights, even within households. The state public domain has not always been identified in the maps, with the risk of re-creating legal confusion. Almost everywhere, teams could not survey the full village territory, due to conflicts – particularly but not only between migrants and indigenous people (Lavigne Delville and Moalic, 2019) – as well as absentee owners, refusal to survey uncultivated areas, lack of time, and so on. These biases, errors, and problems resulted from a vision of PFRs that underestimated the issues and difficulties of registering customary rights. This is surprising because part of the field teams had already experienced some of these difficulties during the pilot phase, but lessons were not learned.[22]

The first rural land certificates were issued in a hurry, in mid-2011, just before the end of the project, mainly to allow the MCA to say that the process had begun. At the end of the contract, in 2011, 294 PFRs had been carried out of the 300 planned. Many had incomplete surveys and more or less numerous errors. The software for managing tenure information was not fully working. Village committees and communal services were left alone without support for learning and developing experience. Some adopted a wait-and-see attitude, while others tried to conduct their work as best as they could. A new heterogeneity emerged, linked to local land tenure configurations, the interest shown by communal authorities and heads of communal services in land issues, and their capacity and initiative.

An econometric study of the impact of PFRs (Goldstein et al., 2018) nevertheless identified impacts. Even without certification, land demarcation activities caused a 28 per cent increase in the proportion of plots with clear borders among male-headed households (which is significant but relatively low for a systematic plot bornage); and plots registered to PFR are 2.4 percentage points more likely than control parcels to be used primarily for perennial crops. However, no impact is seen on farm yields or input use. One year after the end of the MCA project, an MCA survey noted 'very poor results' (MCA-Benin/Unité de Formulation et de Coordination, 2013, p. 4). Only 25 of the 40 communes with PFRs used the land information system that had been set up; only 5,246 certificates had been issued (7.2 per cent of the 72,742 expected) and only 3,527 had been withdrawn (4.8 per cent).

The delivery of CFRs was slowed down by enduring hardware problems that in some cases hid the reluctance of communes with regard to PFRs and their management. Communes had not really been involved in the decision to create PFRs on their territory. Their priority was urban land and housing allotments. Taxes on sales, which are an important part of local revenue, were called into question by the PFR system, which provided for sales contracts to be drawn up at village level. Finally, several commune officials were concerned about their future capacity to negotiate land in villages for public infrastructure: if plots had land certificates, would the villagers still agree to freely give

[22] For more details, see Moalic (2014) and Lavigne Delville (2019).

land to the commune for building a school? If land had to be purchased or expropriated by the commune, the cost of investments would increase.

As a result of pressures from the MCA Coordination Unit, the number of CFRs issued and delivered increased, at a very heterogeneous pace depending on local issues. However, their future was uncertain as they were recognised in the Code, but with a low legal value, equivalent to the old administrative certificates.

TRANSFORMING HOUSING PERMITS INTO LAND TITLE: A STALEMATE In urban areas, the objective was to accelerate the transformation of residential permits into land titles. The pilot operation carried out in Cotonou and Porto Novo had issued only 1,483 titles in three years, including 292 in the name of the state and 1,191 in the name of land interest associations, bringing together the owners of housing land. By July 2006 only 110 beneficiaries had withdrawn their title (Lassissi, 2006). The Land Access Project restructured the National Commission and provided it with substantial financial resources. A new Commission Nationale d'Appui à l'Obtention des Titres Fonciers (CNAO-TF, National Support Committee for the Acquisition of Land Titles) was created in February 2009 and began its work in June 2009. The first land titles were delivered in June 2011, six months before the end of the MCA project. At the end of 2011, more than 10,000 cases had been initiated but only 211 titles issued. After the end of MCA funding, the Commission continued operating, with reduced resources coming from the national budget. By August 2014, 3,531 titles had been issued, of which only 1,567 had been withdrawn by their holder (including 1,190 for the city of Cotonou alone).[23]

The restructuring of the Commission and the amount of resources mobilised have therefore only partially improved its productivity, which remains marked by a low demand, a complexity of procedures requiring the intervention of multiple actors, and great difficulties in gathering legal evidence, even on housing allotments made by the state. Created for an initial period of five years, the CNAO-TF was extended in 2014 for another five years, with a target of 3,000 titles per year, too small to reach the initial MCA target in ten years, and in any case largely insufficient to move urban land out of the informal sector. After the establishment of the ANDF in 2016, the CNAO-TF was shut down and its files were transferred to its decentralised offices.

In rural as well as urban contexts, the important MCA funding proved unable to significantly enhance the delivery of legal land documents. In urban areas, institutional bottlenecks linked to the participation of notaries and surveyors, as well as the complexity of meeting the legal requirements, have bogged down the process and the very small number of land titles withdrawn raises questions about people's interest. In rural areas, contracting with firms

[23] Interview with Mr Bawa Bangana, CNAO-TF coordinator, *L'Autre Quotidien*, no. 2438, 25 August 2014.

allowed the target of 300 PFRs to be reached, at the cost of low quality but above all a lack of institutional anchoring. Very few land certificates had been issued at the end of the project.

3 After the End of the MCA Project (2012–2015): Uncertainties, Reconfiguration, and the Vote on the Code

At the end of the MCA project, the planned major reorganisation of land management had only been initiated. A geodetic station system had been set up. A preliminary draft Code had been drafted, but did not seem at that time to have strong political support and its adoption was uncertain. The delivery of titles and certificates fell far short of the targets. The rural land management system had been put in place in forty of the seventy-seven communes, but its future remained largely uncertain, and the whole system was in danger of rapidly collapsing due to a lack of institutional consolidation. The MCA team, which carried out all of these actions, had been dispersed. However, the reform process continued with the vote on the Land Code in early 2013, the redaction of the decrees in 2015, and the creation of ANDF in 2016.

FINALISATION AND VOTING ON THE LAND AND DOMAIN CODE (2012) The legal reform process went on after the end of the project. The lawyer in charge of it in the MCA team pushed on the work after the end of the Compact and tried to move the issue forward at the political level. Confronted with their desire to unify the legal framework and with strong criticism of standard registration and land title, the reformers eventually abandoned the term 'land title'. They conceptualised the logic of the Code in terms of 'confirmation of land rights', with a twofold channel, that of individual demand (which barely modifies the standard registration procedure) and that of PFR, both resulting in a single private property document, the Land Ownership Certificate. No provision is made for collective processes in urban contexts. Unlike the land title, a Land Ownership Certificate can be challenged in court for a period of five years in the event of fraud or error.

A preliminary draft Code, a long text of 543 articles, was completed at the very end of the MCA project in 2011. It bore the imprint of the multiple expert meetings and controversies that marked it. Fearing that the Code would favour land grabbing, a young farmers' union, Synergie Paysanne, gathered a dozen non-governmental organisations (NGOs) within an 'Alliance for a consensual and socially just Land Code'. Faced with difficulties in accessing information and a certain lack of transparency in the process, the Alliance mobilised to impose itself at the table and try to influence it through public meetings and advocacy (Lavigne Delville and Saïah, 2016). It unsuccessfully advocated for restrictions on land sales. The final draft Code was submitted to the National Assembly in 2012. The government was indeed facing an emergency, as new MCA financing was in sight (which would not work on land). For the government, enacting the Code was a proof of goodwill towards the MCC, in a context in which Benin was, for a time, criticised for corruption and could have lost the opportunity of a second Compact.

The vote on the Code occurred in January 2013. The text puts the future ANDF under the supervision of the 'Ministry in charge of land'. However, no ministry at that time had land in its attributions. A strong inter-institutional struggle then opposed the Ministries of Finance (head of DDET) and of Urban Planning. The former highlighted the possible risks for land tax collection if land and cadastre were not under its responsibility and ultimately gained control of ANDF. The text was finally promulgated in August 2013, but by the end of September no signed version had been circulated and the various actors were still trying to verify if it had really been promulgated.

A RECONFIGURATION OF INTERNATIONAL SUPPORT AND FIELD PROJECTS

The end of the MCA Compact led to a vacuum. Although not involved in land issues until that time, the Dutch Embassy agreed in 2012 to support a transitional phase, aimed at advancing the implementation of the recently adopted Code, through the preparation of implementing decrees and support to municipalities in the management of PFRs. It also supported the creation of an informal coordination group on land issues, bringing together donors, national institutions, NGOs, and farmers' unions, to facilitate the exchange of information. This coordination group allowed for a certain institutional decompartmentalisation of the land sector, after the strong monopoly exercised by MCA.

As no national institution was at that time clearly in charge of the reform, the Embassy gave responsibility to the MCA Coordination Unit, the team coordinating the preparation of the new Compact, even though the land experts from the first phase had been dismissed and the second Compact would not work on land. In a phase of institutional vacuum, a MCA team with no legitimacy on land issues any longer was asked to prepare decrees. The legal expert recruited, who had been strongly involved in PFRs since the beginning, did important work in mediating and negotiating decrees, and in attempting to remedy a number of shortcomings in the Code. Fourteen decrees were prepared, which were promulgated in January 2015.

Support to municipalities in the management of PFRs only started at the end of 2014, after three years during which the PFR system, the commune land services, and the village committees were left alone. The consolidation project only in practice had time to refinance some equipment and run a series of training sessions and could not prevent the gradual collapse of PFRs.

During that period, several development projects, funded by the German Corperation for International Cooperation (Deutsche Gesellschaft für Internationale Zusammenarbeit, GIZ) and the Agence Française de Développement (AFD), continued to implement PFRs in their own areas. These projects had supported the initial design of PFRs as an alternative to land title and were concerned about the orientations of the Code. After the vote on the Code, they reviewed their approaches in the light of changes in the legal framework, and in particular the obligation to also survey residential areas. Finally, in parallel with supporting the preparation of the decrees and first contacts with ANDF, the Dutch cooperation financed a local land management project in two municipalities in the south of the country (2015–2018), in order to experiment with the reform and provide tools and methodologies. Conceived as projects to support decentralisation, these various projects promoted PFRs from a rural and communal point of view, and sought to negotiate modalities of implementation of the Code that were anchored in local contexts. They were in tension with the newly created ANDF, which was seeking to assert itself.

4 *The Gradual Implementation of the New Institutional Framework (2016–2018)*

The years 2016–2018 saw the establishment and ramping-up of ANDF, the repositioning of the various actors, and the beginning of the actual implementation of the Code. The amount of work done during these years is impressive. The institutional landscape became clearer after the adoption of the decrees in January 2015 and the attribution of ANDF's supervision to the Ministry of Finance. The state then took charge of the deployment of the institutional mechanism provided for by the reform, which took place in a coherent manner. The Ministry of Finance reorganised itself, dissolving DDET and integrating ANDF into its organisational chart. An action plan for implementing ANDF was defined in July 2015 (Gandonou, 2015). The lawyer who led the reform at the MCA level was recruited as general director. While ANDF is supposed to have offices in every one of the seventy-seven communes, fourteen ANDF local offices (one per department, plus one for Abomey-Calavi and Ouidah) were officially opened in September 2016.

President Talon's coming to power in 2016 gave a boost to the reform. His programme (Bénin révélé) provides for a faster and cheaper transformation of housing permits to land title, the creation, of a national cadastre and the operationalisation of ANDF. President Talon ordered taxes on land registration to be lowered to make access to title cheaper. The committee for the cadastre was created in November 2016.

In May 2017, the Parliament passed a law (no. 2017–15) amending and supplementing the 2013 Code. At the same time, a digitisation project for land documentation was launched from April 2017, implemented by a French consultancy firm, which collected all land information (titles, supporting documents such as sales agreements or administrative certificates, plot maps of PFRs and housing allotments) to digitise them and integrate them into a single geographic information system (GIS). The spatial calibration of land titles was a huge task, since the references used by surveyors were heterogeneous. Land subdivisions were relatively easily repositioned on satellite images, but for individual titles it could be more complex. The team almost succeeded in positioning existing maps and titles in the GIS, but the information on landowners was still indicative, as the data were sometimes fake (in cases where only the planned resettlement plan exists, and not the final one) or obsolete due to changes, inheritances, transfers, or even fragmentation since the time the maps were drawn up. The consulting firm also had to validate the demarcation plans for new titles before integrating them into the GIS, which led them to reject many plans and force surveyors to do their work again. Field experiments for the implementation of the land cadastre in areas without land information were launched in early 2019, as part of Dutch support.

At the end of 2018, the institutional framework and its tools and procedures were more or less in place, apart from the cadastre. 47000 titles had been digitalised. ANDF had just over 200 agents, many more than the former DDET. Land documentation had been transferred almost entirely to the BCDFs. ANDF began issuing new land titles in April 2018[24] at a very slow pace (only 1,587 land titles were created[25]). Applications for new land titles were being processed, with a view to meeting the tight deadlines imposed by the Code. Pending applications were processed gradually.

In October 2018, Benin national mayors' organisation (Association Nationale des Communes du Bénin, ANCB), with the support of the Projet Foncier local (local land management project), funded by the Netherlands, organised a National Workshop on Land to assess the situation. It established a progress report on the reform five years after the vote on the Code and allowed a dialogue between commune heads, ANDF, and the projects (Boughedada and Lavigne Delville, 2021). A new support project for ANDF, the Land Administration Modernisation Project, was launched in December 2018, also funded by the Netherlands.

B The Land Code, Its Provisions and Controversies

In this section I will describe the main provisions of the Code, and highlight some contradictions or loopholes. I will then explain the controversies that followed the vote and the main changes made by the 2017 revision.

1 *The Main Orientations of the Code*

The 2013 Land and Domain Code is an ambitious text that aims at radically reforming the legal and institutional framework of land tenure in Benin. It includes 543 articles, organised into 10 titles and 31 chapters. It explicitly repeals the 1965 Ownership Act, the 1960 Housing Permits Act, the 2007 Rural Land Tenure Act, and also, implicitly, the 1955 and 1956 decrees.

The Code updates the 1965–25 law on ownership, adding specific provisions from the 2007 Rural Land Law, and reorganising land administration around ANDF. Focusing on private ownership, the Code intends to break

[24] Kougblenou (2019).

[25] 1471 new creations and 116 by subdivision; Kougblenou (2019).

with legal dualism and standardise the law. It recognises a single title of ownership, the Land Ownership Certificate (*Certificat de Propriété Foncière*). This new name for what is fundamentally the classic land title is the result of a compromise between land title and CFR, and an answer to criticisms on the intangible, unassailable nature of land title, which allows dispossession and enables impunity even in the event of fraud or error. The Land Ownership Certificate is still intangible, but it temporally violates this principle by assuming that it can be contested in the event of fraud or error within one year after the discovery of the fraud (art. 146). However, any action lapses after five years from the date of establishment of the Land Ownership Certificate.

The Code follows the logic of the 'confirmation of land rights', with two ways of obtaining a Land Ownership Certificate. One is on an individual basis and follows the former standard procedure of registration, while improving local information. This process must respect a maximum duration of 120 days (art. 139). The other is collective, via the PFRs or collective confirmation processes (art. 142 ss), at the request of local authorities or a group of urban owners organised in a land interest association. The Code creates an *Attestation de Détention Coutumière* (ADC, Attestation of Customary Possession) for the rural environment, a new intermediate document issued by the local land management offices. In individual applications, this attestation, relocation certificates (obtained after land subdivisions for housing), and tax notices for the last three years can be used as 'presumption of ownership' documents to initiate the confirmation request. The recognition of tax notices as implying a 'presumption of ownership' is an important step towards the recognition of peaceful occupation as a source of ownership. However, sales agreements, housing permits, administrative certificates, and CFRs – that were until now the most accessible documents and the most used by citizens – are no longer recognised as documents allowing a person to apply for a Land Ownership Certificate.

As in the 1965 law on land ownership, the confirmation of rights is not mandatory. This maintains a dualism between plots having a Land Ownership Certificate and other plots. A new 'certificate of membership' (mentioned but unspecified in the Code) may be issued by the Land Agency to allow the sale of a plot whose registration is ongoing, and to allow for a credit. As in the 1965 law, only sales create an obligation to obtain a certificate, under penalty of nullity. It remains to be seen whether ANDF will have the means to impose this rule, knowing that it imposes a deadline of several months, which is incompatible with the urgency of financial needs that frequently trigger sales. Any sale concerning a titled plot of land must be drawn up in the form of a notarial deed or, failing that, under private contract and deposited in the minutes of a notary (art. 18), before being copied and added to the Land Ownership Certificate by the local land office. The transition from 'informality' to land title is thus progressive, with a long period of coexistence between informal and titled plots.

In urban areas, possession of a Land Ownership Certificate is the norm. Housing permits have been abolished. The idea of a quasi-automatic transformation of existing housing permits into land ownership has therefore been abandoned. The Code reaffirms that housing permits can only be issued on state titled land. The future of the hundreds of thousands of housing permits issued by communes is thus unclear. In rural areas, the Code integrates PFRs and the institutional framework created by the 2007 law, with a land management committee at commune level with few prerogatives, having branches in every village. Every land transfer contract (final or temporary) relating to rural land must be registered at the village committee. PFRs now lead to Land Ownership Certificates issued by ANDF local offices. It is not clear whether obtaining a certificate for a plot registered in a PFR is automatic or upon request, but CFRs already issued are 'upon simple presentation by the holder, transformed into a Land Ownership Certificate' (art. 520). The Code therefore introduces some specificities for untitled rural land, which is inconsistent with its ambition to standardise the law and reproduces the problem of delimiting rural and urban land, which was criticised in the 2007 law.

The Code establishes a cadastre (Chapter 4, art. 452–481) with a triple purpose: technical (representing all the plots of land in the country), fiscal, and also legal, for land covered by a Land Ownership Certificate. The Code also defines the rules for the management of the public and private domains of the state and of local governments. ANDF is in charge of the state domain, and is supposed to hold the general picture of the state's ownership, which the former DDET proved unable to do.

The Code incorporates an innovative principle of 'extinctive' prescription for customary land, in order to avoid former owners or relatives of former owners challenging the sale of plots of land. However, no prescription is possible for land titles, even if one existed in the 1965 law for the benefit of the state (art. 82). It also creates a right of pre-emption by the state, exercised by ANDF, in order to reconstitute a private domain of the state. However, the purposes and modalities of pre-emption are not defined either in the law or in a decree. The Code devotes a full section to the question of litigation and defines the methods of contestation and arbitration. It also introduces a criminal land law, which has not existed until now: to discourage fraud and errors, it provides for severe penalties, both for individuals and for officials (mayors, land administration officers; art. 487–515). The amount of penalties provided for land administration managers in the 1965 law had never been revised and were not dissuasive. The heavy threats may have a real deterrent effect on local elected officials in particular. New research will be necessary for assessing whether they materialise and make it possible to end the wide impunity that has so far been the rule.

2 *Criticisms of the Code and the 2017 Review*

The controversies during the negotiation of the Code did not stop after the vote. The preparation of the decrees raised various conceptual and practical problems. The need for a partial revision was quickly recognised and it occurred in 2017.

The professional organisations of specialists working in land issues had been largely involved in the preparation of the Code. However, two months after the law was passed, the organisations representing the professions working on land issues (notaries, surveyors, architects, etc.) published an open letter denouncing the inconsistencies and weaknesses of the text, and in particular calling into question the change from land titles to Land Ownership Certificates.[26] For them, the Code made confusing terminological choices and introduced new legal concepts whose consequences had not been assessed. It did not remove legal dualism. More than that, it introduced new land insecurity by challenging the 'inviolability and sanctity of ownership' and by introducing a five-year time limit during which it is possible to contest a Land Ownership Certificate.

For these professionals, those few openings in the conception of land titles represented sources of insecurity and were unacceptable. They followed the analyses of lawyers (Djogbénou, 2013, p. 28) who, while acknowledging the innovations of the Code, also considered that the possibility of challenging a Land Ownership Certificates weakened it deeply and was 'a step back from the 1965 law'. They considered that this measure would increase the number of disputes, and the risk of the certificates being challenged prevented banks from granting loans.

The communes had had little direct involvement in the preparation of the reform. Under the Code, they no longer have the right to endorse sales agreements and receive taxes for that. However, the revenues derived from their land responsibilities constituted a significant part of their resources: throughout the country, resources of land origin represented 14–18 per cent of communal revenues, half coming from taxes on land sales agreements (Gandonou and Dossou-Yovo, 2013, pp. 29–30). The ANCB was particularly active after the Code vote. It engaged in efforts to secure a seat on the ANDF Board of Directors and the Land Advisory Council, and to recover some prerogatives for communes, mainly with ADCs.

Development projects carrying out PFRs and the ANCB had also invested in the new ADCs and insisted on the need to better define its content and modalities. They worked together to propose a methodology and format for ADCs and fought to ensure that their delivery – which must be paid for – is devolved to the municipalities.

The 2017 amending law tried to answer these issues. It provided for the return to the land title, with its intangible nature. Any fraud or error can again only give rise to compensation, paid by the state from the newly created land compensation fund (art. 147). The state may then claim compensation from the fraudster. The return to land title was legitimised by both the

[26] http://news.acotonou.com/h/2332.html.

OHADA (French-speaking Africa's regulations for business) and the fears expressed by professional organisations of lawyers and surveyors. The fact that the state should compensate victims is an innovation that might be costly for the state.

In accordance with the demands of the ANCB, the 2017 law recognises the responsibility of communes to issue ADCs, without explaining whether those ADCs are to be registered with ANDF and how. In the 2018 Finance Act, the state defined tariffs, preventing communes from setting them freely and reducing their expectations in terms of financial resources. An ADC would cost around CFA Franc 35,000 (€53), depending on the size of the plot. This is well above the cost of the former CFRs (between CFA Franc 2,000 and 5,000 – €3–7.50 – depending on the commune and the size of the plot) and quite expensive for rural people.

In practice, as lawyers involved in the Code recognise it, the ADC is nothing more than a renewed administrative certificate, with more formalised procedures and a mandatory field survey involving village land committees. The first requests registered in the municipality of Tchaourou were made by buyers looking for a 'document of presumption of ownership' to initiate a request for land title. As farmers' interest in documents is not very high in most of the country, it is very likely that the ADC will mainly play this role, diverting it from its primary purpose.

The 2013 text was very restrictive and only a few documents could be used for requesting a land title. The documents giving presumption of rights and allowing a title to be applied for have been extended and now include again administrative certificates and CFRs. Sale agreements are still not recognised as giving a presumption of ownership.

An additional paragraph to article 112 should make it easier to transform housing permits into land titles. A first decree (No. 2018–473 of 10 October 2018) was promulgated that concerns housing permits established on land belonging to the state. Another one was scheduled for housing permits delivered by communes on non-state land, outside the law, which is a crucial issue for many urban dwellers, but it has not been released. The duration of the transition phase has been extended to ten years (art. 256) – that is, until 2023 – which will be barely sufficient for the actual deployment of the system.

The 2017 version of the Code also contains a strange, long new section of eleven articles on 'land ownership in border areas'. According to some informants, a specific law on borders had been prepared but had not been put on the agenda of the National Assembly. The content of this draft law in this new section was incorporated into the Code at the request of the National Border Management Agency, and the Members of Parliament hardly noticed it during the debate in the Assembly.

Several contradictions or inconsistencies (or even French-language mistakes) identified earlier have not been addressed and new ones have been introduced, showing the limited ambition and care of this review.

C Conclusion: Temporality of Projects versus Temporality of Policy Reform

The five years following the end of the MCA project (2012–2016) were a period of further institutional change and consolidation of the reform. The tight schedule provided for in the MCA project was considerably extended. The initial project, which in five years wanted to link legal reform and a scaling-up in the field, was confronted with the reality of policy change and project implementation, with induced negotiations, power relations, and operational constraints. One can finally consider that the temporalities were eased with a policy reform that was almost done in 2016, allowing implementation to begin, while results on the ground were far below the initial objectives (Figure 7.2).

The objectives and timeframe planned into the Compact had been very optimistic, not to say unrealistic. The corporatist struggles largely slowed down the operational aspects. But even more, the conception of the reform created a confusion between the temporality of the policy reform, which is not predictable as it includes political negotiation and compromise, and the temporality of projects, which are supposed to be feasible in a given timescale. The MCA team saw land policy reform as a technical issue that they could achieve in a short timeframe, allowing for a quick implementation in the field. However, negotiating the legal reform took much more time than planned. In consequence, land reform and field operations were done simultaneously. The latter were implemented within the former legal framework, in an institutional

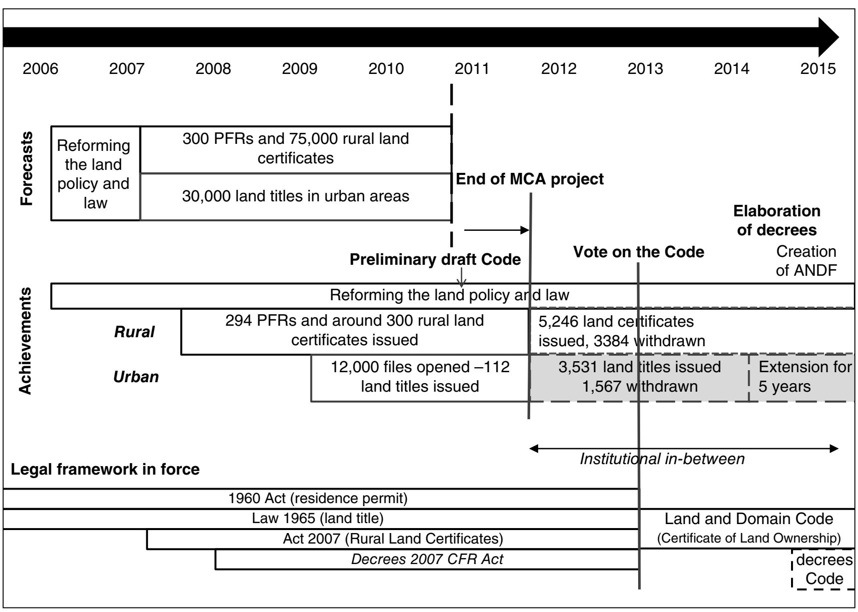

FIGURE 7.2 The MCA project: Delays in time and results

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in-between period. Therefore, the transformation of housing permits into land titles could not benefit the intended flexibility in the registration procedure and PFRs were made within the context of the 2007 law, whose institutional arrangements were under question. One can consider that the operational component has been quite a failure and a big waste of money. It nevertheless obliged reformers to take stock of implementation issues.

The institutional component has been more successful. In 2016, however, the reform was not yet fully stabilised. The Code was slightly revised in 2017. The Finance Law reduced the cost of land titles and customary ownership certificates and temporarily offered free registration of transactions (instead of at a cost of 8 per cent of their amount), which led to many regularisations. However, the compilation of available land information is still ongoing, and not all the tools are set up. The agency's decentralised offices are open in only fourteen communes out of seventy-seven. The teams face difficulties in processing land title applications in a timely manner. The cost of the land title has not dropped significantly, because the main cost – plot demarcation and landmark setting – is still at the discretion of the surveyors. Even if new offices have been opened, the number of notaries remains very low, and above all very unevenly distributed throughout the territory. The same applies to surveyors. The cadastre is being built gradually from existing documentation, but with uncertain information on owners outside the areas with land titles. Extension to areas without cartographical documentation will face the same difficulties as PFRs and will require considerable resources, which are not yet available.

IV FIVE YEARS AFTER THE CODE: THE REFORM'S STRENGTHS AND LIMITATIONS

A A Difficult Negotiation: Promoters and Opponents

The broad consensus on the need for reform by the 2000s masked different visions of the origin of the land problems and the solutions to be promoted, with an intersection of political visions, a variable knowledge of land realities as they are experienced by citizens, and corporatist or institutional visions and interests.

The main foundations of the reform were laid very early on, in the 2005 Compact's project document, but its precise formulation and implementation have been a process, hampered by several conflicts of vision and interests, which have affected its trajectory. Those political conceptions and representations of the land sector and those interests strongly influenced the reform process. Several groups of actors and dividing lines can be identified.

1 A Struggle between Two Visions of Problems and Solutions

The first controversy was between PFR promotors and the MCA formulating team, on the way to adapt to the new context of the 1990s–2000s. While some experts timidly tried to discuss the centrality of the land title in the

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urban context, they did not constitute a real force, and it does not seem that associations representing urban populations mobilised on the subject or criticised the focus on land title in terms of inclusion.

The historical network of actors supporting PFRs as an alternative to land title was partly anchored within MAEP, and partly within the various projects implementing PFRs under its supervision. They highlighted the specificities of land tenure in rural areas and they contested the land title, both in its logic of exclusive private property guaranteed by the state, and in its procedures, cost, and defects in terms of people's security of rights. Some of them joined the MCA team and were considered as traitors by the others, who continued to challenge the very logic of the reform promoted by MCA or to negotiate compromises, using their position as experts in field projects, anchored in communes, to emphasise concrete problems linked to the implementation of the Code. These opponents tried to preserve CFRs as a durable solution for farmers and a commune-level management system for those certificates, autonomous vis-à-vis the national land administration. For them, a Land Code only had to be a hat, encompassing various sectorial texts including the 2007 Rural Land Law.

While farmers' organisations had not been involved in the design of the PFR and the drafting of the 2007 law, a young farmers' union quickly mobilised against the risk of land grabbing linked to the emphasis on titling and fought to obtain better control over those risks. The umbrella farmers' organisation explicitly entrusted the land reform issues to this farmers' union. However, its leaders, who are big farmers, did not necessarily contest the land title itself. On the other hand, livestock associations were rightly concerned about the future of pastoral areas, mobility, and access to crop residues in a Code based on private ownership that does not say a word about their existence.

Even if their priorities were different, the network of experts defending historical PFRs, MAEP, and the farmers' organisations thus shared interests in working together, exchanging information on a process that they found very opaque and trying to influence the draft Code. After the vote of the Code, each of them repositioned themselves around the issue of implementation and its practical problems. The project teams made a new alliance with communes. The new issues related to the future of existing CFRs and completed PFRs, the future role of communes in land management, technical criteria for the implementation of PFRs, modalities for the integration of PFRs, and the future cadastre. These were all points of contention with an ANDF that had just being set up and was seeking to assert itself. Those tensions reflected both different conceptions of reform, a defence of PFRs (which seemed threatened by the ANDF), and a demand for the autonomy of projects and their programming from ANDF. In particular, the end of 2016 saw a major conflict between ANDF and the projects: ANDF wanted to stop every cadastral operation until its own cadastral software was ready; while the project teams agreed that while new PFRs had to be integrated later into the cadastre, they refused to stop making new PFRs because of their own objectives and contractual commitments.

After the vote on the Code, the issue of the desirability of formalising land rights, which had been raised in the early 2000s around the scope of validity of PFRs and the case of pioneer areas and village reserves (Edja et al., 2003), had largely disappeared from the debate. The latter then concentrated on the spaces left by the Code for other options: was it still possible to deliver CFRs on PFRs that were already finished? Were PFRs without legal formalisation useful for securing farmers' rights? In private, some stakeholders questioned the relevance of continuing to conduct PFRs in the new context. Others tried to address the issue of user rights, and the relationship between rights holders and farmers, in conjunction with the Ministry of Agriculture. This related issue of land tenure security had always existed in historical PFRs but had remained secondary.

2 *Inter-institutional Struggles to Protect Interests*

A second front of struggles opposed the reformers to existing land management bodies. They first faced DDET, responsible for the issuance and administration of land titles within the Ministry of Finance. We saw that DDET's lack of equipment and its practices, but also its high degree of centralisation, were one of the causes of the problems identified. The decentralisation of DDET was already planned in 2004. The MCA team fought throughout the Compact for the opening of district offices, which DDET slowed down as much as it could. Such decentralisation was essential to bring land administration closer to the people, but it meant cutting the power of the DDET head, who had control over title application files for almost all the country and in particular on the periphery of Cotonou where the land issues are most intense. The strong resistance of DDET to any decentralisation finally convinced the MCA team that internal reform was impossible and that land administration should be entrusted to an autonomous agency.

The Ministry of Finance did not seem to be very active in formal debate arenas, preferring to follow the process, negotiate directly at a high political level, and assess the risks without being overly visible. DDET exercised strong passive resistance during the first phase. After the reform was adopted, the Ministry of Finance invested heavily to win the battle for the agency's supervision. Having won, it became a supporter, undertook a series of internal reforms to integrate the ANDF into its organisational structure, reformed the scope of DDET's competence, and organised the transfer of files.

The Institut Géographique National du Bénin (IGN) is part of the inefficient public structures in a situation of monopoly rent. The entire history of PFRs has been marked by complicated relations with the IGN, which did not provide – or only did so very late – the services that were required of it in terms of the provision of aerial photographs or satellite images. During the MCA project, the IGN was responsible for the quality control of the PFR maps produced, which it did with very variable rigour. Without real success, the reform tried from the outset in the early 1990s to reform the IGN by integrating it into the ANDF. The IGN finally avoided it.

The reformers also opposed the communes. The MCA team and land specialists strongly criticised their land practices (allotments, issuing administrative certificates, asserting sales agreements without real rigour, and issuing housing permits outside the legal field). Mayors rightly consider that the reform represents a deliberate desire of the legislator to reduce the prerogatives of communes in land management (Gandonou and Dossou-Yovo, 2013, p. 24). As we have seen, the reformers condemned communes' land practices without taking into account the institutional deficiencies of the state, which partly explains their 'semi-formal practices', and without attempting to reorganise and upgrade them. The Code removes most of the land responsibilities of communes, also greatly reducing their resources. After the vote on the Code, communes fought to recover some responsibilities and incomes.

The reform also challenges the role played by MAEP on rural land. MAEP is divided between the promotion of family farming – and thus the protection of peasant rights – and of agri-business. While the 1999 policy paper supported family farming, the first draft of its 2005 policy document was clearly pro-agribusiness and the official position is now mixed. From an institutional point of view, the fact that the management of the reform has been entrusted to the Ministry of Urban Planning extends its prerogatives to the rural world. MAEP tried to maintain control over rural land, mainly in supporting the PFRs, the supervision of which was explicitly assigned to it in the 2007 law. Its defence of this Rural Land Law is as much about this institutional challenge as it is about a vigorous defence of peasant rights. However, the Ministry is politically and technically quite weak and it could not really influence the reform. After the vote on the Code, MAEP repositioned itself around the productive dimensions of land and invested in the theme of tenure contracts, totally neglected by the Code.

3 Professionals: Between Carrying Out the Reform and Protecting Vested Interests

The last group of actors is made up of the various professionals working in the land sector, in particular surveyors and notaries. Surveyors have a very strong position in Benin. They are at the heart of the defence of the classic land titling procedure, which offers them a comfortable income. Indeed, for each plot they have to do two delimitations, the first to make the map that is part of the application, the second during the titling procedure. The decree regulating their profession gives them a monopoly over all topographical work even where less skilled professionals could do it cheaper (we have seen how they fought for leadership over land operations in MCA PFRs). They are also among the actors who benefit greatly from the confusion by managing land subdivisions in a discretionary manner, manipulating registries and selling the land information they keep for themselves. IGN surveyors frequently hold positions both in the public service and in private practice, with obvious conflicts of interest. They have been at the forefront of demands to apply urban standards to rural areas, and to take advantage of the use of high-precision GPS to impose unnecessary accuracy. MCA commissioned the President of the Order of Surveyors for the study on PFR techniques (Steward International, 2009), which, not surprisingly, advocated the application of titling standards to PFRs.

Land professionals can be considered as co-authors of the reform, including when they have hindered any simplification of procedures that would be against their interests. One can wonder if and how far extending their role and clarifying the rules of the game will be sufficient to stop their illegal practices. Notaries also benefit greatly from the reform: at the end of the transition period, no plot of land can legally be sold without the sale being carried out in the form of an authentic deed or in any case registered in the minutes of a notary. This increases notaries' volume of activities and allows them to develop their intervention outside urban centres. Although they were involved in the drafting of the Code, surveyors and notaries were both signatories in April 2013 to the open letter vigorously contesting the Code.

B A Deep and Necessary Reform of Land Administration and Tools: The Limits of an Orthodox Approach

During the same time as they have opposed the Ministry for Agriculture and rural experts on the issue of customary rights, the promoters of reform have thus had to fight also against an ossified land administration. They have had to force it to reform itself, rally professionals who were part of both the problem and the solution, and marginalise those who contested the basic options proposed while taking into account some of their proposals. In an interview in 2008, one of the reform's main architects said to me that his work was in fact a huge task of administrative diplomacy. Having succeeded in overcoming those many obstacles, bringing the draft Code to a successful conclusion and obtaining the political support necessary for the implementation of the reform are in themselves important achievements.

When no real attempt had been made between 1965 and 2007 to update the land law and administration, the Beninese Government supported by the MCA team succeeded in promulgating a new Code that is a single, up-to-date text, integrating private land and state ownership. Besides reforming land administration, the Code brings institutional innovations to address real problems, such as measures on litigation, extinctive prescription, and criminal land law. It also partly endorses the innovations made by the 2007 Rural Land Law.

However, it reflects a classic and normative conception of land rights, where practices must be brought into conformity with the law. Far from starting from current land rights and problems faced by citizens to design concrete solutions, it mainly reproduces the classic conception of land titling, under the assumption that most of the evil came from the fact that the law was not respected, and from the lack of technical tools. In the typology suggested by Comby (1998b, p. 20; see Section I.A), the reform mainly follows the logic of 'improving practices and reorganizing administrative means in compliance with existing law', coupled with elements of 'a policy of punctual improvements leading to significant improvement', a logic that he thought was a dead-end.

The Benin reform is more a reform in land administration than a reform changing the conception of land issues. This strategy allows for significant progress (institutional coherence, more proximity, with land offices in each department; cadastral maps for localising titles; titles less costly and with faster delivery; hope of more transparent land administration), which was necessary and cannot be underestimated. At the same time, it also has its limits, especially for the rural world:

- Despite the willingness of its promoters to move away from legal dualism and to standardise the law, the Code could not avoid reproducing this dualism, maintaining a divide between titled lands and others. This applies to the urban environment, at least until every urban plot is titled, which will necessarily take time. It is much more the case in the countryside. There, the Code had to create a new intermediary document, the ADC, to respond to situations where title is unaffordable. But, while being legally defined (which was not the case with the old administrative certificate), ADCs may pose the same problem: a lack of cartographical support to locate the plot, and a relatively high cost that can be problematic for poor farmers or in places where the need for such a document is not obvious for rural dwellers. One can even perceive a step backward compared to the CFR, which was limited to plots of land registered in the PFR, but represented an intermediate document, with the same legal content and really inexpensive.
- Although it officially aims to reduce insecurity and conflict, the Code only addresses the problem of sales conflicts by prohibiting any sale on a plot without land title. While legally coherent, such a measure is difficult to apply in a context where very few plots have a title and where the rate of issuance of new titles by ANDF remains very low. Even more, it imposes a temporality that is incompatible with the rates of sales (distress sales, which are urgent, form the majority in rural areas) and the cost of a title is still high compared with the value of the land in most regions. Moreover, nothing is said about what should be put in sales contracts, and how to ensure that the seller has the right to sell and, in the case of family plots, that the other rights holders agree. While they play an important role in the land market, the profession of intermediary or direct sellers is not regulated. A significant part of the functioning of land markets is not addressed.
- Although incorporating provisions specific to the rural environment, the Code refuses to take into account the diversity of rights existing in rural areas and the existence of collective rights at different scales. Such rights are

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mentioned here and there, but their status and treatment remain extremely ambiguous. The reality of land rights in rural areas is very diverse, as we saw. While PFRs have sometimes induced a dynamic of individualisation, this is not general and does not always leads to individual ownership. By proposing only individual ownership, the Code induces tensions both within extended families and between indigenous people and migrants (Lavigne Delville and Moalic, 2019), far from the ambition to 'overcome the climate of mistrust that generally prevails between customary landowners and that are generally indigenous and migrant exploiters' (République du Bénin, 2004, Annex 1, p. 16). This situation jeopardises the principle of access to land for every lineage member, which is obsolete in the densest areas, but remains valid elsewhere and plays an important role in social security.

- Finally, the measures planned to combat land speculation in rural areas appear to be largely symbolic: authorisations are required for land purchases in rural areas (art. 261), with an obligation to carry out a development project above 2 ha and authorisations that depend on surface thresholds. No acquisition of land can exceed an area of 1,000 ha, but 1,000 ha is already huge for Benin and it is easy to bypass the thresholds by dividing the purchase into several contracts. A 'per purchase' threshold does not prohibit in any way accumulation of ownership far exceeding 1,000 ha for a single body. Moreover, the experience of authorisation thresholds, which exist elsewhere in Africa, shows that they more frequently result in political control over major acquisitions than in real regulation linked to the quality of productive projects. There is currently no definition of the criteria for judging this point and ANDF does not have the necessary skills to do so. Finally, the prohibition on the purchase of land by non-Beninese, which is a problem for border residents and migrant farmers, is also symbolic here, because it is sufficient to have a joint venture with a Benin shareholder or to create a subsidiary under Benin law to circumvent it. The Code also takes from the 2007 law the measures of forced rental in the case of unused land, but their practical feasibility is questionable.

1 The Issue of Inclusion

Providing that ANDF is able to deliver quickly reliable land titles and to manage them soundly, the main issue of the reform is inclusiveness. Real efforts are being made to reduce the fees of the titling process. ANDF's services and various taxes should not cost more than CFA Franc 100,000 (€150). However, the overall reduction in the cost for citizens is doubly limited: first, surveyors freely fix the cost of demarcation, which is one of the major costs of the procedure, and frequently exceeds CFA Franc 300,000 (€450). Second, the registration procedure requires several steps (purchase, having a certificate, etc.) and the full cost for users includes the cost of those steps, as well as other indirect expenses (travel to the office, etc.). Introducing notaries as a mandatory step for transfers adds significant costs upstream. The total cost continues to be high regarding the value of plots in towns outside major urban centres and may be even more in rural areas.

Standard land registration and land title have historically been designed to be in the service of colonial officers and their allies, and then of national elites after independence, and are by no means meant to be in the service of the entire population. The possibility of really lowering the costs is limited as long as that still is the reference. The problem is considerable for the urban poor or small middle class. It is crucial for rural dwellers. Therefore, the ability of the reform to make title largely accessible to the population risks being hampered, to a level that is still difficult to predict.

2 *The Issue of Cadastre*

Created by the Land Code, the cadastre is supposed to provide information also on untitled plots of land, thus avoiding the problems linked to the fact that legal dualism is maintained. Multifunctional, it has technical, fiscal, and legal roles. It is supposed to cover the entire territory. By assigning a unique number to any plot of land in the country, whether or not it is the subject of a land title, the cadastre is intended to avoid ambiguities about presumed owners and facilitate the transition to title of unregistered plots.

The first step, which is in progress, is to digitise information on existing titles and geo-localise them. The second step is to gather and compile existing land information wherever there has been work to map plots and identify the rights holders, such as subdivisions, PFRs, and urban land registers. The question here is the reliability of the information, and especially its accuracy when the documentation is old or incomplete: there is a very high risk of creating an obsolete database from the outset, putting wrong names in the software. The third step concerns the creation of land information on areas on which there is currently no information, which form the vast majority of the national territory. The approach was tested in early 2019 by ANDF and the Dutch-funded Projet de Modernisation de l'Administration Foncière (PMAF) project. The PFR methodology, which combines the identification of plot boundaries and the investigation of rights held, could provide most of the necessary tools. Identification of the presumed owners may be trickier, as the difficulty in transforming housing permits into land titles has shown. In rural areas, developing the cadastre will face the same difficulties as PFRs for areas that are not individually owned (land reserves controlled by customary authorities, lineage heritages, etc.) and for plots where rights are not quasi-ownership. Even more than PFRs, the future cadastre will reduce overlapping rights into a single registered property right and exclude other rights holders since there is no provision for registering them. It will not be able to avoid the risk of generating conflicts and spoliations.

In addition, the real problem of any cadastral system is updating it. When it is not possible to ensure the registration of changes, a land information system quickly becomes obsolete. Registering millions of plots of land in a few years is a challenge that only two authoritarian countries (Rwanda and Ethiopia) have succeeded with in Africa. Success in ensuring updating is another question: in Rwanda, in some municipalities, the rate of unregistered transfers is very significant (Ali et al., 2021). The ability of the future cadastre to register changes is all the more uncertain since the registered land will not have legal status.

Assuming that the obligation to title a plot of land before it is sold can be guaranteed and that every sale is recorded (which is not evident, as we have seen), the legal cadastre will slowly expand and update with the rhythm of sales (and recorded inheritances). But a large part of the territory, where the land is transmitted by inheritance, will remain for several decades outside the updating mechanisms and therefore with obsolete land information, which raises questions about the opportunity of systematic mapping, at least for a significant part of the countryside.

The future of the land cadastre therefore depends first on Benin's ability to mobilise the necessary resources to implement it, and thus on the willingness of donors to provide the corresponding resources. But it depends even more on the ability to ensure that information on 'presumed owners' – with or without presumed ownership documents – is accurate and updated, which could be problematic where sound information does not exist and where there are few or no incentives for citizens.

3 The Issue of the Transition: Length and Management

The reform strategy initiated in 2004–2005 was both proactive and extremely ambitious. It was designed based on both a quite technocratic vision of change and an overly optimistic timetable. This desire for a rapid changeover was also reflected in the 2013 Code, which provided for a transitional phase of five years before all the measures would be in force, and in particular that any sale would be carried out in an authentic form or recorded in the minutes of a notary. This corresponded to the logic of the replacement paradigm, which promotes a rapid switch from 'informal' rights to generalised formal ownership and aims to prevent the persistence of intermediate situations and devices, on the margins of the law. However, the time needed to implement the measures provided for in the Code and necessary for such a switch is in contradiction with this five-year transition phase. Besides the creation and deployment of ANDF, the full deployment of the new institutional framework requires having surveyors and notaries available in every region: in 2013, there were only thirty-five notaries in Benin, all or almost all of them based in the south of the country. The state opened new offices in the regions, but these remain largely insufficient. Consequently, the compulsory registration of any sale by an authentic instrument or by an agreement recorded in the minutes of a notary will remain difficult to achieve in a significant part of the country for several years. The 2017 revision extended the deadline to ten years (art. 516) – that is, 2023 – which was still a very short timescale.

The Code opened up the possibility of defining transitional arrangements, but this was not taken up, which caused institutional uncertainty, particularly on the issue of sales of plots of land: were sales agreements signed by communes forbidden from the Code's promulgation or only after the five-year transition? The shortcomings in thinking about the temporality of the reform (and more generally the temporality of institutional change) are also reflected in ANDF's aborted desire to suspend topographical operations until the cadastral software is ready, as if land dynamics could be stopped until the new system is set up. Since the transition inherent in such a reform can probably not last for less than 15 or 25 years, it seems important to think of it as such, by dealing with intermediate situations, which are inevitable. Failing to do so leads to the risk of leaving a legal and institutional fog, and the risk of seeing new unregulated, adaptative semi-formal solutions redeployed during this time.

V CONCLUSION

Land tenure is at the heart of societies and the relationships between states, social networks, and citizens. The way in which a society defines property rights and ensures their security has a deep connection to the way in which social relations are thought of, whether inequalities (of status, wealth, and power) are considered acceptable or opposed, and the way in which people see the state and its role. Any land reform project necessarily has simultaneous, intricate political, economic, and societal stakes (Léonard and Lavigne Delville, 2022). It also necessarily crystallises multiple issues at very different levels.

In Benin, negotiating the reform, in its orientations and modalities, has been a complex process, involving multiple actors: institutional, private, and customary, but also international experts and donors. It first gave rise to a battle on the very vision of what the reform had to be, and behind that on divergent conceptions of society, law, and property. It also confronted visions, institutional logics, and interests all along its history and the current state of reform is the unplanned product of power, compromise, and bricolage. In this process, donors have been instrumental, in funding but also in providing ideas, models, and expertise, the succession of priorities corresponding to different donors. However, the opposition between adaptation and replacement paradigms has to be analysed in terms of concurrent policy networks, each one with national and international state agents and experts, and not in terms of opposition between the national state and external actors.

Benin land reform has the real merit of confronting long-standing institutional deficiencies and consolidated interests. It has deeply transformed the legal and institutional framework for land management, with the creation of ANDF and its decentralised offices, which now have many more staff and resources than the former land administration and have opened some institutional locks. It has set up an efficient geodetic infrastructure, making it possible to link topographical surveys to a single reference frame. It has digitised existing land documentation, corrected spatial referencing errors, centralised information, and made it accessible. The time and cost of issuing a land title have been reduced. Transparency and rigorous management are highlighted and have to be confirmed in the field.

However, framing issues in terms of classic titling is not the same as framing them in terms of securing people's property rights. It must be noted that the quantitative data available for the 2000s confirm neither that informality is the main source of conflicts, nor that having a land title allows one to have credit, which are the two main assumptions of the reform (see Section II.B.4). This should not be surprising given the huge amount of economic research challenging these ideas (see, e.g. Binswanger et al., 1995; Platteau, 1996; Bromley, 2009 for rural, and Durand-Lasserve and Selod, 2009 for urban areas). Our broader institutional analysis showed that the blockages identified and addressed by the reform are more related to what the 'Institutions and Economic Development' research framework calls the 'causes of proximity' than to the 'underlying factors' (see Table 7.1).

Standard land titling is based on a colonial model of 'creating ownership from the top' (Comby, 1998a). It is very different from the logic of the state recognising property rights that have been constructed 'from the bottom up', which has historically been the experience in Europe (Stamm, 2013). Benin's land reform is above all a reform of land administration, which does not question the land title and its logic, which, as we have seen, was the case for promoters of rural reform and some experts working on urban issues. Refusing to recognise the role played by existing intermediate solutions, and thus failing to build a plural system offering a range of legal solutions, Benin's land reform reproduces in practice the legal dualism that previously left a large part of the population in the 'informal' or semi-formal category, which it had claimed it wanted to fight. It has been obliged to create new and sometimes ill-defined intermediate documents. It will also probably give rise to new intermediate, semi-palliative, semi-instrumental practices of the type the reform sought to combat, either for areas where the transition to title is complex or poorly justified, or after the title has been issued, due to the cost of registering transfers for poor households.

Despite the current government's clear commitment, access to land title has been facilitated but will remain low for a long time. The risk is that this excludes an important part of the population, and thus maintains and even recreates informality. Holders of existing housing permits or sales contracts that are no longer recognised are even more in an informal situation than before, and rural buyers who are not able to fulfil the requirement of titling before selling a plot are not fully protected from spoliation during the titling process. The risk is therefore that the reform will serve above all to extend access to land ownership for an expanded but still small minority of quite wealthy actors who are able to mobilise the law and to take advantage of faster procedures (particularly urban dwellers buying land in rural areas).

Another strategy was possible, which would have started more from the situation 'in the field', problems, and people's resources, and from an analysis of the role played by semi-formal mechanisms, in order to reduce contradictions and ensure greater land security in line with pro-poor approaches (Zevenbergen et al., 2013). While also making land title more accessible and reliable for those who really need it – and in particular those who need mortgage credit – such a strategy would have focused mainly on the concrete needs of all citizens as regards securing their diverse rights over land. It would have offered them a range of institutional solutions, from which they would choose depending on the context and their own situation. Such institutional solutions would be based on the will to protect existing rights against spoliation, to favour acquisitive prescriptions to solve old cases, and to secure the negotiation and formalisation of land sales, even for untitled plots of land. In such a strategy, all transfers – except for local sales in rural areas – would be included in the land cadastre, which would focus on plots of land with legal status and would gradually expand. In this perspective, sales and inheritance contracts, drafted and formalised according to strict procedures, with a notary for urban areas and in the field with the Village Land Committee and Land Office agents for rural areas, would be the basis of ownership, including when they concern untitled land. Sale or inheritance contracts would assess the seller's right to sell and specify the origin of the rights held and the content of the rights transferred, including various easements linked to other rights holders or local rules. Family land could not be sold without a family council record explicitly authorising the sale and specifying the distribution of its proceeds among rights holders and validated by the Village Land Committee for rural areas. Actors who do not have such documents and need to secure themselves legally could request an attestation of customary possession, which would rely on a cross-checked field survey. The plots sold or plots having an attestation would be surveyed by local surveyors using GPS of a sufficient (but not centimetre) precision and data would be integrated into the national cadastre, which would gather information on land titles as well as on sales, transfers, and ADCs on untitled plots of land. A PFR-like systematic survey would be carried out where the stakes are high, in peri-urban areas where the land market is developing, leading to certificates. The integration of plots into the cadastre would be a progressive process, along with social and economic evolution and people's needs.

Altogether, the Benin land reform, its achievements and limits, and the fierce debate that took place during those years contribute to the general debate on land reform strategies. The reform raises questions about the potential and limits of improvement strategies that do not question the global model of land title. It contributes to a rethinking of the relevance of adaptative strategies, which organise over time the transition from an existing and dynamic situation that is problematic in specific contexts to better land governance that focuses primarily on the security of land tenure of citizens and economic actors, starting from their real situations. History will show whether and to what extent the actors in charge of the reform's implementation will integrate pragmatic adaptations to the challenges they face, and to what extent they will be able to face the issue of social inclusion.

AFTERWORD ON LAND REFORMS

This text was first written in mid-2019. Since, the issue of inclusion and that of the land register have evolved. The slow delivery of titles by the ANDF and the blockages linked to the prohibition on communes' legalisation of sales on untitled land revealed the limits of the model. ANDF issues only a few thousand new titles each year. As experts from ANDF and PMAF now recognise, it is not possible to register a significant part of the territory before the end of the transition period in 2023 (Mekking et al., 2020, p. 4). The reflection and experimentation around the cadastre have legitimised the search for alternative solutions integrating issues of rapid expansion and inclusivity, with a new cost–quality balance (Mekking et al., 2020, 2021). The cadastre development approach proposed by PMAF is connected to the concept of a 'fit for purpose' cadastre promoted by Dutch surveyors and presented as new, even if it built on the PFR methodology. It aims at rapidly expanding the registration of presumed individual or family ownership rights by field surveys on legitimate rights and plot demarcation, with only metre precision. Social intermediation prepares the survey, landowners themselves place markers on the boundaries of their plots, and surveyors are mobilised to check the maps and not for plot demarcation. Reflection is going on around the possibility of introducing a deed-based system along with the existing title-based system (Mekking et al., 2020, p. 7) or creating certificates of presumed rights registration that could easily be transformed into titles. Expanding the transition period and recognising a role for communes in validating land sales where there are no notaries is also in debate. Confrontation with the limits of the model seems to have opened new opportunities for building sound intermediate solutions that, for one part, had already been proposed and that, until recently, ANDF refused to consider. It could represent a new bifurcation in the reform and offer answers to at least part of its shortcomings, a kind of ex post revenge of the adaptation paradigm, imposed by reality. However, the focus is still on private ownership, and the issue of updating is far from being solved. It remains to be seen if and how far these propositions will be institutionalised, for example in the new revision of the Code, currently under discussion.

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Discussion of 'The Political Economy of Land Reform'

Discussion by Kenneth Houngbedji

1 SETTING THE SCENE

As a resource, land produces a range of services for human development, such as food production, housing, and ecosystem services through forested areas. While statistics related to homelessness are scarce for Benin, the most recent statistics of the United Nations Food and Agriculture Organization (FAO) estimate that agriculture and forest represented respectively 33 per cent and 38 per cent of the land area of the country in 2016. However, in terms of contribution to food security, employment, income generation, and the creation of goods and services, agricultural activities play a central role in the social and economic life of the country. According to the most recent statistics, the share of the employed population working in agriculture in 2018 was estimated at 41 per cent, and contributed to producing 23 per cent of the value generated by economic activities (World Bank, 2018).

Despite this position and the positive economic performance in recent years, the agricultural performance in Benin is still very much lagging behind in international comparisons (Food and Agriculture Organization Corporate Statistical Databasem FAOSTAT, www.fao.org/faostat/en/#home). While the rest of the world experienced gradual and substantial productivity gains through the entire period, despite steady growth since the 1990s land productivity remains low in Benin. Moreover, even though the country has privileged access to trade routes and imports food from abroad, the latest report on the state of food security and nutrition in the world ranks Benin among low-income, food-insecure countries. This underlines the fact that agricultural output is not sufficient to meet local demand for food and the country lacks the resources to fill the gap by purchasing food on the international market. In that context, it is estimated that the population is affected by multiple forms of malnutrition – including a high prevalence rate of anaemia among women and child stunting – and that one out of ten persons (i.e. 1.1 million persons) was undernourished in Benin between 2015 and 2017. Agricultural production is also particularly vulnerable to climate change and this situation raises concerns regarding the future prospects of food security in Benin (see FAO et al., 2018).

This chapter on land reforms provides a thorough and in-depth analysis of the political forces that shaped the orientations of successive land reforms in Benin. In this discussion, we propose to analyse the land reforms in Benin through their impacts on the social and economic lives of individuals. To pursue that goal, we provide a bird's-eye view of the theoretical and observed effects of the land reforms implemented and offer remarks on some of the challenges and opportunities ahead to promote sustainable improvement of the social and economic lives of individuals in Benin.

II LAND REFORMS IN BENIN: THEORETICAL EXPECTATIONS

A property right refers to socially recognised structures of allowable individual actions. It determines how a resource is used for consumption and/or income generation (see, e.g. Besley and Ghatak, 2010). Hence, a system of property rights provides the incentives and devises the constraints that shape human interaction, whether political, social, or economic (North, 1990).

There is a well-established theoretical literature that shows that the enforcement of private property rights, which makes it possible to legally exclude others from using a good or asset, within an effective legal framework should in theory increase productivity and spur economic development (Besley and Ghatak, 2010). The literature proposes three channels through which productivity gains arise in these contexts. First, the codification and enforcement of private property rights reduce expropriation risks and promote long-term investments. Second, enforceable property rights should lower transaction costs and allow productive farmers to negotiate land use rights from less productive farmers, thus making both parties better off. Third, a clear definition of property rights reduces information asymmetry about ownership rights and can allow individuals to use their property as collateral for loans. Nevertheless, to be effective, the ability to use land as collateral requires a number of conditions, including the presence of a properly functioning credit market.

Theoretical predictions of the effects of the enforcement of private property rights on productivity suggest that places where property rights are clearly defined and enforced should be more productive. However, most agricultural land in Benin is held under customary rules, where the allocation and enforcement of land rights involve a diverse and complex set of arrangements made and upheld by local stakeholders, such as village chiefs, councils of elders, and land chiefs (Le Bris et al., 1982). Therefore, private property rights, as conceptually defined in theory, do not match local practices of land rights management.

Yet, there are good reasons to consider that land tenure insecurity represents a challenge for investment and living conditions in Benin. First, using detailed information on agricultural practices on plots, Lawin and Tamini (2019) find evidence suggesting that land tenure arrangements significantly influence farmers' decisions to invest in practices that improve agricultural productivity while preserving the environment. Second, there is evidence that under customary land management, land tenure insecurity prevents farmers from leaving their land fallow, a low-cost soil fertility management investment practice that improves agricultural practices (Goldstein et al., 2018). Third, available statistics estimate that 34 per cent of the population in Benin felt insecure about their tenure rights over the home they owned or rented in 2018 (Prindex, 2019).[27] Though home tenure insecurity appeared to be evenly distributed across urban and rural areas, it varied geographically and was highest for vulnerable groups, such as women and renters.

To reduce land tenure insecurity, in a context where allocation and enforcement of land rights have historically been vested in customary practices, policy makers in Benin approved the Rural Landholding Law of 2007, which provided formal recognition of land held under customary arrangements. A new land law was then adopted in 2013 to improve the definition of property rights. This established ANDF, a national agency with responsibility for the implementation of land policies.

While little is known about the effects of the implementation of the 2013 land law, more can be learned from studying the effects of the implementation of the Rural Landholding Law of 2007. In practice, the Rural Land Law allowed willing villages to produce Rural Land Use Plans, or PFRs, which embed the resolution of land disputes, the demarcation of plots, and the recognition of individual land rights within customary practices, and which provide documentary evidence of those rights. PFRs are a community-driven approach that seeks to provide legal recognition of land rights held under customary tenure systems (see, e.g. Colin et al., 2009; Cotula et al., 2004; Lavigne Delville, 2014). The approach systematically demarcates several plots at once, making it an affordable policy option. However, the impacts of the PFRs are theoretically unclear, since customary land rights that are formalised are not necessarily private and still remain (partly) vested in customary practices.

III EMPIRICAL EFFECTS OF THE PLAN FONCIER RURAL IN BENIN

To our knowledge, available empirical studies of the effects of Benin's PFRs include a study of changes in land security for landowners and access to land for tenants (Yemadje et al., 2014), variation of agricultural investment decisions (Goldstein et al., 2018), and changes in individual levels of cooperation and trust (Fabbri, 2021) as a result of land registration activities.

[27] Perceived tenure security was assessed via a central question about people's homes: 'In the next five years, how likely is it that you could lose the right to use this home, or part of this home, against your will?' (See Prindex, 2019 for more details.)

In the oil palm-based cropping system on the Adja Plateau, Yemadje et al. (2014) report that following the land registration activities carried out as part of the PFRs, land conflicts have decreased and there was a shift towards agricultural intensification. Tenants and landowners increasingly invested in land through rotations between maize and cowpea (rather than maize mono-cropping) and the use of mineral fertilisers, without increased use of household waste. The paper suggests also that as a result of the PFRs there was a shift from oral to written land rental contracts, from unwitnessed to witnessed contracts, and from contracts backed up by local chiefs under customary rules to contracts backed up by the state in a legal system.

Covering a larger study area that spreads across forty of the seventy-seven communes in Benin, Goldstein et al. (2018) compare the agricultural decisions of rural households in villages that were randomly selected to receive a PFR intervention to otherwise comparable households in villages that were not selected. The authors find that following land demarcation agricultural households were on average more likely to have their plots demarcated. In line with theoretical predictions, households in villages that implemented a PFR were also on average more likely to shift their investment decisions to long-term and perennial cash crops. There was also evidence that, on average, the PFRs helped to reduce the gender gap in fallowing, a key soil fertility investment.

The results reported by Yemadje et al. (2014) and Goldstein et al. (2018) are in line with the effects reported for similar interventions in other countries of sub-Saharan Africa. In Ethiopia, Deininger et al. (2011) find that the registration of land rights in Amhara significantly reduced fear of land loss, and increased the propensity to rent out land and the propensity to invest in soil and water conservation measures by 20 percentage points. Studying the effects of Rwanda's large-scale land tenure regularisation programme, Ali et al. (2014) find that the land tenure regularisation increased soil conservation investments among male-headed households by approximately 10 percentage points, and that the impact for female-headed households – at 19 percentage points – was nearly twice as large.

The long-term impacts of the registration of customary land rights on agricultural productivity and food security in Benin remain an area of active research. However, outside Benin, Holden et al. (2009) find that, up to eight years after the rural land registration in the Tigray Region in Ethiopia, plot productivity increased. In Vietnam, Newman et al. (2015) studied the effect of the land use certificate (LUC) on rice production and find that 'plots that move from not having a LUC to having a LUC experience gains in rice yields of 4.9%' (Newman et al., 2015, p. 99).

IV CONCLUDING REMARKS

Theoretical and empirical results suggest that land tenure arrangements matter for agricultural practices. Empirical studies of the PFRs provide evidence that the land registration activities have on average increased agricultural investment and have encouraged the adoption of soil fertility management techniques in parts of Benin. While detailed studies of the long-term impacts of the PFRs on land productivity in Benin remain to be carried out, it seems unlikely that the formalisation of land rights alone will boost agricultural productivity to the level observed in the rest of the world. To sustain investment in agriculture and maximise the chances of improving food security in Benin, a systemic approach is needed to connect farming to local demand for food while reducing externalities on the environment.

While the evidence suggests that the formalisation of land rights in rural areas can be instrumental in increasing land tenure security, it raises a number of concerns about the distributional effects of land registration under customary settings. As pointed out by Yemadje et al. (2014), land registration of customary rights does not exist in a vacuum. Land registration activities take place in contexts marked by spatially heterogeneous land tenure management systems, and the issuance of formal documentary evidence of land rights changes expectations and coordination between individuals. For instance, the issuance of land certificates can skew land tenure security towards holders of land certificates. This can reduce tenure security for other individuals who may have claims to the same piece of land and to different dimensions of use of that land (Lavigne Delville, 2014; Udry, 2012). This is particularly a salient concern for women, who typically obtain land use rights via a male intermediary. Alternatively, land registration activities can embed conflict resolution mechanisms and can help uphold the land rights of vulnerable groups, as protected by the legal system. In this way there are also reasons to expect that land registration activities act as a magnet that helps customary and legal practices coevolve and converge (Aldashev et al., 2012).

Overall, given, on the one hand, the role that access to land plays in social recognition, access to housing, and the economic lives of individuals, and, on the other hand, the spatial variation of existing customary practices, land registration activities are expected to produce an array of impacts depending on the constraints that are locally relaxed and/or exacerbated. It therefore seems worth considering various approaches to land registration activities depending on local context.

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8

The Critical Role of Informal Trading with Nigeria

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with Discussion by John O. Igué

1 INTRODUCTION

Benin's approximately 800 km north–south border with Nigeria plays a critical role in Benin's economy. Nigeria's population of around 190 million is nearly twenty times larger than Benin's and the differential in gross domestic product (GDP) is even larger, with Nigeria's output equal to nearly forty times Benin's, reflecting Nigeria's oil wealth rather than a higher standard of living. Thus, the economic relationship between the two countries is necessarily asymmetrical, with Nigeria's influence on Benin much more powerful than vice versa. Moreover, Nigeria's combination of massive oil wealth, interventionist economic policies, and high levels of corruption has led to pervasive distortions and inefficiencies.

It is in this context, during the first oil shock in 1973, that Benin adopted a development policy centred on serving as an 'entrepôt state' vis-à-vis its neighbours, particularly Nigeria (Igué and Soulé, 1992). That is, Benin aimed to expand its role as a trading hub, importing goods and re-exporting them to Nigeria, thus profiting from the distortions in Nigeria's economy. Heilbrunn (1999) aptly described Benin as the 'Flea on Nigeria's Back'.

Benin's dependence on Nigeria is not apparent from official trade statistics, with Benin's reported trade with Nigeria accounting for only about 6 per cent of Benin's exports and 2 per cent of Benin's imports in 2015–2017.[1] These official

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† Deceased.

1 Based on data from International Monetary Fund (IMF) *Direction of Trade Statistics*, https://data.imf.org/?sk=9D6028D4-F14A-464C-A2F2-59B2CD424B85.

statistics are very misleading, however, as they ignore the huge unrecorded informal trade between the two countries (Benjamin et al., 2015). As we discuss in detail in this chapter, Benin imports very large quantities of consumer goods that are subject to high import protection in Nigeria and then transships them to Nigeria through elaborate institutional mechanisms. Conversely, Benin illegally imports a large proportion of its petroleum products from Nigeria, where consumer prices are highly subsidised. This two-way informal cross-border trade (ICBT) has in the past accounted for a large share of Benin's income, employment, and fiscal revenues. Recently, however, the volume of this trade has dropped considerably due to a recession in Nigeria, revealing its fragile foundations. This chapter will analyse the nature, institutional foundations, and consequences of ICBT between the two countries, and it will draw out policy implications.

ICBT is pervasive in sub-Saharan Africa, reflecting a confluence of historical and institutional factors: artificial national borders established in the colonial era and maintained after independence; porous borders between contiguous nations; a long history of regional trade pre-dating the colonial era; kinship groups that transcend national borders; weak border enforcement capabilities; corruption of high- and low-level officials who profit from collusion with traders; and, perhaps most importantly, lack of coordination of economic policies among countries sharing these borders (Golub, 2015). We will show how these factors play out in a particularly dramatic way in Benin.

An interesting dimension of regional ICBT is the intense competition between Benin and Togo for informal access to the Nigerian market. Togo is less well situated geographically than Benin for transshipping to Nigeria, since goods coming from Togo must go through Benin or Niger, but Togo compensates in part through lower taxes and fees (Golub, 2012). Although land-locked, Niger is also heavily involved in smuggling to Nigeria (Hashim and Meagher, 1999); so too is Cameroon, though to a lesser extent (Golub and Kobou, 2019).

Benin has developed elaborate institutional mechanisms to support ICBT, notably through specific customs procedures. In some respects these mechanisms are quite efficacious, belying the notion that institutions in Benin are dysfunctional. At the same time, however, the national priority placed on promoting unofficial trade is not a viable long-run strategy for development. The recent downturn in the re-export trade starkly reveals Benin's vulnerability to shocks in Nigeria. Even more so than for other countries of the region, Benin's economy is dominated by the informal sector, which provides a dubious foundation for sustainable long-term development (Benjamin and Mbaye, 2012; Mbaye et al., 2019).

Despite the vulnerability to shocks in Nigeria and the questionable sustainability of informal trade, Benin's heavy dependence on this trade for government revenues and the numerous beneficiaries among both formal and informal operators explain the government's reluctance to crack down on smuggling. Furthermore, even if the government were determined to shut down informal trade with Nigeria, it would be difficult to do so as long as the underlying incentives created by Nigeria's distortions remain. Large price differences between adjacent countries with porous borders are an invitation to smuggling that ingenious traders are bound to exploit. Thus, rather than focus on eradicating ICBT, the government should pursue policies to diversify Benin's economy to reduce its vulnerability to Nigeria's instability.

In this chapter, we focus on two of the main dimensions of Benin's ICBT with Nigeria: imports of goods subject to heavy protection in Nigeria, particularly used cars and rice, which are then re-exported to Nigeria; and Benin's imports of petroleum products, which are highly subsidised in Nigeria. The remainder of the chapter is organised as follows. Section II provides historical background. Section III discusses the effect of divergent economic policies as a key driver of informal trade between Benin and Nigeria, particularly Nigeria's high import protection and fuel subsidies. Section IV provides evidence on the magnitude of informal trade. Section V describes the institutional processes governing informal trade, particularly the role of customs administration, with illustrations in the cases of used cars, rice, and petroleum products. Section VI analyses the effects of informal trade on Benin's economy, particularly fiscal revenues. Section VII concludes.

II HISTORICAL ECONOMIC RELATIONS BETWEEN BENIN AND NIGERIA

Benin and Nigeria have deep historical economic ties, reflecting their geographical and cultural proximity. The two countries share several languages and ethnicities. Trade within the region pre-dates the colonial period, was altered by colonial economic and political relations, and further adapted to post-colonial political and social developments, most importantly divergent trade and other economic policies.

Yoruba, Hausa, and Ibo trading networks operated prior to the colonial era, but expanded in response to the arrival of European traders in the seventeenth century (Igué and Soulé, 1992; Hashim and Meagher, 1999). Long-distance caravan trade routes linking coastal West Africa with the Sahara and the interior were based on artisanal and ecological comparative advantages, but even in pre-colonial times trade patterns of taxation and tolls impinged on trading routes. The kingdom of Dahomey, corresponding geographically to a southern part of contemporary Benin, had highly developed institutions that facilitated economic ties with Europe, notably the slave trade centred around the town of Ouidah. English, Portuguese, Dutch, and French ships arrived in Ouidah loaded with tobacco, liquor, guns, and miscellaneous items of cheap junk much prized by the local population, which were exchanged for large numbers of slaves. The slave trade was a major source of revenue for the kings of Abomey, who designated a special representative ('Yovogan' or 'chief of whites') to administer the trading relationships between leading local merchants with European slave traders (Igué and Soulé, 1992).

In the second half of the nineteenth century, as the slave trade collapsed, traders switched from slaves to palm oil, transacting with French trading firms from Marseille, which created trading posts in Dahomey exporting palm nuts and oil in exchange for tobacco, guns, cloth, and vegetables.

The official colonisation of Dahomey in 1894 by the French altered trading relationships for several reasons. The French colonial government granted a monopoly to French trading companies, spurring the creation of unofficial networks by displaced local businesspeople. The geographical situation of the new colony of Dahomey, sandwiched between German-controlled Togo and English-controlled Nigeria, provided a corridor for French trade with its landlocked colonies, Niger and Upper Volta (now Burkina Faso), creating a precursor to Benin's role as an entrepôt. Furthermore, Dahomey's relatively advanced educational system reinforced its advantage as a commercial hub. The Yoruba group's spread provided a network across the region along the Gulf of Guinea.

The colonial borders between Dahomey and Nigeria were largely retained as national frontiers when the countries gained independence in the 1960s. These borders artificially separated people sharing similar cultural backgrounds, who largely disregarded official borders in their social relations. As Isyaku (2017, pp. 210–13) describes it:

> The traditional rulers have always refused to accept this situation [partition …] The socio-cultural relationship between the two states is further fostered by the fact that Yoruba groups occupying the contiguous localities claimed a common origin from Ile-Ife, spoke […] dialects of the same language and possessed similar political, social and religious institutions. Economic links, particularly commercial routes and markets, contribute to this cultural uniformity.

In the post-colonial period, kinship groups continued to play a major role in organising informal trade between Benin and Nigeria, notably the Yoruba (Igué and Soulé, 1992; Igué, 2003; Golub and Hansen-Lewis, 2012). Along the northern frontier between the two countries, the Hausa are dominant. Adherence to Islam is a source of solidarity and motivation for both the Hausa and the Yoruba, providing security for transactions, mutual assistance, and credit, all based on trust rather than formal contracts (Sudarkasa, 1985). In recent years, however, there have been numerous clashes between Yoruba and Hausa traders over control of markets (Porter et al., 2010).

Informal trade was boosted by the instability in Nigeria following the Biafra war in 1967, with an influx of Ibo refugee traders into Benin, and Benin supplying goods to sections of Nigeria cut off from supplies. During the war, Benin became a major cocoa exporter, despite non-existent production of this product, as Nigerian cocoa was diverted through Benin.

Starting in 1973, Benin adopted low-tariff policies to facilitate the entrepôt role of Cotonou to take advantage of the oil boom in Nigeria following the first oil shock. Benin also took steps to expand access to credit to importers by opening up the banking system, and deregulated the importation of key products, such as rice, formerly monopolised by state-owned firms. The Marxist government of Benin deployed the nationalised banking system in favour of the re-export trade. These credits were limited to Beninese nationals, with defaults on these loans contributing to the banking crisis of the late 1980s (Hashim and Meagher, 1999). During the 1980s and 1990s, Benin took several further steps to liberalise its imports. Customs duties were waived on the two main items re-exported to Nigeria at that time: rice and cloth. In 1985, the state monopoly on imports was eliminated. In 1993, all remaining quantitative restrictions on imports were removed. In 1994, a simplified system of customs duties with a maximum rate of 20 per cent was established, with rice and cloth still exempt (IMF, 1996).

The West African Economic and Monetary Union (WAEMU), a group of mostly francophone countries of which Benin is a member (and of which anglophone Nigeria is not), established a common external tariff (CET) in 2001 that lowered import duties for most member countries but raised them for Benin (and Togo), particularly for cloth, rice, and other important re-export goods (Soulé, 2000, Table 7.3). Nevertheless, the WAEMU duties remained well below those in Nigeria. Moreover, Benin has found ways of circumventing WAEMU import taxes by exercising customs valuation with consideration discretion, and most importantly making greater use of special customs regimes for transit and re-exports, through which it imports at very low tax rates. These customs regimes are described in detail in Section V.

Both Benin and Nigeria are members of the larger regional group the Economic Community of West African States (ECOWAS), which encompasses both the francophone and anglophone nations of West Africa. ECOWAS has progressed far less than WAEMU in regional integration. Some cooperative regional efforts have advanced, particularly in the political realm, but Nigeria is large enough that it has seen little need to coordinate with its much smaller neighbours, and it has sometimes obstructed or failed to implement ECOWAS harmonisation efforts (Hoffman and Melly, 2015). After numerous delays, ECOWAS agreed to a CET in 2013. Although Nigeria is among the countries that have adopted the CET in principle, in practice it has not fully implemented this regime, or has availed itself of escape clause provisions that allow higher protection. Thus, a number of Nigerian imports face tariffs that exceed the ECOWAS maximum of 35 per cent, and there remains a list of items facing outright bans, as discussed later.

Nigeria has made repeated threats to eradicate smuggling, but with little lasting effect. The borders have sometimes been closed due to other political tensions between the two countries. From February 1984 to February 1986, Nigeria shut down the border with Benin in an effort to curb smuggling of petroleum products out of Nigeria. During this time, Nigeria closed down all service stations within 10 km of the border with Benin, in a futile attempt to curb smuggling. Heilbrunn (1999) observes that the effects of the border closures were short-lived at best and that the recession in Nigeria in 1985 had far larger effects on lowering ICBT than the ineffectual measures of the Nigerian authorities.

In 1996, President Abacha of Nigeria closed the border in a political dispute with Benin's President Soglo, related to the latter's military cooperation with the USA, which Abacha viewed as a threat. The resulting dislocations in Benin, notably gasoline shortages, contributed to Soglo's loss in the 1996 presidential elections.

In August 2003, the border was closed for a week following a confrontation between the Nigerian and Beninese governments precipitated by the harbouring of a suspected Nigerian criminal in Cotonou.[2] Only when he was turned over to the Nigerian authorities following a meeting between Obasanjo and President Kerekou of Benin in Badagry, Nigeria, was the border re-opened. Following the meeting, the two presidents issued the 'Memorandum of Badagry', which committed the Benin and Nigerian governments to fostering formal trade relations while curtailing smuggling and criminality. In March 2008, Nigeria initiated a crackdown on imports of used cars, holding up car convoys at the usual crossing points such as Kraké and Igolo (Houngbo, 2008). More recently, President Buhari has taken a number of measures to curb smuggling from Benin, notably prohibiting imports of rice and cars through land borders once again.

Notwithstanding these occasional border closings and frequent threats from Nigeria, the re-export trade has always recovered as the enforcement of border controls reverts to its normal laxity. A sharp downturn in informal trade in 2015–2017 for some products, notably used cars, has yet to be fully reversed. As discussed in what follows, this prolonged decline is likely due more to the recession in Nigeria dampening demand than to border closures. Regardless, these episodes reveal Benin's acute vulnerability to economic shocks from Nigeria.

Officials from Benin and Nigeria have recently announced joint efforts to curb smuggling (Goudreau, 2018). Further, the two governments have just opened a joint centre for customs control at the largest official border crossing between the countries – the Seme–Kraké corridor. As commentators have noted, however, most smuggling does not go through official border posts, so the utility of this initiative is questionable (AFP, 2018). More generally, the implementation of anti-smuggling measures is likely to remain ineffectual given the disparate interests of the countries involved, and, more importantly, given the beneficiaries of smuggling within them, as will be described.

III CAUSES OF INFORMAL TRADE: NIGERIA'S PERVASIVE DISTORTIONS INCENTIVISE SMUGGLING

The most important underlying source of Benin's informal trade is Nigeria's dysfunctional economic policies, which provide incentives for traders to profit

[2] The case involved the assassination of one of then-Nigerian President Obasanjo's nieces in a carjacking in Lagos. The carjacking ring stole cars in Nigeria and took them to Cotonou. The head of the carjacking ring, Tidjani Hamani, a Niger national, was based in Cotonou, where he was released by the Benin judiciary after having been arrested.

from circumventing them. It is beyond the scope of this chapter to analyse in detail the reasons for Nigeria's corruption and mismanagement, but it surely reflects a combination of Nigeria's size, ethnic fractionalisation, and oil wealth. Indeed, Nigeria has been one of the starkest examples of the 'resource curse', whereby natural resources such as oil contribute to inefficiencies and corruption (Venables, 2016). Revenues from natural resources crowd out manufacturing and agriculture. Nigeria has attempted to maintain its industrial and agricultural base through import substitution, but this has largely fostered inefficiency and incentives for evasion. Worse, large resource rents can provide an irresistible political temptation to engage in the notorious wasteful spending and corruption that occur in Nigeria.

In effect, therefore, Nigeria's resource curse and institutional weaknesses have been transmitted to Benin. The distortions in Nigeria fuelled by oil and corruption provide economic rents to smugglers in Benin, so much so that much of Benin's institutions, both formal and informal, have evolved to capture these rents.

The dominance of the informal sector and the artificial nature of national borders in West Africa are also crucial underlying causes of the informalisation of trade. Throughout West Africa, and particularly in Benin, the informal sector represents approximately 50 per cent of GDP and 90 per cent of employment. The ascendency of the informal sector, including ICBT, is both the cause and effect of the weakness of the formal sector. With the economic crisis and subsequent structural adjustment programmes of the 1980s, government employment dropped sharply in Benin as in other sub-Saharan countries and formal private-sector employment failed to pick up the slack as the business environment remained poor (Golub and Hayat, 2015). The informal sector became the employer of last resort, particularly for young people newly entering the labour market, even those with substantial education (Benjamin and Mbaye, 2012; Mbaye et al., 2019). Many of the informal gasoline transporters and retailers are young people with secondary education who are unable to obtain formal jobs. The booming informal sector in turn contributes to the hostile climate for formal business investment, creating a vicious cycle.

Moreover, contrary to common perceptions, the informal sector is in some respects better organised than the formal sector, with large informal firms often rivalling formal firms in size, and kinship groups linking together informal operators into networks that cross borders and even continents. The Yoruba and the Hausa are particularly important for Benin–Nigeria ICBT, as previously noted.

A Import Protection in Nigeria

Nigeria has long had some of the most restrictive import barriers in the world, including very high tariffs and import prohibitions, while Benin (and Togo) have deliberately maintained low import taxes to foster their roles as entrepôts for Nigeria (Igué and Soulé, 1992). Recent research has confirmed the importance

TABLE 8.1 *Nigeria's import barriers on selected products, import tax rates (per cent) and import bans, 1995–2018*

	1995	2001	2007	2013	2018
Beer	Banned	100	Banned	Banned	Banned
Cloth and apparel	Banned	55	Banned	Banned	45/Forex ban**
Poultry meat	Banned	75	Banned	Banned	Banned
Rice	100	75	50	100	70***
Sugar	10	40	50	60	70
Cigarettes	90	80	50	50	95
Used cars*	Banned	Banned	Banned	Banned	Banned/70
Vegetable oil	Banned	40	Banned	Banned	Banned

Sources: Authors' calculations based on data from Soulé (2004), Nigerian customs data provided by the World Bank, Nigerian import prohibition list www.customs.gov.ng/ProhibitionList/import.php, online reports, and World Trade Organization (2017).

* The maximum age of cars banned from import has varied over time: it was more than eight years old in 1995, and was more than five years old in 2001; it then moved back to more than eight years old in 2007 and is now more than 15 years old. In addition, imports via land borders have been banned since 2016.

** Banned from using the official foreign exchange market.

*** Rice imports through land borders banned since 2013.

of Nigeria's import barriers in driving unofficial exports from Benin to Nigeria (Golub, 2012; Raballand and Mjekiqi, 2010; Bensassi et al., 2018).

Table 8.1 displays Nigeria's import restrictions on some of the key products of the re-export trade as they have evolved over time. Unlike Benin (and Togo), Nigeria has aggressively promoted domestic manufacturing and agricultural industries through import substitution, unfortunately usually resulting in highly inefficient production, with powerful interest groups favouring continued protection. While Nigeria has liberalised some sectors as part of the ECOWAS harmonisation efforts already noted, including reducing the number of goods that are subject to import bans, progress has often been reversed. For example, in 2015 Nigeria lifted its import ban on textile (cloth and clothing) imports, but then raised the import tariff to 45 per cent in 2016 and placed textiles on a list of goods that were ineligible to use the official foreign exchange market, in effect raising transactions costs via a de facto additional tax on imports to the extent that the unofficial exchange rate tends to be depreciated relative to the official rate.

Import taxes on goods for domestic consumption have generally been lower in Benin than in Nigeria. With the advent of the ECOWAS CET in 2015, these differences have declined for many goods, but for goods for domestic consumption and others subject to special protection in Nigeria large gaps remain. Furthermore, import duties in Benin are largely irrelevant for unofficial trade to Nigeria, as products destined for diversion to Nigeria are mostly imported via special transit and re-export regimes with very low tax rates, rather than for domestic consumption, where normal duties and value-added taxes apply. In cases where Nigerian protection is particularly elevated, it can still be advantageous to import goods for domestic consumption and re-export to Nigeria, but clearly importing under transit and re-export status is even more attractive. The extent to which imports intended for Nigeria enter under a regime for transit rather than for domestic use varies considerably by product and over time, as we discuss further later.

B Macro-economic and Exchange Rate Policies in Nigeria

Macro-economic policies, particularly exchange rate policy, are another relevant factor driving cross-border trade, with Nigeria having a crawling peg to the US$ but an inconvertible exchange rate regime, while Benin is a member of the WAEMU Communauté Financière en Afrique (CFA) Franc single currency, formerly pegged to the French Franc and now to the Euro.

Nigeria's economy is highly dependent on oil, and thus subject to shocks from fluctuations in world oil prices. The recent recession in Nigeria in 2015–2017, associated with a sharp downturn in world oil prices, provides a clear example of the spill-over effects of Nigerian macro-economic developments on Benin. The Buhari administration resisted devaluing the Nigerian Naira (NGN) despite severe balance of payments pressures. As a result, a shortage of foreign currency exacerbated the recession in Nigeria. Equally importantly, the black market exchange rate depreciated sharply while the official exchange rate remained fixed, as shown in Figure 8.1. With ICBT largely operating in the parallel foreign exchange market, the purchasing power of Nigerian consumers fell further as the black market exchange rate depreciated precipitously. At the end of 2014, Nigeria's black market exchange rate was at less than a 10 per cent discount under the official exchange rate of about NGN 180 per US$. As the foreign exchange shortage worsened, in early 2016 the black market rate had depreciated to about NGN 350 per US$. A 30 per cent official devaluation in June 2016 temporarily eased pressures, but the situation soon deteriorated again after the official exchange rate was repegged at NGN 300 per US$. By February 2017, the black market exchange rate had tumbled again to about NGN 500 per US$. Since mid-2017 the black market discount has declined considerably due to the recovery of the price of oil and Nigeria's balance of payments.

The recession in Nigeria and the depreciation of the black market exchange rate were major causes of the sharp downturn in Benin's ICBT in 2016–2017, as described in Section III.C.

C Subsidised Fuel Prices

The main underlying source of the pervasive informal trade in petroleum products is differential official pricing mechanisms between Nigeria and its francophone neighbours. Nigeria has long delinked domestic and world prices of fuel and set very low domestic prices, whereas Benin has largely aligned domestic prices to world prices. Official prices of gasoline in Benin have greatly exceeded

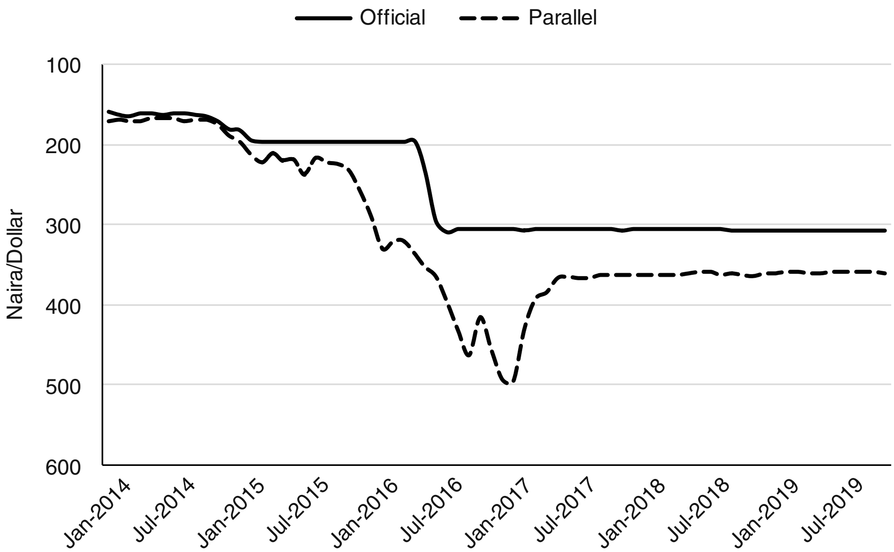

FIGURE 8.1 Nigeria's official and black market exchange rates (NGN per US$)

those in Nigeria for the past three decades, with an average margin of US$0.22/ litre for Benin in 1991–2016.[3] Similar differentials exist for other petroleum products, although the gap for diesel is smaller. Consequently, Benin imports almost all its fuel informally.

D Port Efficiency

Nigeria's adverse business climate and particularly poorly functioning port and customs also contribute to the attractiveness of Cotonou as an entrepôt. According to the World Bank Doing Business indicators in 2018,[4] Nigeria is ranked among the worst in the world as regards the ease of trading across borders, at 182nd out of 190 countries, despite efforts to improve port functioning. Benin's ranking is mediocre, at 107th in the world, but far better than Nigeria. Correspondingly, the time to comply with border and documentary procedures is about three times longer in Nigeria and Benin. Various studies have documented the greater efficiency of the port of Cotonou relative to Nigeria (Hoffman and Melly, 2015, 2018; Ezeoha et al., 2019), motivated in part by Benin's efforts to boost its entrepôt status.

While Benin endeavours to maintain better trade facilitation than Nigeria, that is a low bar: Benin is indeed superior to Nigeria in port functioning, but

[3] World Development Indicators (WDI), https://databank.worldbank.org/source/world-development-indicators.

[4] https://databank.worldbank.org/source/doing-business.

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the port of Cotonou is still far from global best practices. This is even more true for other aspects of the business environment, where Benin is often ranked below Nigeria. Benin's overall ranking in the Doing Business indicators is 153rd, slightly worse than Nigeria's 146th. Benin does particularly poorly on important areas such as electricity provision and contract enforcement.

In short, Benin's trade facilitation institutions function better than Nigeria's, but Benin's overall business climate is poor.

IV MAGNITUDE OF ENTREPÔT TRADE BETWEEN BENIN AND NIGERIA

This section provides estimates of the magnitude of ICBT between Benin and Nigeria for Benin's smuggling of imported goods into Nigeria and Benin's informal imports of petroleum products.

Smuggling is of course difficult to measure, but can be estimated indirectly through the magnitude of official imports per capita into Benin compared to Nigeria and other countries (Benjamin et al., 2015). Our previous work showed that imports per capita into Benin of certain products that are heavily protected in Nigeria are far too large to be explained by Benin's domestic consumption. In this section we update our comparisons of imports per capita in Benin, Togo, and Nigeria for some of the key products of the entrepôt trade – namely, those that are heavily protected in Nigeria. We confirm that imports into Benin (and also Togo) are much too large to be explained by domestic consumption. Recently, however, Benin's imports of some of these key products have dropped off sharply. Figures 8.2a–d show imports per capita for cars, rice, cotton cloth, and poultry, respectively, for Benin, Togo, and Nigeria.[5]

While there is some domestic Nigerian production of these products, which is, after all, why they are protected, it is typically low relative to domestic consumption, or not large enough to explain the very large differences in import patterns displayed in these figures.

A Cars

Nigeria has banned imports of used cars beyond a certain age in an effort to protect its highly inefficient auto industry. While the permissible age of cars has gradually increased, all imports through land borders were banned in 2016. Nigeria also recently implemented an increase in tariffs. Despite this high protection, Nigerian automobile production has steadily declined to very low levels (Proshare, 2013). No other countries in West Africa produce cars. Togo and especially Benin have developed car-import value chains largely to

[5] Imports are from the UN Comtrade database (https://comtradeplus.un.org), measured as the US$ value of world exports to the respective country. Population is from World Bank World Development Indicators online.

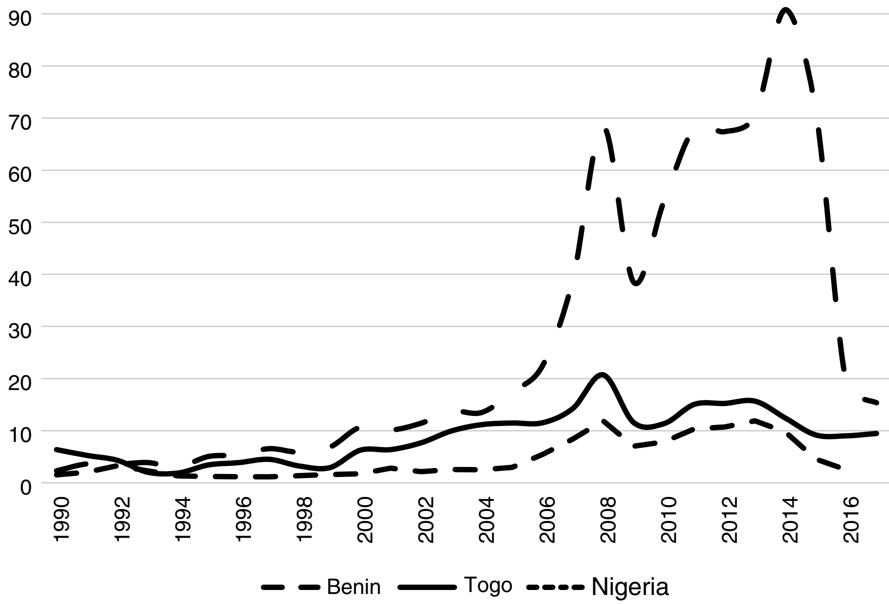

FIGURE 8.2a Imports per capita in US$ for Benin, Togo, and Nigeria: Cars

supply the Nigerian market. Car imports in Benin grew rapidly to very high levels until 2015, after which they dropped sharply. At their peak, car imports per capita in Benin reached about US$80 in 2012–2014, about eight times the ECOWAS average level of about US$10 per person (Figure 8.2a). Starting in 2015, however, car imports into Benin dropped dramatically. Togo's per capita car imports have also been well above Nigeria's and average ECOWAS levels, although far below Benin's, due to Togo's geographical disadvantage relative to Benin in supplying the Nigerian market and the relatively high cost of transshipping cars. Box 8.1 in Section V describes Benin's ICBT in cars in more detail.

B Cloth

Perhaps no product is of more importance to low-income but fashion-conscious West Africans than cotton cloth. Nigeria developed a highly inefficient and protected textile industry and most firms have either disappeared or operate at very low capacity.[6] Imports of cloth in Benin and Togo far exceed those in Nigeria (Figure 8.2b). Nigerian official imports are almost non-existent. In Benin and Togo, imports have surged since the early 2000s, to over

[6] See 'Nigeria: Reviving the Textile Industry', https://oxfordbusinessgroup.com/articles-interviews/nigeria-reviving-the-textiles-sector, 10 March 2013.

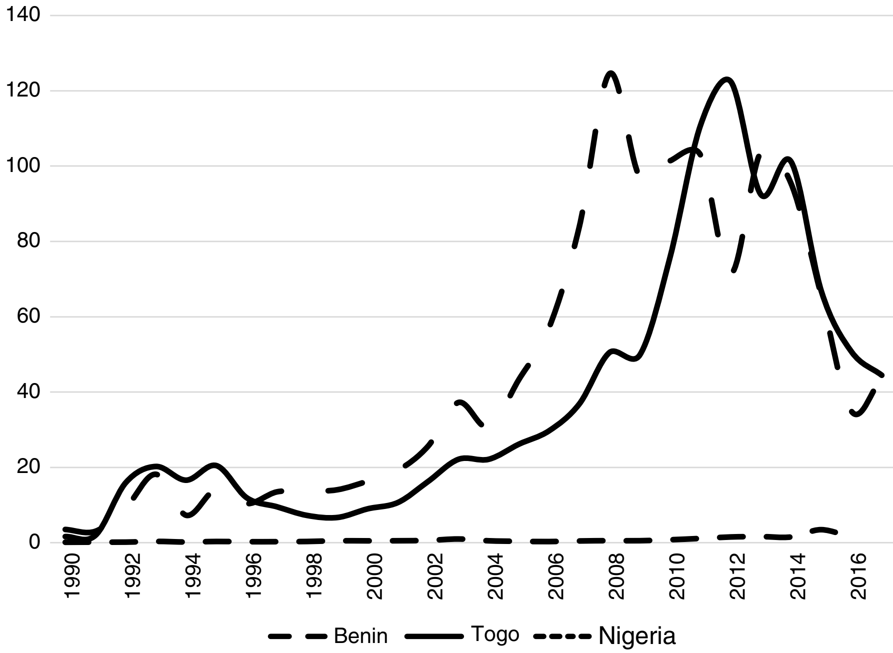

FIGURE 8.2b Imports per capita in US$ for Benin, Togo, and Nigeria: Cotton cloth

US$100 per capita in 2008–2014, more than ten times the average ECOWAS levels of about US$7 per capita. Togo's relative success in smuggling cloth, compared to cars, reflects the fact that cloth is easier to transport, as well as Togo's historical role as a regional centre for the textile industry. As in the case of cars, however, cloth imports dropped steeply in 2015–2017.

C Rice

Nigeria has prioritised the development of domestic rice production using stringent import protection. Nigerian rice production remains far below domestic consumption, with the market substantially supplied by Benin, and to a lesser extent Togo and Cameroon. Rice imports into Benin exploded around 2012, while Togo's imports rose more modestly (Figure 8.2c). A downturn in Benin's rice imports occurred in 2015, as in the case of cars and cloth, but unlike those two rice imports recovered sharply in 2016–2017, despite continued efforts by the Nigerian government to stifle smuggling, with a ban on imports of rice through land borders in effect since 2013.

Almost all of Benin's rice imports are of parboiled rice, the preferred type of rice in Nigeria but not in Benin. This provides additional evidence that the large volume of rice imports in Benin is intended primarily for Nigeria (see, e.g. Adefoko, 2017).

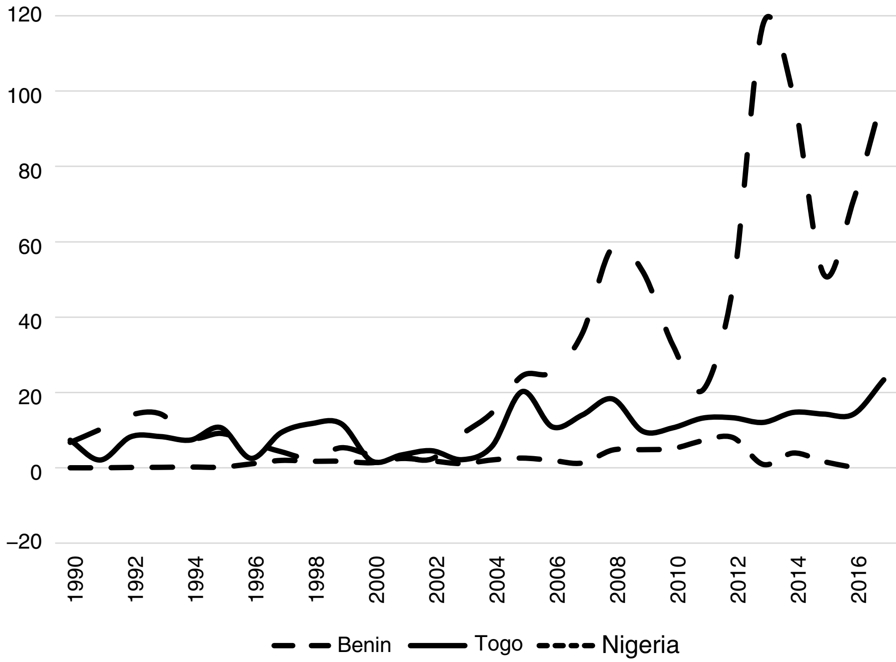

FIGURE 8.2C Imports per capita in US$ for Benin, Togo, and Nigeria: Rice

D Frozen Poultry

Poultry has also been on the list of banned items in Nigeria since the early 2000s. Poultry imports into Benin have surged from a few dollars per person in the late 1990s to over US$30 per person in 2014 (Figure 8.2d). Nearly all of Benin's imports are intended for Nigeria (Oshiotse, 2002). Probably due to the high cost of transportation and refrigeration, Togo has not imported much frozen poultry, but an uptick from the mid-2000s until 2015 can be seen. Benin's imports have dropped sharply since 2015.

E Summary on Entrepôt Imports

Entrepôt imports into Benin are very large but also highly volatile. The sharp downturn in entrepôt trade in 2016–2017 illustrated in Figures 8.2a–8.2d is a case in point. There are two main causes of this recent decline: the recession in Nigeria, with an accompanying sharp depreciation of the Naira, and President Buhari's efforts to close the border to smuggling from Benin. Of these two, there are several reasons why the recession in Nigeria is likely to have been far more significant than the Nigerian government's crackdowns. First, the efforts to curb smuggling have a long history of ineffectiveness. Traders are skilled in evading official detection and, more importantly, there are numerous beneficiaries from

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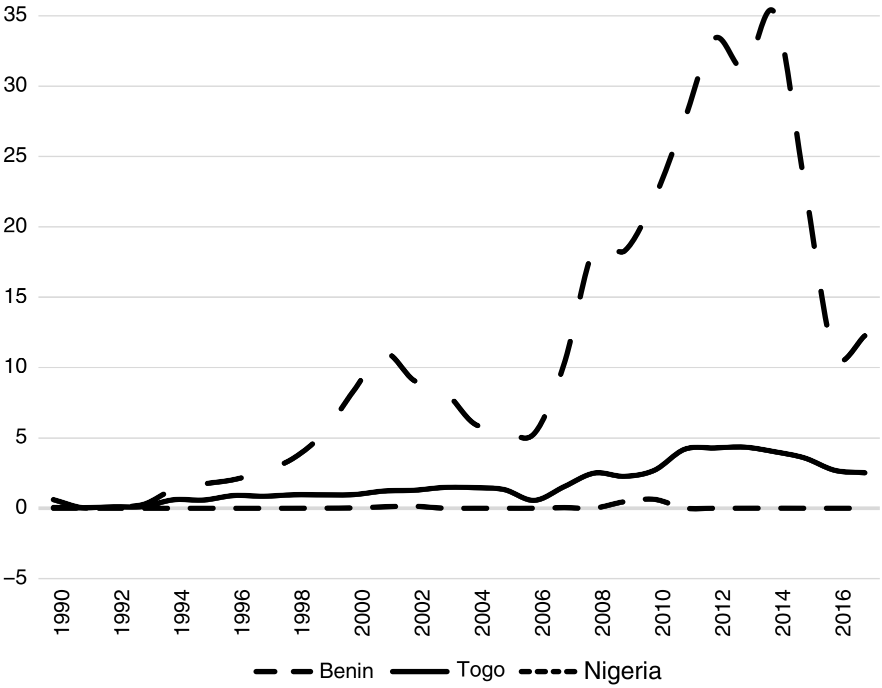

FIGURE 8.2d Imports per capita in US$ for Benin, Togo, and Nigeria: Poultry

smuggling in Nigeria, including customs officials. Furthermore, Figures 8.2a–8.2d show that imports into Nigeria also declined in 2016–2017, whereas they should have risen if supply from Benin was cut off, given that Nigerian production did not rise during this period for these products. In particular, car production in Nigeria remains minuscule. Also, the fact that rice imports in Benin declined only briefly in 2016, before shooting back up in 2017, is consistent with the fact that rice is a basic necessity, more so than the other goods shown in Figures 8.2a–8.2d. Thus, rice demand is likely to have fallen less as incomes plummeted in Nigeria. All of this suggests that a fall of demand in Nigeria rather than the Buhari administration's hardened policies on smuggling is the primary cause of the decline in Benin's entrepôt trade. A sharp increase in Benin's taxation of entrepôt imports of cars in 2012–2015 likely also contributed, as discussed later.

The importance of the world oil price in driving Nigeria's economy, and in turn Benin's imports of goods intended for transshipment to Nigeria, is illustrated dramatically in Figure 8.3. The left axis shows the world oil price and the right axis the value of imports of nine products that are subject to import protection in Nigeria (cars, rice, cotton cloth, new clothes, used clothes, poultry, sugar, vegetable oil, and cigarettes) in millions of US$. Both series are deflated by the US GDP deflator. Changes in the world price of oil are followed with

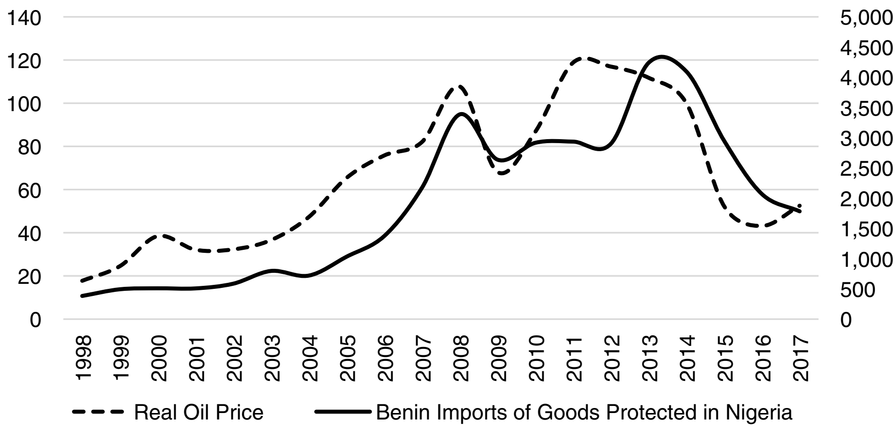

FIGURE 8.3 Benin's imports of selected key products that are subject to protection in Nigeria (right vertical axis, 2015 US$ millions) and the world price of oil (left vertical axis, 2015 US$ per barrel)

The products are cars, rice, cotton cloth, new and used clothes, poultry, sugar, vegetable oil, and cigarettes. Benin's imports are measured by rest-of-world exports to Benin of these products, in millions of US$. The oil price is the average annual Brent crude price in Europe. Both series are deflated by the US GDP deflator to remove common trends due to inflation.

Sources: Authors' calculations using data from United Nations Comtrade database and Saint Louis Federal Reserve Bank database

a short lag by very similar movements in Benin's imports of key products. In 2011–2014, when world oil prices peaked, imports of these nine products alone rose to about US$4 billion, equivalent to about half of Benin's GDP. About 80 per cent of these imports were likely destined for Nigeria. When the price of oil collapsed in 2015–2017, Benin's imports declined by around 50 per cent. As seen in Figures 8.2a–8.2d, individual products have some idiosyncratic variation but generally followed this general pattern, illustrating their sensitivity to the world oil price due to its importance for the Nigerian economy.

Import taxes and competition with Togo are also factors affecting the volume of entrepôt imports in Benin, as described in more detail in Section VI. In particular, Benin raised transit taxes on imported cars in 2012, leading to a dip in Benin's imports and a rise in Togo's. This explains why Figure 8.3 and Table 8.2 show that Benin's entrepôt imports dropped in 2012 despite the high price of oil at that time.

F Benin Informal Imports from Nigeria

Petroleum products constitute by far the largest informal import from Nigeria (Bensassi et al., 2018). While precise measures are difficult to obtain for

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petroleum product imports into Benin, informal imports are estimated to supply about 80 per cent of Benin's consumption (Mbaye et al., 2019). Box 8.2 in Section V below provides a description of the trade in petroleum products.

Benin also informally imports a variety of manufactured products from Nigeria, although the volumes are low relative to petroleum products (Golub, 2009).

G Comparison to Other Estimates

The overall magnitude of informal trade is difficult to measure precisely, but generalising from these sectors, as well as the evidence on imports by customs regime discussed in Section V below, it is clear that informal trade is much larger than formal trade, perhaps double in size. These estimates are larger than those in most previous literature because, as noted in Golub (2009), previous studies have ignored the role of goods declared in transit regimes. The following paragraph shows that goods declared in transit and re-export regimes are about double the value of goods declared for domestic use.

In 2011 Benin's Institut National de la Statistique et de l'Analyse Economique (INSAE) carried out a large-scale survey of informal trade in Benin over a ten-day period, as described in Bensassi et al. (2018). The INSAE study involved thousands of interviews at unofficial border crossing posts on the Benin–Nigeria border. While the survey had some important limitations, such as only taking place during the daytime and the fact that the veracity of the answers provided by traders can be questioned, the survey provides the only available direct estimates of the composition and magnitude of informal trade. Bensassi et al. (2018) focused only on domestically produced goods, but the INSAE dataset also surveyed trade in entrepôt regimes.[7] An examination of the summary INSAE data by product and regime reveals that the key smuggled products identified earlier constitute the bulk of goods reported in entrepôt status. That is, cars, rice, cotton cloth, new clothes, used clothes, poultry, sugar, vegetable oil, and cigarettes accounted for about 60 per cent of the goods reported by traders as transit and 90 per cent of the goods reported as re-export. The INSAE magnitudes, however, are well below those estimated indirectly, as the surveys undoubtedly did not cover many traders, particularly those crossing at night when the largest traders generally operate. On the side of exports from Benin to Nigeria, the INSAE data report that over 90 per cent of Benin's informal exports to Nigeria consist of petroleum products. Thus, the INSAE data corroborate the focus of this chapter on a few key entrepôt goods subject to high levels of protection in Nigeria and petroleum products, which are heavily subsidised in Nigeria.

It may also be of interest to compare our indicators of unofficial trade with officially reported Benin–Nigeria trade. As already noted, official bilateral trade

[7] We thank Joachim Jarreau for sharing the INSAE data.

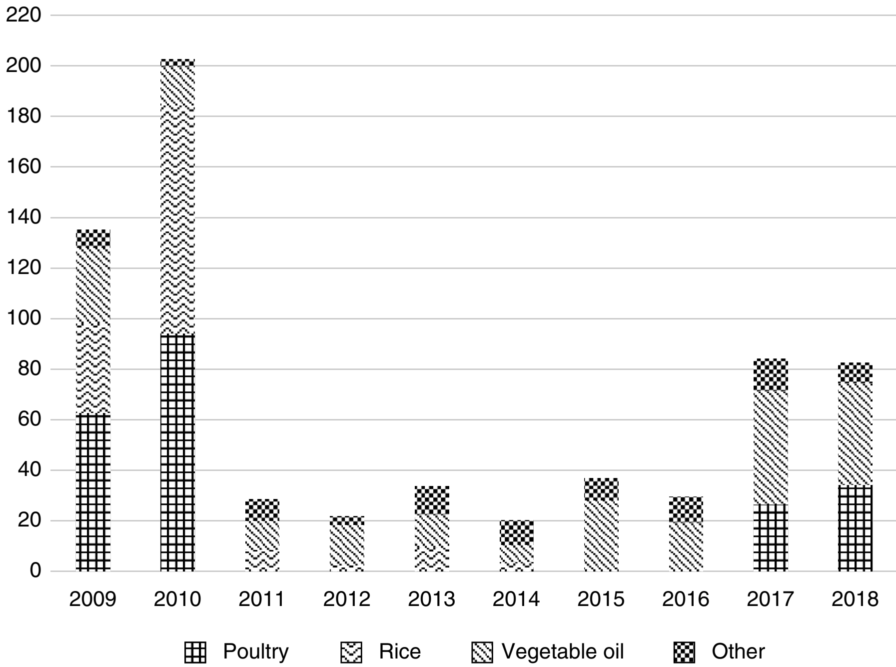

FIGURE 8.4a Official Benin trade with Nigeria, principal products, in US$ millions: Exports
Source: Authors' calculations using data provided by Benin government

is very low. Figures 8.4a, b show the composition of official Benin exports to and imports from Nigeria, in US$.

Interestingly, the most important products in official trade are much the same as those that are smuggled, although official trade is much smaller, highly volatile, and three products accounted for almost all of official Beninese exports to Nigeria over 2009–2017: poultry, rice, and vegetable oil (in sharply varying proportions). Whereas total entrepôt trade approached US$5 billion at its peak, the vast majority of which was destined for Nigeria, official Benin exports to Nigeria peaked at US$200 million in 2010 and have since been below US$100 million. In 2009–2010, poultry and rice were the two largest of Benin's official exports, but these two dropped sharply starting in 2011. Recently, vegetable oil has been the largest official Benin export to Nigeria. These fluctuations likely reflect shifting degrees of enforcement of Nigeria's restrictions on informal trade for selected products, with these products sometimes allowed to enter Nigeria officially.

Figure 8.4b shows that reported imports to Benin from Nigeria are even smaller. Petroleum products are usually the largest official import by far, although these official imports are dwarfed by smuggling of gasoline and diesel.

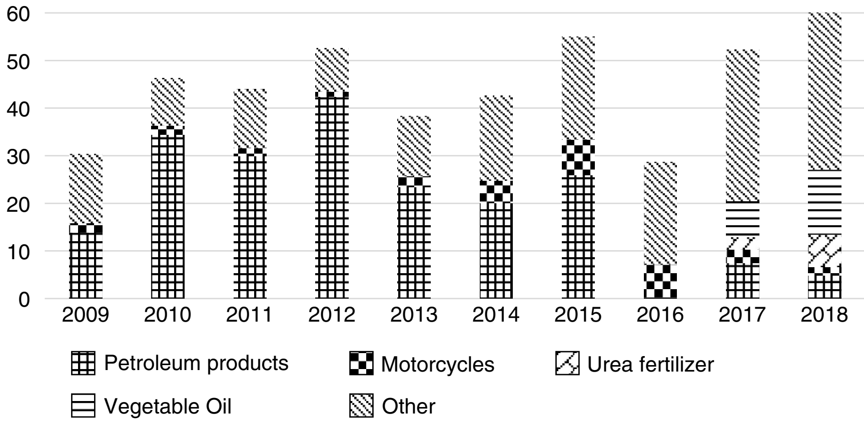

FIGURE 8.4b Official Benin trade with Nigeria, principal products, in US$ millions: Imports
Source: Authors' calculations using data provided by Benin government

In short, the composition of official trade between Benin and Nigeria seems roughly similar in structure to that of unofficial trade, but it is much smaller and subject to erratic changes in product composition.

V THE INSTITUTIONAL STRUCTURE OF INFORMAL CROSS-BORDER TRADE IN BENIN: HIGHLY ORGANISED INFORMAL TRADE

This section describes the institutional processes through which goods are transshipped to Nigeria and fuel is smuggled into Benin.

A Customs Regimes

Goods imported into Benin are rarely ordered by the final consumers of these goods prior to arrival in the port. Instead, large importing companies, both domestic and foreign owned, bring goods into the port of Cotonou to sell to domestic and regional buyers. Only when the goods are purchased are they declared under one of three main customs regimes:

- *mis à la consommation* (for domestic use);
- transit; and
- re-exports.

If declared for domestic use, the purchaser must clear all import taxes, including customs duties, value-added taxes, and several other smaller taxes. The import duty rates are set by the ECOWAS CET. For final consumer goods the total tax rates are about 45 per cent.

There are two main regimes for the transshipment of goods in Benin and Togo: transit and re-exports. The classification of goods into these two categories is complex, with rather minor differences often determining whether transactions are classified as re-exports or transit. These two rubrics include a variety of subcategories of transshipment based on practices that have evolved over time. In any case, the differences between the two regimes are quite small and the main point is that under both of these regimes imports are taxed much more lightly than when they are declared for domestic use, as explained in the following. In practice, the magnitude of transit trade is much higher than re-exports in almost all cases. We will use the term 'entrepôt imports' to describe both transit and re-exports. Togo has very similar regimes for imports.

Transshipped goods do not necessarily – or even usually – end up in the stated destination country. Most goods in transit in Benin are declared for Niger, but everyone knows that most of them end up in Nigeria. On-site visits by the authors to car parks in Benin confirmed that the buyers of vehicles are overwhelmingly Nigerian. Numerous international and local press reports also observe smuggling from Benin to Nigeria. As will be discussed, entrepôt imports are affected by Benin's competition with Togo, as well as by events in Nigeria.

Table 8.2 displays Benin's imports according to the three customs classifications noted earlier – domestic use, transit, and re-exports – over 2002–2017 as a ratio of Benin's GDP. These data are reported by Benin's customs, whereas the trade values in Section IV are from the UN Comtrade database as reported exports from Benin's trade partners. The overall magnitudes of the Beninese data and the UN Comtrade data are similar. The advantage of the Benin customs data is that they disaggregate by customs regime, but they are not available on a consistent basis for as long a time period as the UN Comtrade data. The Benin customs data importantly also include revenues collected, and thus enable a computation of effective import tax rates for each customs regime.

Benin's entrepôt trade (transit and re-exports) is generally much larger and more volatile than imports declared for domestic use. While imports for domestic use are stable at around 20 per cent of GDP, entrepôt imports vary from 20 to 60 per cent of GDP.

The composition of imports between domestic use and entrepôt trade may be affected by differential taxation of the two regimes. Tax competition with Togo may also play a role, as discussed in Section VI. Statutory taxes on entrepôt imports in Benin are generally very low, with the notable exception of used cars. Statutory rates are largely irrelevant, however, as there is substantial discretion in applying tax rates. In particular, tax rates are much lower if goods are labelled for land-locked countries, usually Niger, but in reality the stated destination is almost always modified from Niger to Nigeria once the goods leave the port. Thus, in the analysis we use actually applied tax rates, measured by tax revenues divided by value of imports, rather than statutory tax rates.

Figure 8.5 shows the share of entrepôt imports of total Benin imports for the three most important products exported informally from Benin to Nigeria:

TABLE 8.2 *Value of Benin's imports by customs regime (per cent of GDP), 2002–2017*

	Domestic use	Transit	Re-exports	Total imports	Transit and re-exports
2002	21	53	5	79	58
2003	21	20	2	44	22
2004	22	23	0	45	24
2005	19	28	0	47	28
2006	18	41	0	59	41
2007	18	44	1	63	45
2008	21	53	2	75	54
2009	20	58	1	79	59
2010	20	70	1	91	71
2011	16	50	1	67	51
2012	16	28	1	45	29
2013	20	39	3	62	41
2014	26	41	15	83	57
2015	22	33	3	58	36
2016	21	24	1	46	25
2017	23	31	1	54	32

Source: Authors' calculations based on Benin customs data (imports) and World Bank World Development Indicators (GDP)

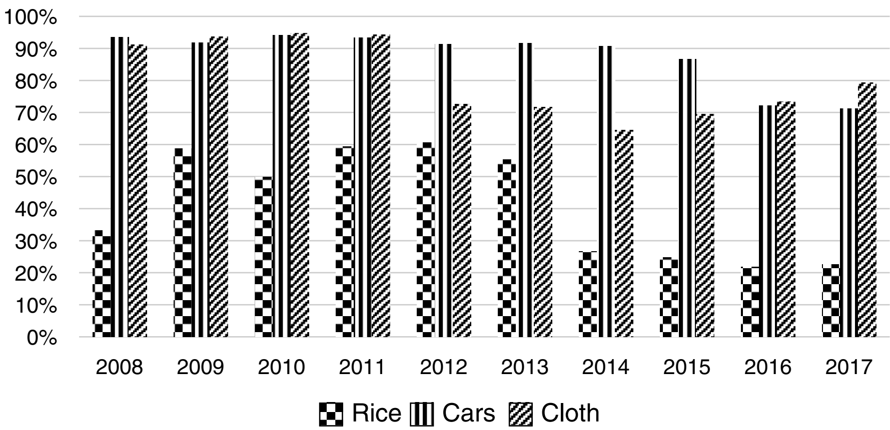

FIGURE 8.5 Share of Benin's key imports declared in entrepôt regimes (transit and re-export): Cars, rice, and cloth (per cent of total imports of respective products)
Source: Authors' calculations using Benin customs data

cars, cotton cloth, and rice. It shows that for cars, and until recently cloth, imports in entrepôt status constituted about 90 per cent of total declared imports, or, equivalently, imports declared for domestic use were only 10 per cent of total imports. The entrepôt share for cars and cloth dropped in

2016–2017 to around 70 per cent, likely due to the general reduction of informal trade to Nigeria, most of which is declared in transit or re-export. To the extent that domestic consumption in Benin did not fall as much, the share of imports for domestic use rose. The share of imports of rice declared in entrepôt regimes was lower than for cars and cloth, at about 50 per cent from 2009 to 2013, and then dropped quite sharply in 2014–2017 to about 25 per cent. This was likely due to a reduction in taxes on rice imports for domestic use, from 33 per cent prior to 2014 to 14 per cent in 2014–2017. Thus, for rice it became less advantageous to use transit status relative to importing through the regular channel for distribution in Nigeria, and a sizeable share of imports of rice was shifted from the transit regime to import for domestic use.

B Social Organisation of Informal Trade

Although goods are sometimes imported legally by formal firms, distribution is dominated by informal or semi-formal operators, both foreign and domestic, once the goods are sold and exit the port storage depots. Smuggling is largely controlled by sophisticated and well-organised networks, with many small operators involved on the margins. The trust and connections provided by these informal networks, often ethnic or religious in nature, facilitate market transactions spanning continents, and enable the provision of credit and transfers of funds.

In many cases, importers and distributors are large informal firms, as described in Benjamin and Mbaye (2012) and Mbaye et al. (2019). These firms have a large volume of business, yet in other respects operate in much the same way as smaller informal firms do; that is, they are controlled by a single businessperson, have falsified accounts, and do not pay regular business income taxes. Their financing is sometimes through banks, but more typically from own or family savings and retained earnings. The fate of the firms is inextricably linked to that of the owner, who often relies on political connections to maintain his status as a large businessman operating outside of the legal and regulatory system.

For bulk items, such as rice, wheat, and sugar, importers purchase directly from international brokers, with whom they are in regular contact. A few major importers dominate the rice market, with Difezi et fils controlling more than half of sales.[8] Likewise, Cajaf Common, owned by Sébastien Ajavon, is the dominant importer of frozen chicken ultimately destined for Nigeria. Lebanese business networks dominate the used car trade.

Importers of second-hand goods, such as used cars, often travel abroad or have foreign correspondents who provide information about sourcing

[8] http://beninsite.net/2018/07/03/commerce-de-reexportation-vers-nigeria-nid-de-fraudes-fiscales/, 3 July 2018.

opportunities. Overall, traders display remarkable flexibility in adapting to changing market opportunities (Golub, 2009, 2012).

ICBT has developed a sophisticated infrastructure and is often organised much more efficiently than public services. Goods can cross the border by land or water. By land, there are numerous and ever-changing tracks used by traders along the long borders. A complex network of canals is also used, with new canals being dug when customs agents patrol existing routes. Specialised warehouses for various goods, such as rice, are located along the Benin–Nigeria border, built and operated by brokers or private traders. A network of markets is also dotted on both sides of the Benin–Nigeria border, with sister markets on either side of the frontier.[9]

Complex relationships between traders and government officials alternate between cooperation and conflict in both Nigeria and Benin. Importers have elaborate ruses for evading import taxes. Nigerian prohibitions on imports through land borders are evaded quite easily considering that the number of unofficial crossing points far exceeds official border posts. Bans simply lead to declining traffic at official posts, in favour of unofficial posts, mainly in the northern part of the frontier or through Niger. Further, poorly paid customs officials often collude with traders to get around government efforts to curb smuggling. Traders refer to the bribes they pay as 'sacrifice'. A Nigerian trader with the pseudonym Delani vividly described the process of rice smuggling:

> 'I work within a group of about seven [smugglers]. The least any of us handles is 1,000 bags. When people say rice importation has been banned though the land border, people like us just laugh. We have a leader. How we operate is that each person shops for the rice he has been contracted to supply. Any week we have a large shipment, we gather everything together. We load them on some trailers. Sometimes it may be 5,000 bags [...] Then our leader approaches our contacts in customs to arrange how the cargo gets through the border. We pay the customs officials NGN 1,000 on each bag of rice and we are issued a time, date, and route we could pass through that is not being monitored. Usually, we cross the border around 11 PM'.
>
> (Oluwagbemi, 2017)

Even if officials were to implement orders to crack down on smuggling, smugglers are frequently more heavily equipped and armed than customs and police officials. The situation is vividly illustrated by an incident where an anti-smuggling officer in Nigeria was shot dead by an army officer of the same nationality escorting a convoy of smuggled cars into the country (Sesan, 2017).

Boxes 8.1 and 8.2 provide a more detailed description of Benin's trade in used cars and petroleum products, respectively.[10]

[9] Based on Golub (2009, 2012); Mbaye et al. (2019); and on-site field research carried out in 2018.

[10] This discussion of the used car market is based on Perret (2002), Golub (2012), and Mbaye et al. (2019), and on field research carried out by the authors in Benin on several occasions since 2008.

Box 8.1 Trade in Used Cars

Used cars have been by far the most important of Benin's entrepôt imports in terms of employment, income, and customs revenue since about 2000. Imports of vehicles in transit status rose steeply from 50,000 in 1996 to 200,000 in 2000, and to 250,000 in 2002 and 2003. After a dip in 2004–2005 to about 150,000, they then increased steadily to nearly 350,000 in 2014.[11] Cars imported for domestic use are of the order of 20,000; that is, less than 10 per cent of cars imported in transit status. However, car imports declared for transit plunged in 2016–2017, falling below 100,000, still far above domestic consumption but down to levels not seen since before 2000.

The used car trade is one of Benin's major industries. Huge car parks can be seen on the outskirts of Cotonou. The business is estimated to employ 10,000–15,000 people directly, in importing, selling, storing, driving, and so on, and several thousand more indirectly (Golub, 2009). The value-added generated by the distribution and handling of used cars has been estimated at about 10 per cent of Benin's GDP, roughly the same as cotton.

Cars are imported into Benin through a process of elaborate subterfuge. The vast majority of cars imported in transit status are declared as having Niger as their destination, but it is common knowledge that at least 90 per cent end up in Nigeria. For example, in 2014, of the approximately 332,000 cars imported in transit status, 326,000 were declared for Niger – obviously bearing no resemblance to actual shipments to Niger, where annual car purchases are almost certainly below 10,000. There is a well-established set of procedures for obtaining documents from customs authorising diversion of the cars to Nigeria.

Used car imports follow a complicated and well-organised circuit. Importers with connections in developed countries locate, purchase, and arrange for the transportation of the cars. Some of the importers are affiliated with international shipping companies, such as Grimaldi, that own their own boats. Others rent the boats. Freight forwarders (*transitaires*) handle all the paperwork and authorisations. Other intermediaries play a role in matching buyers and sellers of cars. After the cars clear the port, they are stored in car parks in Cotonou, before being driven to their destination by companies specialising in the delivery of cars to the border, under escort from customs and with police permission. The cars are driven at night in convoys of about 100 cars. They cross the border to Nigeria after paying bribes to both Beninese and Nigerian customs inspectors. The bribe is routine and the amount is largely set by precedent, according to the *transitaires* interviewed. The cars then receive valid licence plates in Nigeria. In short,

[11] For details see the working paper version at https://edi.opml.co.uk/resource/benin-the-economic-relationship-with-nigeria/

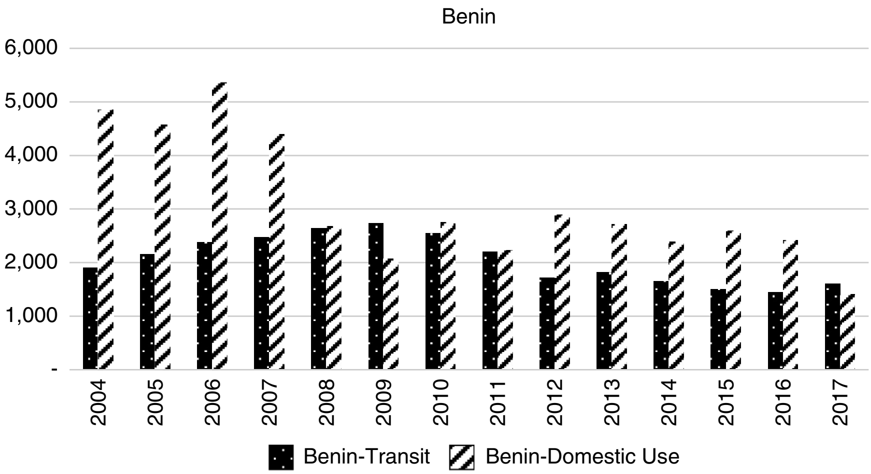

FIGURE 8.6a Average valuations of cars imported under regimes for transit and domestic use, in US$: Benin
Source: Authors' calculations based on Port of Cotonou and Customs data

government officials – from the highest to the lowest levels – on both sides of the border facilitate and benefit from this trade.

Customs also apply considerable discretion in the valuation of imported cars, which alters the effective tax rate. A lower valuation may reduce the amount of *ad valorem* taxes collected. Figure 8.6 shows average customs valuations of cars declared for transit and for domestic consumption in Benin and Togo, measured in US$.[12] Presumably, cars imported in the two regimes are similar in quality, since the per capita incomes and demand for cars do not differ much between Nigeria and Benin. In 2004–2007 cars imported for domestic use in Benin were assigned much higher values than cars in transit, a system that ceased from 2008 to 2011 and then resumed to a lesser extent in 2012. In Togo, on the other hand, customs valuations are higher for cars imported in transit than for domestic consumption. Customs officials in both countries are likely responding to domestic political pressure from consumers, other government branches, and smugglers.

Togo competes intensely with Benin for access to the Nigerian market. Togo charges lower fees for a speedier service in handling car imports, in an attempt to offset Benin's geographical advantage.

The ample supply of ageing vehicles in developed countries and low incomes in West Africa provide a natural basis for trade in used cars.

[12] CFA Francs are converted into US$ at a constant exchange rate of CFA Franc 500 per US$, to avoid valuation effects.

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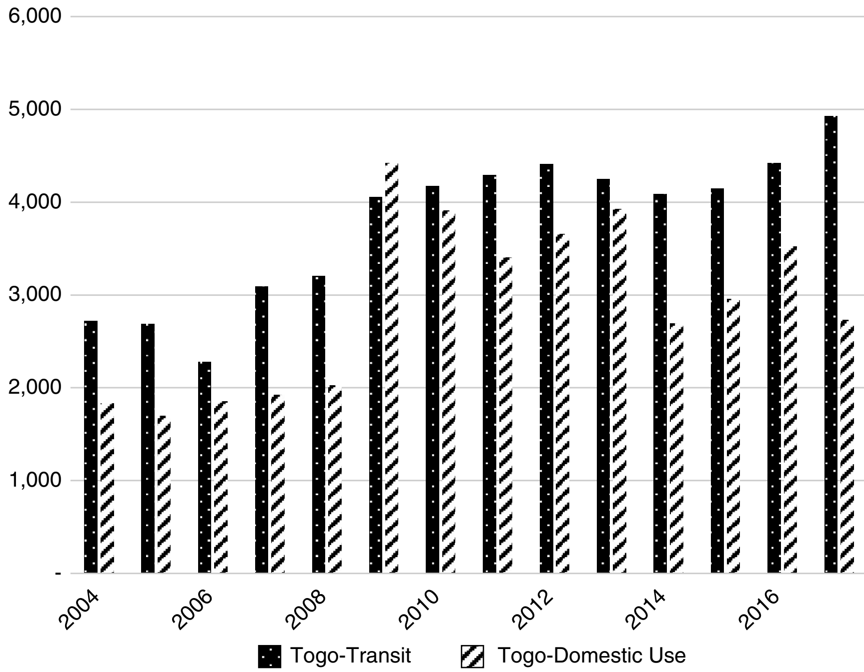

FIGURE 8.6b Average valuations of cars imported under regimes for transit and domestic use, in US$: Togo
Source: Authors' calculation based on Port of Cotonou and Customs data

Toyota, Mercedes, and Peugeot cars predominated in the early 2000s, but other Japanese and European companies are increasingly prevalent. An accompanying market in spare parts has also flourished.

Nigeria's ineffective attempts to protect its own struggling car industry have diverted this trade to the parallel market. At the end of the 1970s Nigeria assembled 100,000 cars, but the car industry has been moribund in the country for many years. In 1994, Nigeria banned imports of vehicles more than eight years old. In 2002, the law was further tightened to a ban of all cars more than five years old. Since then the permissible age has gradually increased. In 2013, steep tariffs were implemented as Nigeria unveiled another attempt to revive the auto industry with the Nigerian Automotive Industry Development Plan. Vehicle production increased moderately at first, but has fallen back to very low levels in the last few years, declining even more rapidly than the rest of the manufacturing sector (Economist Intelligence Unit, 2017).

Nigeria has repeatedly banned imports of cars by land routes. These bans, however, have until recently proved impervious to the porous border between the two countries, the strong demand for cheap vehicles, and the ambiguous attitudes of the authorities in Nigeria. The recent sharp downturn in Benin's imports is likely more due to the recession in Nigeria than to the effectiveness of the import ban. Regardless, the collapse of car distribution in Benin has had severe effects on income and employment. A recent article describes the change vividly: 'Residents say drivers used to pass by in huge convoys, speeding towards the border, beeping their horns in celebration. Bars that sprang up to cater to visiting clients have closed and dozens of Lebanese, who dominate the import business in West Africa, have departed' (Sasse and Carsten, 2017).

Box 8.2 Petroleum Product Imports from Nigeria

Smuggling of oil products into Benin began around 1980 and increased dramatically in 2000. Like the entrepôt trade from Benin to Nigeria, smuggling of petroleum products into Benin reflects differential policies combined with the ease of slipping goods across the border and the complicity of the two countries' officials, including at the highest levels of the military. In this case, however, the main factors are the large subsidies in Nigeria, along with the alignment of domestic to world prices in Benin, which together result in much lower consumer prices in Nigeria compared to Benin (Morillon and Afouda, 2005; Mbaye et al., 2019). In recent years Nigeria has partially deregulated petrol prices, but they remain well below Benin's, although to a lesser extent for diesel than for gasoline.

The black market price in Benin is determined by a mark-up on the Nigerian official price and has little connection to Benin's official price. In 2016, our field research revealed a persistent although variable differential between the official and black market price.

The share of gasoline supplied by informal imports from Nigeria rose from about 10 per cent in 1998 and 1999 to about 50 per cent in 2000, and to 83 per cent in 2001 and 2002, only tapering off slightly in 2003–2004 to 72 per cent (Morillon and Afouda, 2005). Despite some increases in Nigerian gasoline prices, the share of smuggled gasoline was estimated at about 80 per cent of Benin's domestic consumption in 2013 (Mbaye et al., 2019).

The dominance of the informal market in Benin is reinforced by the lack of official gas stations, and the lack of stations in turn reflects the dominance of the informal market, with the zones bordering Nigeria in particular witnessing a decline in the number of operating service stations. In contrast, there is a very dense network of service stations in Nigeria, which readily supply the informal traders who smuggle the gasoline into Benin.

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The distribution network in Nigeria includes large wholesalers who have storage depots along the border that hold up to 1,000 litres of gasoline. These wholesalers have close political ties to high-level officials in Nigeria. Wholesalers sell to various intermediary distributors of various sizes, who sneak the gasoline through the border by pirogue, cars whose gas tanks have been expanded, in small quantities on scooters, or on foot.

The net effect of this massive trade in petroleum products on Benin's economy is complex. It entails a large loss of fiscal revenues, but is also a source of employment and income for traders and distributors, accounting for about 1–2 per cent of GDP and 15,000–40,000 jobs, depending on the method of estimation (Golub, 2009).

VI THE EFFECTS OF INFORMAL TRADE ON BENIN

The effects of ICBT on Benin are mixed (Galtier and Tassou, 1998). Golub (2009) estimated that ICBT generates about 20 per cent of Benin's GDP, and a somewhat smaller but still large part of employment, most of it in the handling of used cars and the distribution of petroleum products. The effects on fiscal revenue are particularly important. On the negative side, informal trade contributes to an institutional environment that favours informality, and that thus may impede the development of a modern formal private sector. There are also allegations of an association of informal trading with more insidious forms of illegal trade in arms and narcotics, but we do not have access to information about its extent.

A Effects on National Income and Employment

The contribution to national income from informal trade derives from the value-added in the handling and distribution of entrepôt trade and petroleum products, including tax revenues. There are no official measures of the value-added of smuggling, but rough estimates can be derived from the previous analysis. Together, our calculations suggest that the handling and distribution of entrepôt trade and petroleum product imports account for approximately 20 per cent of Benin's GDP. Of these two, entrepôt trade is by far more significant.

For this purpose, we can consider three main categories of entrepôt trade:

- Cars imported in transit status. Cars require much more domestic handling in Benin than other goods, as described in Box 8.1. Cars are also subject to relatively high transit taxation of about 20 per cent, as described in the following. We thus assume that the share of value-added in car handling, shipping, and taxation is 70 per cent of imported value.
- Other goods imported in transit status, such as rice, cloth, and frozen poultry. These goods imported in transit status face minimal transit taxation and

relatively little domestic handling, so we assume that domestic value-added is only 20 per cent of imported value.

- Goods imported for official use but in fact transshipped to Nigeria, notably rice and frozen poultry. These goods imported in regimes for domestic use face import taxes averaging around 45 per cent (30 per cent for rice), but relatively little domestic handling, so we assume that value-added is 50 per cent of imported value.

We assume further based on the trade data that (1) total imports intended for transshipping to Nigeria are 50 per cent of Benin's GDP; and (2) the share of cars, goods falsely declared for domestic consumption, and other goods in entrepôt status constitutes, respectively, 20, 20, and 60 per cent of informal trade with Nigeria. Under these assumptions, the contribution of value-added in entrepôt status amounts to 18 per cent of GDP.

The effects of imports of petroleum products on Benin's GDP are even more difficult to estimate but are much smaller. The most detailed study is Morillon and Afouda (2005). Their estimates of the gross margins of distributors suggest that the value-added in informal trade of petroleum products amounts to about 2 per cent of GDP. The extent to which traders' incomes are a net addition to GDP is questionable insofar as the informal distribution of petroleum products displaces official distribution and, in the process, results in loss of government revenues. As Morillon and Afouda (2005) rightly observe, however, the informal import of petroleum products involves a terms of trade gain, since Benin can import gasoline at prices below world levels. Nigeria's subsidised petroleum products are in effect a transfer to Benin. Morillon and Afounda's (2005) calculations suggest that this trade gain is around 1 per cent of Benin's GDP.

There are likewise no official measures of employment in informal trade. Perret (2002) estimates that direct employment in the used car trade in 2001 was about 15,000, with indirect employment creation of around 100,000. Morillon and Afouda (2005) estimate that employment in smuggled petroleum products ranged from about 20,000 to 40,000, mostly traders and sellers, in the early 2000s. At the peak of the re-export trade around 2014, employment was likely much higher. The decline in entrepôt trade since 2015 has had significant negative effects on employment, particularly in the car distribution sector.

While ICBT with Nigeria accounts for a sizeable share of national income and employment, the longer-term effects on economic growth and diversification could be negative. ICBT attracts entrepreneurial talent into illegal or semi-legal informal activities. Furthermore, the implication of government officials at all levels in informal activities makes reform much more difficult. Nevertheless, ICBT does not necessarily preclude investment in sectors where Benin has strong potential comparative advantage, such as horticulture and agro-processing. There is abundant under-employed labour in Benin and improved opportunities in formal industry would likely attract many of the small-scale traders who work in informal trade as a last resort.

B Effects on Government Revenues

Benin's system of import taxation has revolved around maximising the income from entrepôt trade, by taxing goods when they enter Benin at a rate well below that in Nigeria, or taking advantage of Nigeria's import prohibitions. However, avoidance of indirect taxes on smuggled petroleum products from Nigeria mitigates this revenue gain from entrepôt trade.

Benin has a high dependence on import tax revenues, which account for about half of tax revenues, far above the average share of about 10 per cent of international trade taxes in tax revenues in low-income countries (Coady, 2019). In 2015–2017 there was a substantial drop in the tax revenue-to-GDP ratio from 14.5 to 12.6 per cent, which was mostly due to reduced revenues from international trade taxes. This drop in international trade taxes was in turn due to a sharp decline in revenues from entrepôt trade (Table 8.3).

Table 8.3 shows the effective tax rates in Benin and Togo on entrepôt imports. These are calculated from customs data provided by the governments in both countries as the value of revenues from taxing imports in the transit and re-export regimes divided by the value of entrepôt trade. Table 8.3 presents information for cars as well as aggregate trade. A number of interesting features appear from these data.

First, the tax rates on Benin's imports of cars in transit status are much higher than the rates for other goods. The effective tax rates on goods imported in transit status other than cars are well below 1 per cent, whereas the rates on cars are in double digits. Second, Benin sharply raised the effective tax rate on cars imported in transit from about 13 per cent in 2008–2010 to above 30 per cent in 2012–2015. With the recession in Nigeria lowering demand, Benin rolled back the effective transit tax rate on cars to 23.6 per cent in 2017. Third, Togo's effective tax rates on entrepôt trade are very low for both cars and other goods, at well below 1 per cent. Undoubtedly, this reflects Togo's efforts to remain competitive despite its geographical disadvantage in smuggling goods, particularly cars, into Nigeria. Togo, like Benin, lowered transit taxes on cars in 2016–2017, but starting from a much lower level of only 0.8 per cent.

Table 8.3 also presents the contribution of entrepôt trade regimes to tax revenues in the two countries. Not surprisingly in view of the effective tax rate differences, Benin collects much more revenue than Togo. Furthermore, and also related to the high rate of taxation on cars, cars account for more than two-thirds of Benin's revenue from entrepôt trade. At its peak in 2012–2015, entrepôt trade regimes contributed 41 per cent of customs revenue, with cars alone accounting for 25 per cent. With the sharp downturn in trade with Nigeria, the share of entrepôt trade in revenue collection dropped dramatically, falling in 2017 to 11 per cent for all trade and 6 per cent for cars. Togo, on the other hand, receives very little revenue from entrepôt trade due to its low tax rates. However, Togo did experience an increase of this ratio from 0.3 per cent in 2008–2011 to 3 per cent in 2012–2015, due both to a slight increase in its effective tax rates and more importantly to a surge in entrepôt trade likely

TABLE 8.3 *Entrepôt trade tax rates and revenues in Togo and Benin, 2008–2017*

	2008–2010	2011	2012–2015	2016	2017
Effective tax rates on transit and re-exports (%)					
Benin – Cars	12.90	16.40	33.60	29.70	23.60
Benin – All goods	3.40	4.40	6.90	3.60	2.10
Togo – Cars	0.80	0.80	0.50	0.40	0.40
Togo – All goods	0.40	0.10	0.50	0.50	0.50
Share of import tax revenue due to transit and re-exports (%)					
Benin – Cars	15.80	21.90	25.10	11.50	6.30
Benin – All goods	25.80	38.70	41.10	17.50	11.30
Togo – All goods	0.30	0.30	3.00	2.20	2.40

Source: Authors' calculations based on Benin and Togo customs data.

incentivised by trade diverted to Togo due to Benin's higher tax rates. Like Benin, Togo's revenues fell in 2016 and 2017 because of the recession in Nigeria.

The estimates in Table 8.3 do not include revenues from goods imported under the regime for domestic consumption. Some of these goods, particularly for rice and a few other key products, are likely intended for Nigeria, although the proportion is difficult to ascertain precisely. Since goods imported for domestic consumption face higher import taxes than those in entrepôt status, such imports have a disproportionately higher effect on government revenues, although they constitute a relatively small part of smuggling (we assumed it constituted 20 per cent of entrepôt trade in the calculation of value-added). Including these goods labelled for domestic use but intended for Nigeria raises the share of import tax revenue from informal exports to Nigeria to about half of total import tax revenue; that us, 3–4 per cent of Benin's GDP prior to the recent downturn.

Against this, Benin's loss of fiscal revenue due to smuggling of petroleum products from Nigeria was estimated by Morillon and Afouda (2005) at about 1 per cent of GDP. A recent government estimate reported in the press put these losses at US$37.5 million, or also about 1 per cent of GDP (Energies Media, 2018). This suggests that the net contribution of fiscal revenues from informal trade with Nigeria was equivalent to about 2–3 per cent of GDP in 2012–2015, before the recent recession in Nigeria.

Figure 8.7 looks more closely at the effects of tax competition between Benin and Togo over the period 2002–2017. The line shows the differential in the average effective tax rate on entrepôt trade between Benin and Togo (right axis). The two bars show Benin and Togo's entrepôt trade-to-GDP ratios, respectively (left axis). Until 2015, a correlation between the tax differential and entrepôt trade is discernible, with Benin's trade falling and Togo's rising when the tax differential rises. In particular, Benin raised its taxes in 2003 and again in 2012, and Benin's entrepôt trade fell while Togo's rose. After 2014

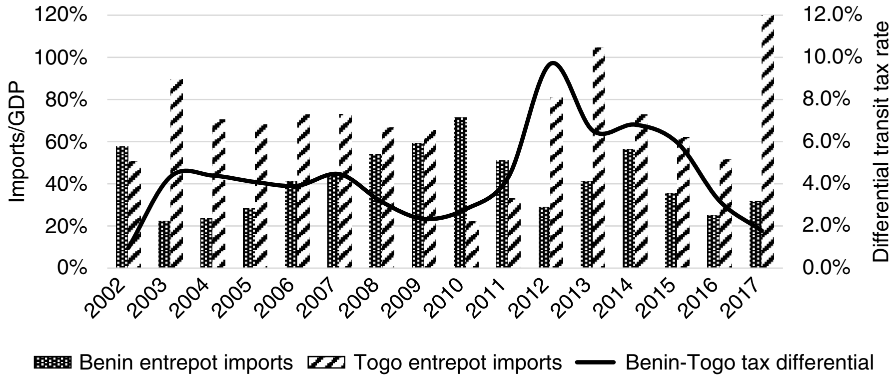

FIGURE 8.7 Entrepôt tax rate differential (Benin minus Togo, in per cent) and entrepôt trade in Benin and Togo (per cent of GDP)
Source: Authors' calculations based on Benin and Togo customs data.

the correlation breaks down due to demand-side shocks coming from Nigeria, causing Benin's trade to fall despite a declining tax rate. Over the period 2002–2014 the correlation coefficient of the tax differential with the entrepôt-to-GDP ratio is –0.44 for Benin and 0.52 for Togo, confirming the visual impression.

In summary, informal entrepôt trade constitutes a large part of national income and fiscal revenues, but they are subject to high variability due to competition from Togo and shocks in Nigeria.

VII SUMMARY AND POLICY CONCLUSIONS

Much of Benin's economy is under the spell of the policies and institutions of its giant neighbour Nigeria. Nigeria's power as the largest economy on the African continent is unfortunately distorted by the resource curse of dependency on oil in a setting of weak institutions. A rather unhealthy, even parasitic, relationship has developed between Benin and Nigeria. Resource rents in Nigeria are ultimately transmitted to Benin through smuggling rents.

Benin has developed a sophisticated institutional structure to support its role as a smuggling hub for Nigeria. The resulting entrepôt trade has become one of Benin's largest industries. This trade can be quite lucrative, both for the participants and for Benin's government, which collects substantial revenues from it. Used cars are by far the most important industry in terms of national income and fiscal revenue, accounting for about two-thirds of aggregate import tax revenue from entrepôt trade. Customs administration in particular is configured to enable smuggling. The Benin tax authorities balance the priority to raise additional revenues against fostering the growth of this trade.

These benefits of ICBT to Benin, however, are very fragile, dependent as they are on the vagaries of economic policy in Nigeria. The repeated closures of the border are ominous demonstrations of Nigeria's ability to shut down the re-export trade if it chooses to do so. Likewise, if Nigeria ever did really harmonise its trade policies within ECOWAS, the raison d'être of this trade would largely disappear. Perhaps of greater immediate concern is Benin's vulnerability to macro-economic shocks emanating from Nigeria. The recent sharp drop in most entrepôt imports in Benin is due primarily to the recession in Nigeria rather than border closures. The severe shortage of foreign exchange in Nigeria in 2015–2017, combined with a fixed official parity, led to large depreciation of the Naira on the black market. This black market depreciation has exacerbated the downturn, as Nigerian consumers must pay higher prices in Naira for goods invoiced in foreign currencies.

At a broader level, a case can be made that the flourishing of informal trade has retarded Benin's development. The large fiscal benefits of re-exporting have reduced the government's impetus to promote productive economic activities. The lure of the rents in Nigeria's distorted markets exacerbates a culture of corruption and tax evasion that is not conducive to a productive economy. It is doubtful that a development strategy based on smuggling and fraud is a viable long-run path to emerging market status.

In principle, it would be desirable for Benin to coordinate macro-economic and trade policies with Nigeria, to avoid creating incentives for Benin to circumvent discrepancies in prices between countries. It is highly unrealistic, however, to expect Nigeria to coordinate its policies with Benin. Benin is far too small to exert any substantial influence on Nigeria's policies and Benin has limited autonomy insofar as it is tightly integrated into WAEMU. Nigeria is unlikely to abandon the protection of influential industries any time soon. For Nigeria, domestic interest groups and perceived national interest are going to trump Benin's interests. Thus, the numerous announcements of separate or joint efforts to combat smuggling by the two governments, such as those discussed in Section II, have had no discernible long-run effects on informal trade. The incentives to take advantage of large pricing differences due to Nigeria's high import barriers and subsidies are very powerful inducements to both traders and border officials to engage in or enable smuggling. The only sustainable solution is for Nigeria to realise that it is not in its interest to pursue policies of relying on import protection to boost inefficient domestic industries and subsidising gasoline use.

Benin can work within ECOWAS to gradually promote harmonisation of policies, but Nigeria is unlikely to cede a great deal of sovereignty to ECOWAS either. ECOWAS does have agreements to combat child trafficking and other illegal activities, but has no programmes to stop smuggling in legal goods, as far as we know. For example, Nigeria has retained an import prohibition list for which there are no provisions in ECOWAS. The Buhari government's refusal to join the Africa Continental Free Trade Area (ACFTA) further reveals Nigeria's intention to continue to protect domestic industries. Benin is also one of the three remaining countries that have yet to sign ACFTA (Eritrea is the third) (Wilson and Munchi, 2019).

Instead, Benin should focus on improving its own institutions and productive capabilities. In some respects, Benin's combination of formal and informal institutions supporting entrepôt trade is quite sophisticated and effective in its objective of promoting Benin as an informal trade hub. The problem is that a development policy oriented towards informality and smuggling is unsustainable. The challenge for Benin is therefore to channel its evident energy and creativity in a more viable direction. Benin is well placed to continue to serve as a regional trading and service centre for legal trade and services, benefiting from its proximity to Nigeria and links to the land-locked countries to the north. Moreover, if Benin moves away from smuggling towards formal trade, avenues for cooperation with Nigeria could open up.

Rather than focus on eradicating smuggling, which it is largely impossible to do under current Nigerian policies, Benin should take measures that improve the business environment for legal businesses. The 2005 Benin Diagnostic Trade Integration Study (DTIS; World Bank, 2005) argued that Benin could emulate Hong Kong.[13] Hong Kong transitioned from being an entrepôt for illegal trade to China in the 1950s into a diversified manufacturing and service economy (Chau, 1997). Hong Kong developed world-class institutions, particularly trade facilitation (port and customs), a reliable legal system and property rights, and efficient infrastructure. Hong Kong managed to maintain the efficiency and probity of its own public services even as it served as an entrepôt for illicit trade. In Benin, by contrast, the institutional underpinnings of a market economy, such as the legal system and infrastructure, are better than Nigeria's but generally still poor.

The sharp downturn in entrepôt trade in 2016–2017 (see Figure 8.2a–d), due to the recession in Nigeria and Nigeria's efforts to close the border to smuggling from Benin, should be a wake-up call to Benin to initiate fundamental reforms. The 1951 United Nations embargo on China was a major impetus to Hong Kong's shift from an entrepôt economy to a producer of manufactured and service exports for developed countries.[14] At the same time, if Nigeria is able to rein in corruption and tap its own massive potential it could then benefit Benin, just as Hong Kong re-invented itself as a financial and organisational service centre for Chinese manufactured exports with China's opening to the world economy in the 1980s.

Benin is much less developed than Hong Kong, but the precedent set by Hong Kong in transitioning from illicit to formal trade is still relevant as providing a general plan. In particular, Benin needs to follow Hong Kong's example in two ways: (1) reinvent itself as a legal commercial centre serving the region; and (2) develop competitive domestic industries. In the case of Hong Kong, export diversification involved shifting into labour-intensive manufacturing; Benin

[13] Stephen Golub was the lead consultant and author of the 2005 Benin DTIS.

[14] As Chau (1997) describes, Hong Kong's traders were able to adapt their entrepreneurial skills to manufacturing remarkably easily, contrary to the view, which is often voiced in Benin, that trading and production are antithetical. Also, Hong Kong benefited from the movement of entrepreneurs from China, just as Benin can take advantage of the influx of Nigerian businesspeople.

has a comparative advantage in tropical produce and horticulture. At present, Benin's trade facilitation institutions and business climate are sufficiently superior to Nigeria's to circumvent Nigeria's trade barriers, but inadequate for serving as a regional service centre for legal trade and facilitating foreign and domestic investment. The mediocre quality of public services in Benin extends to the port and customs administration, which are critical for a country with ambitions to serve as a trading centre.

The two Benin DTIS (World Bank, 2005, 2015) provide detailed recommendations for improvements in trade facilitation and other institutions that could contribute to Benin's becoming a hub for formal trade with Nigeria and other countries in the region. These include modernisation of customs, using more information technology and formal management procedures that improve accountability and transparency; improved port logistics; and linked rail and road infrastructure investments. Some progress in this regard has been made. The Millennium Challenge Corporation's programme for improving the port of Cotonou was found to have considerable success in raising operational efficiency, lowering costs, and reducing petty corruption (Millennium Challenge Corporation, 2017). While past reforms of customs have largely failed, more recently progress has been made in the adoption of a new customs code and modern international practices, such as the SAFE Framework of Standards of the World Customs Organization,[15] the revised Kyoto Convention, and the Agreement on the Facilitation of World Trade Organization (WTO) Trade (World Bank, 2018).

More broadly, Benin needs to upgrade its institutions to boost investment in productive activities, as discussed throughout this book. A positive agenda for encouraging investment is more promising than cracking down on informal trade with Nigeria. The latter largely depends on Nigeria adopting more sensible policies, while the former is much more within Benin's own control. In terms of the availability of resources, there is no need to eradicate informal trade with Nigeria for Benin to expand formal production of goods and services. There are plenty of under-employed people who will gladly switch to better-paying and less hazardous formal-sector jobs if these were to be created. The binding constraint is the adverse business climate that deters foreign and domestic investments in productive activities. Improvements in the business climate in turn require better governance. The question then is whether the pervasiveness of informality precludes reforms to the business climate. There is obvious cause for concern in this regard. Despite some significant improvements in trade facilitation, little progress has been made in improving governance and reducing corruption. There are numerous interest groups that benefit from and perpetuate Benin's high level of corruption who will oppose efforts to create a more inclusive and transparent business climate. It remains to be

15 www.wcoomd.org/-/media/wco/public/global/pdf/topics/facilitation/instruments-and-tools/tools/safe-package/safe-framework-of-standards.pdf.

seen if President Talon has the vision and leadership skills to catalyse reforms of the business environment that support formal investment. His background as a successful entrepreneur in the cotton sector is promising. An important symbolic step would be for Benin to join ACFTA.

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Discussion of 'The Critical Role of Informal Trading with Nigeria'

Discussion by John O. Igué

Benin–Nigeria relations are based on close ties reinforced by the disparities created by historical, geographical, and colonial factors. These disparities were amplified by the discovery of oil in Nigeria in the 1950s and the spread of oil revenue in neighbouring countries. For Benin, the result was the adoption of a re-exporting policy introduced in 1973 by the revolutionary government, to take better advantage of Nigeria's oil revenue. This re-exporting system, which turned the country into an 'entrepôt state', has remained in force to this day, despite the various upheavals the country has gone through.

Benin–Nigeria relations also play an important and specific role in the Beninese economy. As such, they have long been the subject of comprehensive studies by various authors, particularly within the Regional Analysis and Social Expertise Laboratory (LARES). From this perspective, the study presented by Golub and Mbaye is interesting because of the specific approach they take; that is, analysing the institutional constraints. Rather than discussing, refining, or adding to some of the points they raise, the discussion here will primarily focus on the future prospects of Benin–Nigeria relations, based on the current situation of the Benin economy. Section I will cover the difficulties facing the Beninese economy following the economic slowdown in Nigeria, and Section II will cover the strategies to be developed for the future.

I THE IMPACT OF BENIN–NIGERIA TRADE RELATIONS ON BENIN'S ECONOMIC SECTOR

Despite the enormous benefits of Benin–Nigeria trade relations for the population and public revenues, they constitute serious obstacles to vital sectors of the economy. For the public, re-exporting and imports from Nigeria are the main activities, both in cities and in the border regions. As regards public revenues, the activities of customs authorities, and even the tax department, largely depend on these relations. As for the vital sectors of the economy, the competitiveness of the Nigerian market compared to the Beninese market paralyses industrial activity. Various economic sectors are the victim of the trade relations between Benin and Nigeria. The most affected are industry, distribution, and transport. In the industrial sector, the most affected sectors are manufacturers of reinforced concrete and the food industries, including Société Béninoise de Brasseries (SOBEBRA), the Beninese brewing company. Still in the food sector, fish farmers, such as the company Cossi et Fils, which specialises in breeding catfish, have seen a significant slowdown in their activities, as there are fewer and fewer Nigerian customers, the main buyers of these catfish. On top of these difficulties, sellers of imported fabrics, such as Indian merchants located along Avenue Delorme, who sell lace and printed fabrics from China, no longer see large numbers of Nigerian buyers in their shops. Even Walkden, which specialises in selling wax fabric, is no longer immune. These leading merchants from the Dantopka market no longer sell in the quantities they used to.

But the main difficulty for industry arising from the Nigerian financial crisis of recent years is that borne by the cement sector, which faces stiff competition from cement from Nigeria, which is sold along the border at CFA Francs 50,000 per tonne, versus CFA Francs 65,000 per tonne for cement produced in Beninese factories. Given the importance of having your own home in Benin, this trade in cement is likely to lead to the same result as occurred in the trade in Kpayo petrol: it will destroy the cement factories in Benin.

All these crisis situations and collapsing sales weigh heavily on public revenues and people's living standards. In terms of public revenues, these are measured by customs revenues and the taxation of re-exporting activities, as well as the level of taxes paid by private companies. These revenues form the basis of the state's resources.

As regards the consequences of Benin–Nigeria trade relations for the public, these can be assessed in two ways. On the one hand, there are the negative consequences of the state's inability to ensure the vital needs of the population, which are partially met by the extraordinary development of the informal sector. On the other hand, these consequences can also be analysed positively in relation to the competitiveness of the Nigerian market, which is very popular with the Beninese public. Nigerian goods are cheaper, thereby enhancing the purchasing power of the Beninese. The markets for Kpayo petrol, beverages, and building materials imported from Benin's eastern neighbour also work in the same way. These products are less expensive, allowing Beninese to save money.

II THE FUTURE OF BENIN–NIGERIA TRADE RELATIONS

The future of Benin–Nigeria trade relations depends on the envisaged strategies for improving trade relations with Nigeria and preserving the competitiveness of the Beninese economy vis-à-vis its neighbour to the east. These strategies concern both the administrative authorities and the economic actors themselves.

A The Strategies of the Administrative Authorities

As regards the strategies that should be adopted by the Beninese government, we can identify six different strands.

First, better organising Benin's economy around promising sectors, such as strengthening the service economy, for which people based in Nigeria (including ECOWAS managerial staff and international institutions) will need Benin (efficient educational institutions, benchmark health centres, a state-of-the-art communication system with an innovative and efficient financial system, etc.).

Second, improving and promoting the agricultural sectors that are in high demand in Nigeria, including soybeans, maize, pineapples, and livestock.

Third, better organising the actors of this economy, who are currently trying to penetrate the Nigerian market without any discernible plan, only an individualistic strategy, which means it is not possible to ensure the supply and quality of Beninese products on the Nigerian market. The aim should be to organise these actors into cooperatives for each promising sector, to forge links with Nigerian economic operators in order to better negotiate the conditions for selling Beninese products in Nigeria.

Fourth, setting up new bilateral cooperation instruments. Benin–Nigeria cooperation is governed by several bilateral agreements concluded within the framework of the Benin–Nigeria Commission, which meets periodically. Despite the existence of this legal framework, cooperation between Benin and Nigeria does not always meet the expectations of the public of these two countries, who have set up several cross-border cooperation associations in the border corridors. For Nigerian and Beninese companies, the free movement of people and goods rings hollow. They want these cooperation instruments to insist on ending the harassment of traders, that new infrastructure be put in place along the border, such as central purchasing offices and storage warehouses, and that road crossings are cleaned up.

Fifth, setting up a new CFA Franc–NGN exchange rate mechanism, by:

- securing funds that need to be transported, better guaranteeing the system for transaction payments; and
- a comprehensive reflection between the two countries to better stabilise the exchange rate between the CFA Franc and the Naira.

Sixth, setting up a new Benin–Nigeria trade observatory, which has become necessary and urgent in order to better monitor the impact of the policies pursued by neighbouring countries on Benin's development.

B The Strategies of Economic Actors

Various economic actors who would like to do business in Nigeria have very little knowledge of the country and how its market functions. To correct this, it is vital for Beninese economic operators to do the following:

- Set up a mechanism for consultation and partnership between the chambers of commerce of the two countries, to resolve the problems of susceptibility linked to mutual mistrust. Beninese economic operators should also participate in initiatives that bring economic actors together in the region, such as that of Nextport Trade, a company that brings together businesspeople looking to move into the regional market.
- Create cross-border cooperation associations involving all the economic actors who are active in the border corridors, in order to better secure and facilitate the movement of people and goods.
- Better inform entrepreneurs in Benin about how Nigerian companies operate, and about strategies to access the market. Entrepreneurs also need to accept to adjust their prices on the Beninese market, to be better able to respond to the Nigerian competition.

Benin–Nigeria trade relations will remain dynamic regardless of the crises affecting Nigeria and the reforms undertaken by the country. There are two reasons for this dynamism. The first is the proximity of the capital Lagos, which has a population larger than Benin's. (We are talking about an urban area where the purchasing power of the public is always higher than that of the Beninese, no matter how much the Naira falls.) The second reason is the fact that the reforms being implemented in Nigeria do not always take into account the fact that the statistical data in this country are approximations, resulting in fairly large margins that can be captured through local relations.

Nigerians are well aware of this, which is why at the public level everyone is interested in the relations between Benin and Nigeria. But in order for these relations to function properly, Benin needs to be attentive to all the developments going on in Nigeria, and to adjust its diplomatic economic policy accordingly.

PART III

SYNTHESIS

Based on the five preceding analyses of key socio-economic and development issues in Benin, this part presents a synthesis of our institutional diagnostic. Analysis is presented in Chapter 9. As the analysis behind the chapters of this volume and behind this synthesis covers mostly the first half of the 2010s, it seemed important to reflect on whether recent events would modify its conclusions. These reflections are the subject of a brief Afterword.

9

A Patrimonial Regime with Multiple Oligarchs

François Bourguignon and Jean-Philippe Platteau

I INTRODUCTION

Based on the descriptive analysis of the economic, social, and political context in Part I of this volume, and the various thematic studies in Part II, this final chapter provides an overall institutional diagnostic of Benin. This is done in three stages. First, we provide a summary of each previous chapter, broadening it in some instances to strengthen the conclusion and emphasising the institutional implications. Placing these summaries side by side makes it is possible to draw up a shortlist of the key institutional weaknesses that hinder Benin's development. Second, the analysis goes a step further by reflecting on the proximate causes of these weaknesses, and the deep factors behind them. This reflection thus provides a reasonably complete diagnostic of the institutional challenges faced by Benin. This diagnostic then feeds, in Section IV, into an exploration of possible and feasible policy reforms to address some of the challenges in order to promote sustainable and inclusive economic development in Benin. Given the uncertainty at the time of writing about possible drastic changes in the political and administrative landscape due to the rise of Patrice Talon to the presidency, some tentative reflections have been added to this section under the title "Are We Witnessing a Regime Change?"

Before getting into the crux of the matter, several warnings are necessary about the scope of the diagnostic.

The first warning concerns the need for the diagnostic to focus on Benin per se and not on Benin as comparable to or very different from other countries in the same region and at a comparable level of development. It is always tempting to establish a diagnostic of a case by comparing it to other cases that would constitute a kind of norm. In Chapter 3 of this volume, Benin was compared to neighbouring sub-Saharan countries in an attempt at identifying features that would be specific of Benin. Few strong differences were observed. Likewise, the in-depth analysis in Chapters 4–8 may point to institutional weaknesses that are not necessarily specific to Benin. At this stage of the analysis, however, this is not an issue. What matters is to what extent those institutional weaknesses are obstacles to faster and more inclusive development in Benin, the focus of our diagnostic. What prevents Benin from doing better may well be common with other sub-Saharan countries. As long as these countries cannot be considered as uniformly more successful than Benin on their development path, or as models that should be imitated, it matters little for all those concerned by Benin's development.

The second warning is somewhat related to the previous one, although of more conceptual relevance. The kind of institutional diagnostic we are about to draw goes from institutions to development. It tries to identify institutional weaknesses that hinder development, their causes, and, possibly, directions of institutional reform. When analysing proximate causes and deep factors behind those weaknesses, however, it cannot be ignored that low development itself may be responsible for institutional weaknesses. As emphasised by many authors – see in particular the introductory chapter in Baland et al. (2019) – the relationship between development and institution is circular. There is a clear cross-country correlation between the level of development, roughly measured by gross domestic product (GDP) per capita, and the quality of institutions, as estimated by synthetic indicators in international databases. The correlation is still stronger when using cross-country panel data. But the causality clearly goes in both directions. Low development is an obstacle to institutional improvement and weak institutions hamper economic development. Benin is no exception. Yet, the effectiveness and policy relevance of the diagnostic exercise to be undertaken must focus precisely on whether the institution–development circularity may be broken on the institutional side and how. This, of course, does not prevent recognition of the constraints that development may impose on institutional reforms.

The last warning is about the status of policy recommendations in an analytical framework where the political economy consequences of the institutional setting of a country are fully taken into account, as could be seen in several of Chapters 4–8. There is a kind of 'political economy curse' in economic analysis. No policy recommendation can really be made given that policy decisions are completely endogenous. There is thus a risk that policy conclusions can be considered as wishful thinking.

There are various cases where this risk is limited, though. First, there may exist reforms that would improve the welfare of most actors in society, if not in the short run, at least over not too distant a horizon. If so, identifying them and introducing them into the public debate is of prime importance. Second, a desirable reform for faster and more inclusive development may be opposed by powerful groups of interest today. Yet, the distribution of political power may change in the future and it matters very much that those who could get more control over policy should be aware of such a reform. Third, external factors – donors, neighbouring countries' policies, commodity prices, and so on – play a role in shaping the set of politically feasible reforms. It is important to be aware of what possible changes these factors may imply.

II IDENTIFYING INSTITUTIONAL CONSTRAINTS ON THE DEVELOPMENT OF BENIN

This section provides a summary of the previous chapters of this volume that emphasises key institutional weaknesses that are likely to hinder economic development. In some cases, additional considerations are offered that broaden or generalise the analysis and its conclusions. The same organisation is used as in the previous chapters of this volume, with the first three summaries describing the socio-economic and socio-political context of development in Benin and the following five focusing on critical areas of that development. The section ends with a list of the main institutional weaknesses, which forms the basis of our institutional diagnostic of Benin's economic development in Section III.

A The Socio-political, Economic, and Institutional Context of Development in Benin

1 The Socio-political Context

Chapter 1, by Jean-Philippe Platteau, emphasises the multiplicity of ethnic groups in Benin, some of which also live beyond the country's borders. The question therefore arises as to whether such a high degree of ethnic diversity is an impediment to the long-term development of the country. Here, it is useful to distinguish between economic and political effects. Regarding the former, the idea that a potential advantage of ethnic diversity lies in skill complementarities between ethnic groups applies well to Benin, where groups such as the Yoruba and the Bariba have over time developed useful skills and experience in all sorts of trading business while many other groups have specialised in agriculture, for example.

Turning now to the political effect, ethnic diversity can create political instability, and, in this respect, the proliferation of political parties formed on an ethno-regional basis may appear worrying. Such an instability was particularly pronounced in the first decade after independence, and even during the subsequent Marxist–Leninist period, despite the authoritarian rule that was observed then. It was only in 1990, with the Renouveau Démocratique (Democratic Renewal), that the political system apparently stabilised into a liberal democratic regime, for which Benin has often been praised by donors. The democratic regime (with the economic liberalisation that goes with it) seems to have been stable, because it restored former post-colonial trade-and-wealth clusters attached to some prominent ethnic groups, which was reassuring for the donor community. It is noteworthy that, since the change of regime initiated by the

Renouveau Démocratique, four presidents have succeeded each other in democratic elections, never violating the two successive mandates ceiling imposed by the constitution. On the other hand, the rotation at the highest levels of political power (presidency, parliament, and ministerial positions) of personalities belonging to different ethnic groups and regions offers a reassuring picture.

Behind the democratic façade, however, a fierce struggle opposes several wealthy men, who lead political factions based on ethnic and regional affiliations, but also based on other identity markers. Especially destabilising is the opposition between the three main branches of the dominant ethnic group (the Adja-Fon): struggles *inside* a group may thus be more damaging than tensions *between* various groups and, in the case of Benin, the Yoruba, the Bariba, and the Atacora (the three other main ethnic groups) have continuously played a key refereeing role since the time of independence, whether in an authoritarian or a democratic setting. Towards the members of their faction the Big Men or oligarchs behave as genuine patrons, implying that in return for their support and loyalty they are committed to distributing various kinds of advantages down the vertical chain at the apex of which they operate. Because they consider state power as a privileged instrument to advance their particular business interests, they seek to take control of it. Their preferred tactic to achieve that aim consists of gaining the support of a professional politician by financing his campaign expenses, or directly competing for high political positions, including the presidency. Given the multiplicity of factions, they need also to strike alliances with several other factions and small political parties, which they generally do by encouraging their regrouping under the umbrella of a wider political bloc or confederation.

Alliances are typically unstable and generate unstable policies. This feature of Benin's political landscape is essentially explained by two factors: (1) the lack of mutual trust between the oligarchs and the resulting lack of credibility of their promises; and (2) the existence of multiple oligarchs naturally tempted by the short-term gains of coalition shifts and outmanoeuvring of rivals. An example of the resulting policy instability is provided by the wavering between public and private management of the cotton sector over the last ten years or so. Policy instability and the consequent infeasibility of long-term planning are not the only deleterious consequences of the patrimonial conception of the state among multiple greedy oligarchs and politicians. Another perverse consequence is a demoralising effect on the population, which witnesses a succession of obscure political manoeuvres as well as scandals whose most common manifestations are sheer favouritism, abuse of public positions, tax evasion, and the embezzlement of public resources. Accusations of embezzlement and rent capture concern not only prestigious construction projects, but also programmes that are critical for the well-being of the population and the long-term development of the country (such as water, electricity, and other vital infrastructure projects). In a context where most of the misdeeds and extortions stand unpunished or uncorrected, it is not surprising that the people of Benin have a particularly deep mistrust of tax authorities and the judiciary system. The positive effect of a legacy of pre-colonial centralised state organisations is thus undermined by an opaque political game in which key business actors play a major role.

The suggestion has been made that people's mistrust of public administrations in Benin is the consequence of interpersonal distrust, possibly due to the ethnic fragmentation and as a legacy of widespread slave trading. Based on rough comparative evidence from the Afro Barometer, this seems to be untrue: if the citizens of Benin have a comparatively strong mistrust in some important institutions, they do not exhibit particularly strong distrust in their day-to-day interpersonal relations.

Major institutional hurdles, to which we shall return in Section III of this final chapter, seem to be the environment of policy instability, deep inequalities, and widespread corruption that characterises Benin. Behind this adverse environment lies a neo-patrimonial political system over which no single figurehead has exerted complete control until recently (2016). With the accession of a business oligarch, Patrice Talon, to the presidency and the concentration of powers in his hands, a major transformation of the country's political scene has occurred. Whether the new situation can be a game changer is an important question to which we return at the very end of this chapter.

2 The Economic Development Context

Benin is a poor country whose development since the turn of the present century has lagged behind many low-income countries, including in sub-Saharan Africa. As is stressed in Chapter 2, by Romain Houssa and Paul Reding, its comparative advantage lies in two key sectors: cotton exports and illegal re-exports of manufactured imports to Nigeria. The latter has its roots in the long and porous border with Nigeria and the protection of manufacturing industry being substantially higher there than in the West African Economic and Monetary Union (WAEMU) customs union to which Benin belongs. This allows Benin to share the oil rent of its giant neighbour. Together with the importance of cotton exports, this actually gives Benin some of the qualities of a resource-rich country, including being dependent on world commodity prices and experiencing Dutch disease – through illegal imports from Nigeria, the counterpart of Benin re-exports, which crowd out some domestic activity – as well as its governance problems.

Even though cotton exports and the cross-border trade with Nigeria virtually make Benin a commodity exporter, there is a substantial difference with other developing countries sharing that characteristic. It is that the diverted oil rent is exploited by the informal sector and thus benefits directly a large segment of the non-agricultural unskilled labour force. Thus, there is a dualism between the two major sectors of the economy: a rather formal organisation of the cotton sector versus necessarily informal arrangements within the cross-border trade with Nigeria. This dualism is a key specific feature of the Beninese economy.

Natural resources or primary commodities rarely provide exporters with a stable long-run engine of development. Benin's growth performance over the recent past has been mediocre. The ten-year mean annual rate of growth of GDP per capita has fluctuated at around 1.1 per cent. Labour productivity has grown roughly at the same pace, essentially as the result of labour movements out of low-productivity agricultural activities towards more productive sectors. Yet, this did not prevent productivity from declining in most of these sectors, whereas it remained stagnant in agriculture.

This poor growth performance partly originates in the two major sectors of the economy: cotton production and cross-border trade with Nigeria. Cotton production in Benin has long been trailing that of other West African countries, mostly because of institutional instability in the organisation of production and commercialisation. On the other hand, re-exports to and illegal imports from Nigeria have created a huge low-productivity informal sector that may have crowded out better economic opportunities. Informality is indeed markedly higher in Benin than in most countries in the region.[1]

Low rates of labour productivity growth in the other sectors of the economy are a major concern too. Whereas in the informal segment of these sectors (which is huge) low labour productivity is caused by a lack of capital, in the formal segment it stems from low capacity utilisation and inefficient organisation. An additional issue is land tenure insecurity. The problem seems particularly important in urban and peri-urban settings, as well as in rural areas in which significant migrant groups coexist with the native population. The response of the state has been hesitant and numerous changes have been made to the 2013 Land Law, which has faced many enforcement difficulties.

Prospects for faster and more stable growth in Benin lie in the diversification and restructuring of the economy. This might be possible in agriculture, as exemplified by the recent surge in pineapple exports. Some land is still available in the north of the country while yields are still low throughout the country and could certainly be improved. Progress would require more efforts in enhancing agricultural productivity and developing transport infrastructure, notably rural roads in the north. Exporting transport services through modernising the Cotonou port and transforming it into a major hub for the whole region, including Nigeria and Benin's hinterland, is also envisaged. Progress on these diversification fronts is presently limited. If more were to be done, however, Benin's long-run development would remain essentially based on commodity exports, with all their shortcomings.

Development strategies anchored in more knowledge-intensive activities offer better and less volatile returns than traditional activities based on raw agricultural products. However, such a re-orientation of the economic development strategy would represent a drastic change, as it necessitates

[1] It is somewhat surprising that Benin's GDP growth is only weakly related to Nigeria's, yet multiple factors affect illegal imports in that country that are difficult to evaluate.

huge investments in human capital to allow the country to move up the technological ladder. Over the last decades Benin has made noticeable progress on the educational front and this is a step in the right direction. Yet, this positive assessment must be qualified in two ways. First, Benin started from a very low basis, and its achievements in terms of the literacy of the population remain very disappointing. Second, much of the educational progress is in the form of rising gross enrolment in primary (and post-primary) schooling. However, the quality of education has not been improved, and has probably deteriorated during the period of increasing admissions into the schooling system.

Diversifying activity away from raw agricultural commodity exports would also require noticeable investments in infrastructure, like power supply and telecommunications. Benin is among the countries with the lowest consumption of electricity per capita, and much below the sub-Saharan median in terms of internet servers per inhabitant.

Benin's development is not only slow, it is unequally distributed. The coastal cities of Porto Novo and Cotonou, and their hinterland, constitute the growth pole of Benin's economy. It is in their tiny departments that poverty is kept under control, unlike in many other parts of the country where it remains intolerably high. Overall monetary poverty seems to have increased over the last decade, the same being true of inequality in consumption expenditures. Development in Benin thus appears to be unbalanced and to be marked by big spatial disparities. The northern part of the country, in particular, suffers from a lack of critical public investments, in spite of the fact that its political representatives have not been consistently deprived of access to the highest levels of state power. Lopsided spatial development has been the result.

One of the most pressing concerns regarding the development pattern of Benin is its sustainability in the medium and long run. As it stands, the economy remains heavily dependent on external financial flows, and official development assistance in particular. Although slowly decreasing, the latter still amounts to more than 6 per cent of GDP – above the median of sub-Saharan countries. The ongoing structural transformation of the Beninese economy does not offer the prospect of a foreseeable reduction in such dependence on external financing. Indeed, the significant decrease in the share of agriculture in domestic value-added has not been associated with a corresponding increase in the share of tradeable manufactured goods, but rather with a rapid increase in the share of non-tradeable services. Directly related to this weakness is the low diversification in export goods.

It is difficult not to relate Benin's poor development performance and prospects to the way institutions have been working and still work today. Even under a so-called Marxist regime, the general long-term interest did not prevail, as key sectors of the economy, banks and financial institutions in particular, were simply appropriated by President Kérékou and his northern clique for their own short-term benefit. Albeit in more subtle forms, this kleptocratic system survived through the ensuing Democratic Renewal period, as witnessed by the continuing meddling of politicians in the economy and of businessmen in politics: the oligarchs acting behind the scenes of formally democratic institutions make key decisions in, and appear to be the effective owners of, parastatals and independent private corporations formally outside their control. This is especially patent in the case of the cotton sector, but really affects the whole economy.

Such a characterisation of Benin's development is fully consistent with what is observed on the poverty and inequality fronts. The comparability of data over time is generally limited in this area. But, based on household surveys, few countries have seen an increase in the proportion of poor people in the population over the last ten years or so. Still fewer have witnessed the strong and continuous increase in inequality observed in Benin since the turn of the millennium.

3 *Appraisal of the Quality of Benin's Institutions*

Three types of evidence on the quality of institutions in Benin and the way they could affect development performance are considered in Chapter 3, by Romain Houssa and François Bourguignon: synthetic indicators, as available in cross-country databases; a specific opinion survey among various types of local decision makers; and an analysis of the institutional implications of identified binding economic constraints in several recent growth diagnostic exercises. These various sources converge in pointing out several institutional weaknesses that hamper an acceleration of development in Benin, even though they may not always agree on the severity of these institutional constraints.

Corruption is unanimously seen as the most serious impediment to the good functioning of institutions and a favourable development context. It is found to affect practically all sectors of the economy at all levels of responsibility. This is recognised and duly emphasised by both the respondents to the opinion survey and the authors of growth diagnostic exercises. However, comparison with other countries in West and Central Africa or countries that have outperformed Benin over the last decades is less conclusive. If the World Bank Enterprise Surveys find that, from the point of view of business, the situation in Benin is substantially worse than in the average sub-Saharan country, country-by-country comparison leads to different conclusions. As can be appraised through synthetic indicators, the degree of corruption in Benin turns out to be roughly comparable to that in neighbour countries. It might even be lower than in several countries that nevertheless grew faster than Benin over the last twenty years, this being true today as well as ten or twenty years ago, when the GDP per capita was much smaller. Such findings may reflect the conceptual imprecision of synthetic corruption indicators, but they also call for a more nuanced analysis of the effects of corruption on the development of a specific country. Corruption may have other deleterious effects on development but, even when sizeable, it may not prevent fast GDP growth in an economy endowed with a solid exogenous engine of growth, as is the case in several Asian countries that rely on labour-intensive manufacturing exports.

Weak public management is the second unanimously recognised source of hindrance in the process of development. Of course, this may partly be the consequence of corruption. Here too, the cross-country difference in synthetic indicators of the quality of public management across countries is not strongly unfavourable to Benin. Yet, some sectors are singled out as particularly weak by survey respondents and analysts. Three of them are repeatedly singled out. The tax system is found to be complex and the tax administration grossly inefficient in collecting tax revenues, with clear adverse consequences for the dependency of Benin on foreign finance. The power sector, run by a state-owned monopoly, is found to perform badly due to weak or ineffective regulation.[2] Finally, if the delivery of social services, especially education, is found to have made progress in quantity, this is not the case for quality. Benin underperforms compared to other sub-Saharan countries by a wide margin and, from that point of view, lags very much behind the countries that have grown faster despite having the same initial level of income as Benin twenty years ago.

The opacity of government policy making with respect to the public is another weakness stressed by survey respondents. This is probably to be imputed to weak public management, but it is also a sign of deficient political institutions, generally regarded as weaker than in other sub-Saharan countries. On this point, however, survey respondents are somewhat ambivalent. On the one hand, many of them tend to trust constitutional institutions and are confident about the success of some current reforms. On the other hand, most also agree that the whole system is deeply corrupt and, because of this, often dysfunctional. Such a severe judgement even appears in the opening remarks of the official Country Partnership Framework, a cooperation agreement between the Government of Benin and the World Bank.

Available statistics show that informality is more developed in Benin than in the average sub-Saharan country. Growth diagnostic analyses suggest that it has a cost in terms of tax revenues, job precariousness, and lack of control over the economy. This is not a point that appears strongly in the opinion survey, maybe because of the presence of a substantial group of informal firm managers in the sample. It is not a dimension of institutions that appears explicitly in the synthetic indicators provided by international databases either. The reason why informality is more developed in Benin than in most developing countries, including in sub-Saharan Africa, is clear: it is more the result of the importance

[2] See for instance the PhD thesis of Dossou-Yovo (2016), who compares the management of the public company responsible for electricity production and distribution, the Société Béninoise d'Energie Electrique, to the behaviour of a clan that shares a rent among its members while systematically ignoring the consequences for the rest of the population.

of the illegal cross-border trade with Nigeria than the result of some specific institutional failure. Yet, its consequences for the functioning of institutions are serious.

A last area deserves mention, even though it is not prominent in the opinion survey and not explicitly covered by synthetic indicators: it is the way land allocation is managed. One of the growth diagnostic studies of Benin mentions that land is becoming scarce in the southern part of the country, so that managing it efficiently will become more and more crucial in the future. As in the other sub-Saharan countries, land operations raise difficulties in Benin because of the uncertain status of ownership and the legacy of customary practices. A reform was advanced in 2013, which, according to the opinion survey, is found to be complex and does not really resolve the sources of land conflict. Land laws and their implementation show weaknesses whose economic consequences may be considerable in the future, especially in a country with a comparative advantage in agriculture.

B Some Critical Areas

1 Business and Politics: A Clear Case of Complete State Capture

Benin does not differ from many other countries in the collusion that exists between business and politics. Yet, it may be exceptional in the extent of that collusion, as illustrated by top businesspeople having now captured not only the economy but also the executive, and possibly legislative power.

The original piece of research by Rafael Ch Duran, Matthias Coffi Hounkpe, and Léonard Wantchekon in Chapter 4 focuses on local governments and the deals they make during electoral periods with businesspeople who often end up in full control of local politics. By interviewing some 189 candidates in local and legislative elections about the way their campaign was financed and the kind of agreement made when business was involved, they show the importance of business finance in an electoral democracy where public campaign funds are limited or even non-existent and electoral institutions are weak. They also analyse the levers that business thus acquires in relation to the local economy.

The average cost of a local election campaign is around US$36,000 and US$160,000 in rural and urban areas, respectively. On average, these amounts are equivalent respectively to eighteen and eighty times GDP per worker; that is, a campaign costs roughly the equivalent of employing eighteen to eighty workers during a full year. Business support is on average around 50 per cent of these amounts, the rest being contributed by party or party coalition funding. In exchange, politicians, if elected, must compensate firms through various channels, including policy concessions and public procurement in their favour, patronage, or the awarding to funding firms of some control over the recruitment of local political executives.

Chapter 4 also makes use of the natural experiment provided by the electoral reform undertaken by the present administration a few months before the

2019 local legislative election. This reform aimed at reducing the number of competing parties by forcing them to regroup. It was justified on the grounds of the extensive fragmentation of parties in Benin, which bears a relation to the ethnic diversity of the population. At the time of the reform of the electoral code, some 250 parties were listed! Whether due to frictions in the adjustment process or deliberate political strategy, it turned out that only two party groupings were validated for the 2019 election. For that election, the pre-existent multiparty system had collapsed to a two-party bloc competition.

The natural experiment arises from the fact that, prior to the 2019 election, many communes had a multiplicity of parties competing with each other, as was observed in the 2013 election. Since no more than two contenders were allowed in the new election, complying with this rule drastically reduced the extent of electoral competition. In some other communes, however, it was already the case that the competition was between the two new party coalitions, as could be judged from the 2013 election. In the absence of signs suggesting that the competition had changed by 2019, the latter communes thus provided an interesting 'control' group to be compared to the other communes where the reform was exogenously modifying political competition.

If the reform is interpreted as reducing the uncertainty about who is going to win the election, sponsoring firms should spend less on protecting their vested interest and/or impose weaker conditions in case of victory. It may also be surmised that, with fewer contenders, firms will spend less on supporting the candidates and, because they have less to recoup, they will be less demanding in case of victory. In other words, there should be less state capture, or less control over local governments' action, in the communes affected by the reform. This is indeed what was observed. Funding firms were less insistent on having allies appointed in key executive positions in local governments. Irrespective of the reform, the same observation could be made in communes where the previous election was less contested – that is, where the incumbent had won with a large margin.

These results are very interesting because they shed light on the extent of state capture by business interests, and on some of the determinants of state capture. Clearly, more public funding of candidates, a cap on private funding or on the total cost of campaigns, or strict requirements of transparency of campaign funding should all contribute to reducing the influence of private business on electoral outcomes and state capture. The sheer ability of business to influence political outcomes would thus be reduced and its secretive interventions would be publicly exposed, with the effect of reinforcing the political opposition.

The discussant of this chapter, Cesi Cruz, is right in stressing that the relationship between local politicians and firms may be more complex than described by candidates to local elections when we notice that both local politicians and firms are part of networks – political parties, multiunit firms, and their network of suppliers. Deals might thus be at the network level; that is, between national- or regional-level politicians or parties and big firms.

Extending the analysis in that direction would be a formidable undertaking. Without going so far, it may simply be stressed that the business–politics relationship analysed at the local level in Chapter 4 clearly generalises at the national level. The rise of a major businessman, Patrice Talon, to the presidency in the 2016 election, and the circumstances of that election, perfectly fit that analogy.

State capture by private interests in Benin is observed at both the local and the central levels, even though Chapter 4 suggests that the 2018 electoral reform may have weakened it somewhat at the local level. At the national level, however, the rise of Talon to power may indeed be considered the ultimate stage of state capture. That he was a candidate in the first place is easily understood given the animosity that had developed with President Yayi, despite having been the main financial supporter of his re-election in 2011. Being practically impeached in Benin, and wary that this situation would endure if the candidate of continuity, Lionel Zinsou, were elected, the conquest of the presidency was a rather logical move. Here is a radical form of political strategising on the part of the business elite. The rival business tycoon, Sébastien Ajavon, was also a candidate for precisely the same reasons; that is, to regain rents initially confiscated by the previous government. Eventually, the latter joined forces with Talon in the run-off of the election, despite their long-lasting rivalry.[3] Beninese politics had been overwhelmed by big business.

A deep cause of this rather successful capture of the state by business, at both local and central levels, may lie in the relative weakness of central political power due to the political fragmentation of the population: 250 political parties and 48 candidates at the last presidential election. Even under the democratic presidency of a seasoned ruler like Kérékou between 1996 and 2006, party coalitions in power were fragile and prone to corruption, whereas securing alliances to win an election was particularly costly. Indeed, the number of major corruption 'affairs' involving high-level politicians over the last fifteen years or so is quite impressive. Although less publicised, it is likely that such affairs occur in large numbers at the local government level.

Another conclusion of this reflection on business and politics in Benin is the absolute necessity of effective transparency in electoral financing, at both the national and local levels. In effect, a law does exist that limits the total amount that can be disbursed in a campaign, and official campaign accounts are required from candidates. These accounts are audited, and candidates may be charged for having spent more than the maximum amount allowed on their campaign.[4] Practically, however, the system remains extremely opaque and/or is gamed by the main actors.

[3] The rivalry between the two men quickly reappeared after the election: Ajavon is presently being sued for alleged drug trafficking.

[4] Lionel Zinsou, who lost the last presidential election to Talon, is presently under investigation for such a matter.

It would be difficult to conclude this brief analysis of the relationship between business and politics without mentioning the political consequences of the 2018 reform of the electoral code for the April 2019 parliament election. Because of the noise created by a reform that forced some regrouping of parties within bigger alliances, only two groups, both favourable to President Talon, were finally allowed to compete in that election. The election was boycotted by the opposition, which strongly condemned this de facto breach of democracy. A political crisis unfolded, betraying an unexpected fragility in the institutions of a country that was praised precisely for its respect of the rules of democracy.

2 The Management of the Cotton Sector

Cotton is the backbone of the formal Beninese economy. As mentioned in the first paragraph of Chapter 5 on the cotton sector by Barthélémy Honfoga, Romain Houssa, and Houinsou Dedehounaou, it accounts for 13 per cent of GDP, 60 per cent of (formal) export revenues, 45 per cent of taxes – excluding tariffs – and 60 per cent of manufacturing output – through ginning and seed oil extraction factories. Overall, it is estimated that around a third of the Beninese population depends on the cotton sector. The growth rate of GDP is very much influenced by the cotton activity. Over the last ten years or so, more than 40 per cent of the variation in the growth rate of GDP was explained by the variation in the growth rate of the production of cotton. Yet, cotton can hardly be considered as a growth engine for Benin's economy. After substantial growth from 1980 to the mid-1990s, production did not grow for the next twenty years – it even fell dramatically in the mid-2000s. It is only during the late 2010s that production has been able to overtake its 1996 record level, but data are still provisional.

Of course, the institutional set-up of the sector is of prime importance for its performance and dynamism. From that point of view, the history of cotton in Benin since independence is that of a succession of supposedly deep reforms. Overall, however, they only amounted to a change in the lead actor of the sector. While this actor was the state back in the Marxist–Leninist period of governance, it is close to a single private conglomerate today, a conglomerate that happens to belong to the current president. Except for this, and despite the liberalisation that took place – as in the rest of the economy – after 1990, the organisation of the whole sector has remained pretty much the same, sheltering most actors against the competitive pressures of the market.

Production by farmers is controlled through the allocation of inputs – cotton seeds, fertilisers, and pesticides – that results from coordination mechanisms and bargaining within the Interprofessional Cotton Association (AIC). The production of seed cotton is allocated to the eighteen existing ginneries, again through a process that results from bargaining among the main actors of the sector. The price of inputs and the allocation of credit to farmers are set within the AIC and subsidised by the government. The farmgate price is also largely decided by the AIC, even though formally set by the government. It depends

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only very loosely on international prices – for example, after a substantial increase in 2011, the price paid to producers has practically not changed over the following seven years, despite international prices having increased by more than 50 per cent in local currency.

Variation in the management of the cotton sector over time concerned mostly the provision of inputs upstream, and the ginning of cotton and its commercialisation downstream. The management structure has thus gone through various transformations during the last twenty-five years. A state company, Société Nationale pour la Promotion Agricole (SONAPRA), was initially responsible for all the preceding activities. Then some liberalisation took place in the early 1990s for the provision of inputs, an activity in which a businessman, who would much later become President of Benin, Patrice Talon, soon acquired a dominant position. The ginning market was opened a bit later, with eight new ginneries being created, several of them controlled again by Talon's group. Still later, the coordination of the whole sector, initially under the responsibility of SONAPRA, was privatised and entrusted to the AIC. In the process, Talon was able to strengthen his grip on the whole sector by controlling the ten ginneries initially operated by SONAPRA. Partly because of the disorganisation created by this succession of liberalisation reforms, production fell dramatically. The AIC was then dismantled in the early 2010s and the management of the whole sector was re-nationalised. The state-owned company SONAPRA then regained its initial coordination and central planning role. However, a few years later, and soon after Talon's election to the presidency in the circumstances that were discussed earlier, the management of the sector was re-privatised and the AIC was re-activated.

Today the whole sector is mostly private, even though the amount of public subsidies on inputs and several key decisions of the AIC – the level of producer prices in particular – must be formally approved by the government. However, the sector is clearly dominated by a single private actor, who controls the supply of inputs, the collection of cotton seeds, the operation of most ginneries, and hence the commercialisation of cotton. The public monopoly system of the 1980s has thus been transformed into a market structure close to a private monopoly, and one that today has established strong links with the executive.

This chaotic evolution of the cotton sector and its present structure would not be a problem if they had little impact on production, its rate of growth, and its present efficiency. This is not the case, however. As emphasised in Chapters 2 and 5, total production practically stagnated during the two decades from the mid-1990s to 2016. It is true that international prices have not always been favourable and adverse climatic conditions have sometimes affected production. There is no doubt, nevertheless, that the privatisation process and the disorganisation it created had a very negative impact on the whole sector during the 2000s. The disastrous harvests of 2005 and 2010, partly due to these disorders, tragically attest to the inept approach to the sector's reform. If the re-nationalisation of 2012 was followed by a recovery of the whole sector, it is hard to say whether this was due to public management per se or simply to the stabilisation of the organisational structure of the whole sector.

After bad results in 2015, production surged in 2016, the year during which private management through the AIC was re-activated, so much so that it again reached the levels observed 20 years before. It then reached a record level in 2017. The question arises as to whether this was the result of favourable conditions for cotton production or better terms granted to producers with the return to private-sector management – and this despite the monopolistic structure of the sector.

Comparison with neighbouring cotton producers is instructive here. The two lead producers in West Africa are Mali and Burkina Faso. The general organisation of the cotton sector in these two countries is comparable to that observed in Benin, except for the public/private nature of the main operators: a national company is in command of the whole sector (except production) in Mali, whereas in Burkina Faso there is an AIC type of structure, with three semi-private companies in charge of input provision, ginneries, and commercialisation in three distinct geographical zones. Even producer prices are comparable across countries. The instability observed in Benin in the management structure of the whole sector has been responsible for production there trailing the two other countries from 1995 and 2015. The gap went from zero to 42 per cent during that period! It has only slightly decreased over the last years, since it was still as high as 35 per cent in 2017. Yet, the rate of decline of the gap is now accelerating, but whether this is attributable to the stabilisation of the management structure in Benin and thus to growth recovery, or to the private nature of management, is difficult to say at this stage.

As stressed by Véronique Thériault in her discussion of Chapter 5, cross-country evidence on the effect of the management structure of the cotton sector, especially its public/private nature, is rather inconclusive. Coordination, through the provision of inputs and credits to producers, works better in publicly managed systems, whereas competition offers higher output prices to producers in private systems. This distinction is not really relevant among West African countries, however, since competition barely exists in the only country with a privatised structure; that is, Benin. It would be tempting to say that the main difference between a public and a private monopoly stems from different objective functions of the operators, and from varying levels of efficiency in management operations. In the case of Benin, objectives might well converge in maximising the growth of production for a while. However, it may take time before the efficiency advantage of private operators manifests itself. When it does, moreover, it will most likely benefit private rather than public interests.

This last remark raises the issue of the distribution of the rent arising in cotton exports. It turns out that available statistical sources do not permit us to estimate how much of the value-added in the cotton sector is going to the various operators in the sector, including farmers and the state through taxes. The uncompetitive organisation of the sector, from the allocation of inputs and credits to farmers to the allocation of cotton seeds to ginneries, which are the actual exporters, suggests that the rent – when there is indeed a rent thanks to sufficiently high foreign prices – is shared among the various types of operators. For instance, farmers would be constantly trading off cotton against other crops if there was no rent attached to the production of cotton. This is known to have occurred in some cases, but is not systematic. The main point, however, is that no estimate is available about the operations of the company that provides inputs and credit or about the operations of ginneries and exporters. Despite that opacity, the fact that producer prices have remained practically constant over the last eight years even though there was a 50 per cent increase in international prices suggests a rather unequal allocation of the rent.

Several lessons may be drawn from the evolution of the management structure of cotton in Benin. First, there is the effect of institutional instability on the growth of a sector that is of primary importance for the whole economy: twenty years of stagnation in a sector that represents more than 10 per cent of GDP amounts to a non-negligible loss of overall growth. The second lesson is that the institutional instability of the sector was very much caused by political economy factors. The rise of the 'king of cotton', as Talon is often nicknamed, coincided with an intensification of rivalrous influences of public decision makers regarding the organisational structure of the whole sector. This rivalry was actually responsible for the chaotic trend in production during that period. The third lesson is that the way the reform process was handled led to the capture of a key sector of the economy by practically a single actor. Such a situation is essentially unsound, even though it may have brought stability and ensuing expansion of production. Although it may contribute to economic progress overall, this will be the case only as long as private and public objectives are aligned. This may not last.

3 State Capacity and Tax Effort in Benin

As emphasised in the recent economic literature on institutions – see, for instance, Besley and Persson (2009) – state capacity is a key determinant of development. A major difficulty, however, is that few indicators are available that satisfactorily measure this institutional feature, except for advanced countries.[5] The tax/GDP index is often used as a convenient proxy of state capacity. It has the advantage of being simple and reflecting two dimensions of government action: the administrative capacity of the government to collect taxes and its financial capacity to deliver public services. Various tax-based indicators are available in the literature – see, for instance, the review by Rogers and Weller (2014). In Chapter 6, Emilie Caldeira and Grégoire Rota-Graziosi have chosen non-resource tax/GDP to account for the fact that taxing the export of

[5] See, for instance, the InCISE indicator, Institute for Government, 2017.

natural resources in developing countries does not require as much administrative capacity as raising VAT, import duties, or income tax.

Using a stochastic frontier approach estimated on forty-two sub-Saharan countries between 1961 and 2015, Caldeira and Rota-Graziosi measure the non-resource 'tax effort' as the ratio of the actual non-resource tax/GDP ratio to the maximum that should be attainable at the frontier. Of course, this frontier depends upon the specificity of national economies and moves over time as they grow and their structure changes. At the end of the period the tax effort of Benin is 68 per cent of the frontier, whereas the tax effort of countries like Rwanda, Senegal, or Malawi is close to 75 per cent. Togo, Benin's western neighbour, even reached 78 per cent in 2015. With a non-resource tax/GDP ratio around 13 per cent at that time, this means that Benin could increase its tax revenues by 1.9 per cent of GDP if it had the same capacity as Togo, and three times that amount if it were to approach the frontier. It would then get close to the 20 per cent objective set by the WAEMU.

This rough proxy of state capacity is an interesting diagnostic tool that shows how much progress can be made in a country on the tax policy and the tax collection front. At the same time, the discussant of the chapter, Nicaise Médé, is right in stressing that the average tax rate of an economy reflects not only state capacity but also policy choices, based on the premise that lower tax rates provide powerful incentives for work and investment. This may be true, but lowering the overall rate of taxation in an economy also lowers the capacity of the government to finance investments that could accelerate growth and more than offset the distortive effects of the tax. This is precisely why the tax/GDP ratio is indicative of state capacity.

The analysis developed in Chapter 6 on taxation goes further in trying to identify some of the factors that explain why Benin is farther away from the frontier than neighbouring Togo. A first possible factor may be tax expenditures. It seems the case, in particular, that Benin grants more favourable tax conditions to foreign companies in terms of both the income tax and VAT. A second factor is the structure of taxation and the tax base. It happens that both countries take advantage of the heavy protectionism of Nigeria, their giant neighbour. This is possible because their overall taxation rate of imports – that is, duties plus VAT – is lower. Goods are thus imported by Benin and Togo that are re-exported – or, in frequent cases, smuggled – across the porous Nigerian border. These re-exported goods generally benefit from low duties when entering the country but are subject to VAT. As Benin and Togo belong to the WAEMU, they apply the common tariff on imports. They also have comparable VAT rates. They thus can compete only by lowering the reported, or taxable, value of imported goods, second-hand cars for instance. Because trade is relatively more important in Benin, this may explain why tax revenues are relatively smaller than in Togo relative to GDP. Whether through tax expenditures or because of the tax status of re-exports, the difference in tax/GDP ratios between Benin and Togo might reflect strategic choices more than differences in state capacity.

There may also be institutional factors that are directly responsible for the less efficient tax collection system in Benin than in Togo. Caldeira and Rota-Graziosi mention two of them. The first is that Togo has recently (2014) reorganised the tax collection system into a Semi-Autonomous Revenue Authority (SARA), a structure that is somewhat independent from the rest of the public sector and is essentially responsible for the collection of all taxes and customs duties. Such a structure offers the advantage of not being constrained by public employment management rules, thus allowing for original incentive schemes and some clear synergy between the collection of taxes and customs duties. But it also offers some disadvantages, in particular a possible conflict between tax collectors and tax policy makers. According to Fjeldstad (2007), who closely followed these reforms in several sub-Saharan countries, the advantage of the SARAs would seem to vanish after a few years, mostly because most actors progressively learn how to game the new system.

In his comments, Nicaise Médé notes the strong propensity of the present government to create semi-autonomous agencies along the model of SARAs for the production or management of several public services, with the purpose of delivering services more efficiently – because they are less constrained than state administrative units typically are. That the same model was not applied to tax collection is a political choice that reflects a certain degree of faith in the standard incentivising and auditing instruments available in the tax administration. Time will tell whether progress in tax collection occurs significantly faster in Togo than in Benin.

Thanks to better wage incentives and monitoring facilities, agencies like SARAs are more efficient in their fight against corruption than fully centralised tax authorities as we usually know them. Nowadays, variation in the perception of corruption between Benin and Togo is minor (see Transparency International, 2019). It will be interesting to see whether this changes in the future because of a different management structure of tax collection and tax policy making.

The last factor that could explain the tax/GDP advantage of Togo over Benin is the size of the tax collection and policy administrative unit. Rather surprisingly, while the Direction Générale des Impôts counts roughly 1,500 employees, or a little more, in the former country, it relies on only 500 officials in the latter. Here too, there are probably trade-offs, yet such a large gap in the personnel of the tax management system is surprising and most likely reflects severe understaffing in the case of Benin.[6]

[6] It might be argued that it is Togo's SARA that is overstaffed, and that Benin is closer to the norm. The following comparison suggests this is not the case. Assuming that the number of tax administration staff is proportional to formal employment, it turns out that the coefficient of proportionality is roughly 2.6 staff for 1,000 employees in Organisation for Economic Co-operation and Development (OECD) countries. Given the 14 per cent share of formal employment in both Benin and Togo, tax unit staff should be around 1,700 persons in Benin and 1,300 in Togo. In view of this very rough norm, Benin is definitely understaffed, whereas Togo is close to the norm.

In summary, what lessons can be drawn from that comparative analysis of the tax effort, considered as a proxy of state capacity, between Benin and other sub-Saharan countries, and Togo in particular? First, the importance of tax revenues for the development of Benin need not be underestimated. Benin, like many other sub-Saharan African countries, is over-dependent on foreign funds for the preservation of its level of investment in physical as well as human capital (see Chapter 2). Its external debt has increased substantially faster than GDP over the last decade. That evolution, and the uncertainty about the level of future foreign flows, can only be neutralised by higher tax effort if investment in public infrastructure is to be maintained, if not increased. Yet, the tax/GDP ratio has stopped increasing over the last ten years. It has even fallen since 2015. Improving tax revenues, both by using existing policy levers and building up state capacity, is thus essential.

Second, the general organisation of the tax collection system is a major obstacle to higher tax revenues. It is difficult to identify precisely how much of the present level of tax effort is constrained by voluntary tax policies and how much is structural and due to inefficient organisation. That countries that have adopted a SARA system of tax collection have been able to make progress on the tax revenue front, at least temporarily, shows that the institutional structure of the sector matters. In a country where the perception of corruption is high by regional standards, it is also difficult to believe that this factor does not affect public revenues negatively. Finally, although we lack precise criteria relating tax revenues to the size and organisation of the tax authority, it is equally hard to believe that a country with half the number of staff devoted to tax collection as are devoted to it in a neighbouring country can be as efficient, especially when the size of the public sector is comparable. Restructuring the public sector to reinforce the tax apparatus may have a cost in the short run, but it should permit faster progress in state capacity in the longer run.

One last remark is in order. It refers to the determinants of the frontier used to evaluate the maximum tax effort likely to be supplied by a country. It turns out that a key determinant is the level of GDP per capita. If the analysis shows that Benin does not do as well as some other countries at a comparable level of income, it should be kept in mind that, in all these countries, state capacity is actually constrained by the availability of resources. In Benin, as in Togo or in Rwanda, the tax/GDP ratio is low not only because it would be possible to do better with existing resources, which the analysis actually shows, but more fundamentally because resources – equipment, skills, complementary public agencies – are limited. That state capacity is as much the consequence as the cause of a low level of development should not be ignored when conducting an institutional diagnostic.

4 Land Rights

Chapter 7 by Philippe Lavigne Delville provides a detailed and comprehensive picture of the efforts of the Government of Benin to reform land tenure rights in the country's urban and rural settings. The approach belongs to the field of social anthropology of public policy (of which legal anthropology is a key component), as the discussion centres around the various pillars of the legal framework and the positioning of various interest groups assessed from qualitative interview material. The approach is also dynamic in the sense that it carefully reports the back-and-forth moves of the law maker, giving the overall impression of continuous wavering under the influence of these groups.

Since the account provided in Chapter 7 is very detailed, we offer a summary based on that account that sketches the main stages in the evolution of land legislation in Benin. The reader who went through Chapter 7 can skip that first part of our discussion and go directly to the next two parts. There we first attempt to extract the most meaningful lessons that emerge from the experience of Benin in matters of land regulation. Thereafter we provide additional insights that can be gleaned from recent economic studies that use the methodology of randomised control trials (RCTs).

A SKETCHY OVERVIEW OF THE EVOLUTION OF LAND LEGISLATION IN BENIN There were three main stages in the reform process. The need to reform land tenure seems to have arisen from widespread land appropriation by state agents and state-connected elites under the revolutionary regime of Kérékou. The first stage was initiated in the early 1990s and was formalised in a law enacted in 2007. Based on a participatory process aimed at documenting and formalising customary rights at village level, it consists of two key steps. The process starts with a community-based land demarcation scheme called a *Plan Foncier Rural* (PFR, Rural Land Holding Plan), whereby a village committee identifies and demarcates all parcels situated on its territory, which includes the mapping of customary ownership in the form of a full land survey, and the laying of the cornerstones to explicitly secure parcel boundaries. Thereafter, customary land ownership is formally and legally documented in the form of transferable and collateralisable 'land certificates', which may be individual or collective. All the land transfers have to be registered at the level of so-called *Sections Villageoises de Gestion Foncière* (Village Sections of Land Management). An important feature is that community-based land demarcation is undertaken on demand: only those communities that feel the need for a survey of village lands and their certification are eligible. On the other hand, the law provides for the possibility that owners of uncultivated rural lands are forced to rent them out.

The second stage, which telescoped the preceding reform, was initiated in 2004–2005 under the impulse and with the support of the Millennium Challenge Corporation (MCC). Intended to end legal dualism, and to streamline and centralise the administration of land rights, the *Code Domanial et Foncier* (Land Code) was established in 2013. Responsibility for its implementation was vested in a newly created agency, the Agence Nationale du Domaine et du Foncier (ANDF), itself relying on fourteen regional offices. The central idea was to promote the titling of land parcels (in 2004, only 14,606 land certificates had been issued, for a population of 6,769,914) by transforming rural land certificates and urban residence permits (*permis d'habiter*) into full-fledged titles. This reform was pushed with especial vigour after the coming to power of President Talon in 2016, yet it was only in 2018 that the ANDF was able to start issuing new titles. The preparation of a national cadastre and the digitisation of all available spatial data demarcating land parcels are part of this ambitious project, which was an explicit part of the 2005 reform. Aware that the issuance of titles is a time-consuming process that is necessarily gradual, the law maker replaced all the existing land documents (residence permits, administrative certificates, rural land certificates) by a new single document, named *certificat de propriété foncière* in the 2013 law. For rural areas, however, a special document known as the *attestation de détention coutumière* (certificate of customary ownership) was allowed to replace the previous administrative certificate. Its status was intended to be temporary. As for sales conventions, they continued to coexist with officially sanctioned contracts.

A critical aspect of the 2013 reform, however, was that it provided for a transitory period of five years during which a claim to land ownership materialised in a title can be contested. Whereas before the party reckoned to have been hurt in the issuance of a title (which often follows a land transaction) could only receive an indemnity to compensate for his or her loss, he or she could now get the disputed land parcel back. Note, however, that the ownership confirmation requirement was not mandatory for rural lands as long as no land alienation was involved. When a sale took place, it should have been registered by a notary in an official act, instead of giving rise to a sale convention sanctioned at the level of the commune as was previously the case. The better protection that the law provided against fraudulent sales (double sale deals, sales by people with no legitimate rights to the land, etc.) that are frequent in certain areas – urban and peri-urban areas in particular – was nonetheless opposed by certain actors on the grounds that the five-year transition period imposed by the law maker creates a lot of confusion, ambiguity, and uncertainty. Among these actors, professionals (auctioneers, architects, notaries, barristers, surveyors, and bailiffs) played a prominent role and stressed that a major flaw of the law was that it did not take into account the actual administrative practices, including those run by the genuine land mafia operating at the level of local communities. An oft-mentioned problem was the possibility of customary rights holders waiting until the last moment to contest a sale. Eventually, the law was amended in 2017 and the contentious restriction was removed.

In the new law, any fraud or error can only entitle the aggrieved party to an indemnity paid from a special fund held by the state. The latter may then sue the party guilty of fraud. Another innovation is the provision that attestations of customary ownership should be delivered by municipalities – no longer by the regional offices of the ANDF. Also, as a way to fight land speculation, the new law keeps the 2013 law provision that any buyer of a rural land parcel exceeding two hectares must seek an official authorisation and obtain approval of an exploitation plan. The new law, moreover, keeps the provision of the 2007 law that allows for the possibility of forcing owners of uncultivated rural lands to sign a rental contract. Finally, the 2017 law requires that any land sale be automatically registered before a notary. This is consistent with the 2013 law, which allowed a five-year transitory period before a sale had to be officially recorded before a notary (in practice, this meant that sales conventions sanctioned by local mayors were still prevailing), implying that any land sale concluded from 2018 onwards would have to be the object of an official certification. This legal injunction of the 2017 law was obviously unenforceable, if only because it takes time to establish the decentralised offices in charge of the task and to deploy the required notary throughout the territory. The law maker had therefore to backtrack by extending the transitory period by another five years (so that the law provision will apply only from 2023).

WHAT LESSONS DO WE LEARN? From an institutional point of view, the sequence of reforms since the 2007 land law raises two types of issues. The first is the process itself; that is, the successive modifications that do not leave enough time for people to get used to a reform and for the administration to conduct rigorous evaluation. Second is the issue of the economic implications of the law itself as regards individual behaviour and the land allocation process.

As far as the first point is concerned, one pivotal lesson that can be drawn from the account of land reforms presented in Chapter 7 is that the reform process has been complex, volatile, and non-monotonous. Many changes have occurred, not only with respect to the provisions of the successive laws but also with respect to the institutions in charge of their implementation. Regarding the first source of instability, it seems that the relative bargaining power of various interest groups regularly shifts, with the consequence that the law remains largely unpredictable in two senses: (1) there is uncertainty about whether and to what extent the current law is going to be implemented; and (2) there is uncertainty about whether the current law will be replaced by a different law in the (near) future. In the case of some provisions, such as the authorisations required to buy rural land, the obligation to officially record rural land transactions, or the possibility of forcing the owner of uncultivated rural land to rent it out, it is rather evident that they cannot be seriously enforced (a reality that one of us could testify to on the basis of personal field investigations). In the case of others, however, genuine uncertainty is created by the instability of the legal framework regulating land tenure rights in Benin. To some extent, the issue here is the misalignment of the law with respect to state capacity: a complex law is enacted for which the state does not have the administrative resources required to effectively implement it.

Regarding the second source of instability, the fact is that many institutional choices appear to be the outcome of fierce struggles among rival administrative entities. This is particularly evident at the highest level of the state, where there has been constant wavering about whether to assign the responsibility for land regulation to the Ministry of Agriculture, the Ministry of Town Planning, or the Ministry of Finance. Another example is the strong resistance of rural municipalities against attempts to reduce their prerogatives in land matters. Their resistance paid off, since the right to deliver attestations of customary ownership, which belonged to the ANDF under the 2013 law, was shifted to municipalities under the 2017 law. Rural municipalities also successfully opposed the complete suppression of sale conventions, through the requirement that land transactions must be instantaneously registered by notaries. Finally, the professional bodies that earn incomes from land regulation, notaries, barristers, architects, and land surveyors in particular, played a decisive role in killing the provision of the 2013 law regarding the five-year confirmation period.

We are thus left with the strong impression that the legal and institutional framework for land regulation in Benin is driven by political economy considerations rather than by economic efficiency motives. The critical question is how far away the outcome of the reform process is from the first best outcome, assuming that the latter can be precisely defined. Philippe Lavigne Delville does not conceal that his preference is for the 2007 law over the 2013 law, and for the 2013 law over the 2017 law. This ranking naturally rests on his analysis that a great deal of flexibility, decentralisation, and respect for informal arrangements is desirable in land matters, especially in the context of rural areas. In the context of heterogeneous societies governed by a plurality of norms, the ambition of the state to regulate such a complex matter as land tenure rights in a top-down and uniform manner, without due consideration for the role of local agencies and semi-formalised mechanisms (such as land certificates and attestations of customary ownership defined within the framework of a proper surveying process), is doomed to end in disappointment and failure.

Given the lack of clear quantitative evidence, it is impossible to assess Lavigne Delville's claims thoroughly, although we believe that the main thrust of his argument is correct. It is thus worth stressing that the decentralisation of land registry services, as provided under the 2007 law and as experimented with through the innovative PFRs, supplied convenient and fast services for obtaining legal proof of land-holding rights and for carrying out land transactions. Moreover, the need for land documents is particularly strong in areas where population density is high and where migrants coexist with autochthonous farmers, and is weaker in lowly populated and homogeneous village communities. While land alienation to 'strangers' is quite likely in the former, the opposite is true for the latter. It is thus not coincidental that even in villages where a community-based land demarcation took place, the proportion of land certificates to the total number of parcels surveyed was typically low (as at March 2015, less than 20 per cent of demarcated land parcels were accompanied by land use certificates), except when migrants formed a significant portion of the local population. This suggests that local demand for land documents varies greatly depending upon the specific context of rural communities. It is therefore important that priority is clearly given to the officialisation of land rights in areas that most need it: urban and peri-urban areas, as well as densely populated rural areas, especially when they are inhabited by migrant and autochthonous groups living side by side.

Concerning the economic implications of the sequence of reforms leading to formal titling, the real question is whether land documents should take the most advanced form of land titles. The answer to that question requires the collection of systematic information about the relative advantage of titles over less formalised land certificates, and about the cost-effectiveness of titling in various contexts. Because to this date Benin has little experience with titling, the required data are non-existent. Even the institutional innovation of land certificates has not really taken root in Benin's countryside. That said, Benin has experience with community-based land demarcation and the issuance of land certificates by local agencies, and we are fortunate enough to have available a few rigorous economic studies of their impact along various dimensions, several of which are summarised in the discussion of Chapter 7 by Kenneth Houngbedji. It is important to take stock of their findings, keeping in mind that impact is assessed through the rigorous use of an RCT methodology.

COMPLEMENTARY INSIGHTS The first study, by Goldstein et al. (2018), is actually cited in Chapter 7 and discussed by Houngbedji. Yet, in view of the paucity of Benin-specific evidence in this area, it is useful to insist on a few additional points.

Owing to the slow pace of certificate issuance in villages where a community-based land demarcation took place, the authors could only estimate the impact of the demarcation operation on the investment behaviour of farming households. Nevertheless, this is an interesting exercise insofar as the process surrounding land demarcation – whereby each community works to resolve competing and overlapping claims to land rights, thus clarifying uncertainty over land claims – is a necessary prerequisite of the establishment of valid ownership rights. To begin with, the authors check whether land demarcation has had the effect of establishing clear borders, considered as a proxy for tenure security (the implantation of cornerstones endows the landholder with a visible marker of security from encroachment and expropriation). As expected, they find strong evidence of a higher share of parcels with clear borders in demarcated villages (considered as the treatment villages). Yet, it is noteworthy that, albeit strongly significant, the intention-to-treat effect of demarcation is far from complete: the programme increases the likelihood of having clear borders by less than 30 percentage points relative to parcels in non-demarcated villages (the control villages), where the mean is 6 per cent. Most likely, this result reflects the fact that the boundaries of land parcels were often clear even in the pre-intervention situation. Land conflicts are not primarily about land delimitation but about inheritance, intra-family disputes, and encroachments by neighbours in full knowledge of their trespassing behaviour. Demand for better land security therefore varies, even within demarcated communities, as a function of circumstances that do not (necessarily) depend upon the formalisation of boundaries.

The next step consists of looking at the effects of land demarcation activities on investment and productive behaviour. Here, the results are mixed: if there is a positive significant effect on investment, as measured by tree planting and the cultivation of perennial crops, there is no effect on agricultural output, farm yields, or input use. This absence of effects on outputs and inputs is attributed by the authors to the time lag that separates long-term crop investment and productivity gains. Finally, the authors find that female-managed land-holdings in demarcated villages are more likely to be left fallow, which they regard as an important soil fertility investment. Women, but not men, would thus respond to an exogenous tenure security improvement.

A follow-up survey was conducted in 2015, four years after the initial impact year (see Gender Innovation Lab, 2019). Households in the demarcated villages that benefited from a PFR continued to report significantly higher rates of perennial crop cultivation and, moreover, they increased their demand for hired labour to support their agricultural production. Despite the observed increases in investment, however, no average effects on output or farm yields were observed in 2015, casting doubt on the explanation adduced by the authors for a similar lack of effect in 2011. Also challenging is the finding that selection in the PFR villages widens the gender gap in agricultural yields. Yet, there is no significant gender difference in impact on self-reported land size, cultivation use, farm labour input intensity, or fertiliser/improved seed use in either 2011 or 2015.

Another impact study is more specifically focused on the situation of widows (Botea et al., 2019). It shows that improved tenure security following land demarcation acts as a defence against expropriation and enables widows to better retain their homes and land-holding several years after their husband's death. Moreover, their ability to stay on is no longer contingent on having male children. Finally, the land intervention led to a change in planned inheritance patterns, reducing gender gaps.

A last study deserves to be mentioned in brief (Wren-Lewis et al., 2020). It concludes that there is no evidence of anticipatory deforestation or negative spill-overs to other, non-demarcated areas. The delimitation of land parcels reduced farmers' incentives to extend agricultural activities through slash-and-burn activities.

It bears emphasis that all the effects discussed were obtained in the absence of titles, as a result of an innovative policy experiment that relies on a highly decentralised system of land registry services. This system, it seems, is able to provide sufficient legal proof of land-holding rights to significantly enhance tenure security. If we believe the aforementioned studies, however, community-based demarcation of land parcels is not a sufficient condition for either fast delivery of land use certificates to land-holders (progress on this level has been actually quite slow), or significant increases in farm yields and production.

Regarding the former effect, we need to better understand the extent to which demand or supply factors are behind the slow pace of certificate delivery. It is indeed possible that there is less demand than expected for the new proposed certificates, perhaps because a large number of households feel that they have enough tenure security in the prevailing conditions, or because they do not find that obtaining the certificate is cost-effective (although the nominal price of a certificate is low, €2–3). But in theory, supply bottlenecks at the level of the municipal administration can also be a constraining factor. What our field investigations in the pineapple-growing part of the country reveal is nevertheless that the demand-side explanation is probably the most relevant.

As for the effect on land yields, the studies by Goldstein et al. (2018; Gender Innovation Lab, 2019) attest that agricultural production increases are not exclusively or even mainly determined by the existence of complete private property rights (in the sense of land rights certified by a title). To recall, no increase in agricultural output and farm yields was detected several years after the tenure security intervention. There are good grounds to think that investment and production incentives are critically influenced by complementary factors, such as sufficiently high profitability of the crops cultivated, technical progress, the existence of good marketing outlets, effective input delivery channels, and the availability of credit (Platteau, 2000, ch. 4).[7]

5 Benin's Informal Trading with Nigeria

Cross-border trade with Nigeria, Benin's large and oil-rich neighbour, has developed into an important segment of Benin's economy. As developed in Chapter 8 by Stephen Golub and Amahdou Aly Mbaye, it has two facets: (1) Benin has a huge unofficial re-export activity to Nigeria; and (2) it fraudulently imports a sizeable share of key imports from Nigeria. A common characteristic of cross-border trade with Nigeria is its illegal nature. Goods re-exported to Nigeria face stiff tariffs there, or are banned from import. They are imported into Benin in a legal way. However, the destination of these goods that is declared at customs is that of neighbouring land-locked countries, for which import taxes and custom duties are low, or else the domestic market. Once customs have been cleared, the goods are diverted to Nigeria via a network of informal intermediaries who organise their transportation and smuggle them

[7] If these complementary conditions were well measured and distributed in the same way in the treatment and control communities, one should find that better tenure security stimulates production and yields conditional on the presence of these conditions.

over the border. Similarly, the large flow of goods imported by Benin from Nigeria, like petroleum products, which are heavily subsidised there, or other consumer, intermediate, or capital goods, are smuggled into the country, thus escaping tariff duties, and sold on the domestic market through informal channels similar to those operating in the re-export sector. It is the illegality of this trade that implies its informality. Because this illegal trade is carried out on a large scale, bribery and corruption are pervasive at each stage of the process.

Golub and Mbaye provide a thorough and detailed analysis of the nature, the extent, and the institutional and logistical organisation of this informal cross-border trade (ICBT), as well as an assessment of its implications for Benin's development strategy. They report that, at peak times of the trade, Benin's estimated gross value of imports of products typically destined to be re-exported to Nigeria has represented more than twenty-five times the gross value of Benin's official exports to Nigeria. Still more strikingly, the authors estimate the contribution of ICBT to Benin's GDP at about 20 per cent, including customs and other tax revenues (6 per cent of GDP). The largest part of this total contribution comes from the unofficial re-export activity (18 per cent of GDP). Direct data being unavailable, their calculations are based on a series of apparently reasonable assumptions. A tentative approach sketched out in Chapter 2 assesses the implications of this estimate for employment in the sectors most likely affected by ICBT. Based on respective productivity levels, it suggests that the 20 per cent estimate for the effect of ICBT on GDP stands at the upper level of a plausible range. Whatever the precise estimates, one cannot avoid the conclusion that ICBT is a major sector of activity and provider of informal jobs in Benin.

Nigeria's heavy protectionist import substitution policy for cars, rice, poultry, and textiles, as well as the low efficiency of its ports and the porosity of its land borders, have set the stage and provided the incentives for the deployment of a profitable network of unofficial re-export trade on the Beninese side of the border. Nigeria's subsidy policy for the price of fuel has had the same effect for the largest part of the import side of ICBT. In effect, it is Nigeria's oil rent that feeds ICBT: Benin's re-exports are driven by Nigerian demand, which is heavily dependent on oil revenues. On the other hand, Benin's cross-border imports are partly driven by the share of the oil rent that Nigeria decides to allocate to the subsidising of its domestic oil prices. Thus, Benin shares the oil rent with Nigeria, including through low gas prices.

The importance of ICBT is the result of a two-way game, played out between two unequal partners, Benin and Nigeria. Each country could stop ICBT by deciding to enforce strict border control: Nigeria on goods smuggled from Benin and Nigeria on goods smuggled from Nigeria. Yet, neither does so, either because controlling their lengthy border would be too costly or because decisive actors find that their interests are served in this ICBT equilibrium.

Given the unequal size of the two players, it can be said that Benin, the smaller player, has decided to adopt the follower strategy in this game. Starting soon after the first oil shock in the 1970s, it embarked on exploiting the opportunities offered by Nigeria's domestic policies. Benin has also developed its institutions in such a way that they can accommodate its 'entrepôt state' strategy. Re-export activities benefit from specific tax rates and customs procedures, from large public and private infrastructure, and from easy access to import financing. All of this would be consistent with a development project focused on the transformation of the country into a regional trading hub centred on the Cotonou port. However, the ultimate target of the strategy is Nigeria. And it is an open secret that goods imported into Benin in a fully official and legal way will be de facto diverted to Nigeria in fraudulent ways. Benin's strategy is thus clearly not only to tolerate, but also to encourage, this informal and fraudulent re-export trade. Things are different on the import side of the trade, however. There, a Dutch disease phenomenon is at work. Importing Nigerian gas and other products duty free may be detrimental to Benin's development, by crowding out some domestic activity. In his comments on the chapter, John Igué mentions formal gas distribution, cement factories, and breweries as sectors that have been partly driven out of business in Benin. It must be also mentioned that the tax loss on account of the informality of the trade based on imports from Nigeria and the ensuing loss suffered by outcompeted Beninese formal activities are to be subtracted from the revenue gain generated by the re-export activity.

In the aggregate, Benin is clearly a net gainer in this game, at least in the short and medium run. Buying goods and reselling them at a higher price leave a net profit even when taking into account the operational cost of handling those goods and smuggling them across the border. Because these operations are labour intensive, they benefit a large number of people and undoubtedly contribute to reducing poverty. At the same time, because they also require financial facilities, they benefit the business elite too. Owing to the essentially informal nature of that activity, however, it is difficult to guess how much is accruing to each side. In the longer run, the Dutch disease effects of illegal imports may have to be taken into account.

On the Nigerian side, ICBT benefits consumers, who get goods at lower prices, at the cost of less revenue for the government and a crowding-out of domestic production. Firms, on the other hand, may benefit from some extension of their market to Beninese customers. It is not clear that the net gain is positive, but illegal importers are probably able to convince the state to keep its eyes shut. Moreover, the respective size of the two economies is such that the impact of Benin's re-exports on Nigeria is probably very small.

An important drawback for Benin is the vulnerability ICBT creates to changes in the economic conditions of Nigeria, since a decrease in the oil rent and the accompanying depreciation of the currency directly reduce Nigerian demand for Benin's re-exports. Igué documents the impact that the current oil-based crisis in Nigeria has on Benin. The long-term sustainability of the strategy is also questionable. Nigeria could quickly reverse its distortionary

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protectionist policies or put an end to the highly profitable illegal cross-border trade through better control of its border. Such a scenario is, however, downplayed by Golub and Mbaye, on the grounds that earlier announcements by both Benin and Nigeria that they will combat smuggling have never had lasting effects on the trade. This suggests a low credibility of repressive policies. It also reflects a high reactiveness of the informal trade network, the strength of which derives from close ethnic and cultural ties between Beninese and Nigerian participants. In addition, powerful interest groups in Nigeria have strong incentives to maintain the status quo. This could nevertheless change in the more distant future if the longer-term inefficiencies of these import protection and price subsidy policies were finally recognised by Nigerian authorities and acted upon. In other words, the oil rent Benin extracts from Nigeria should be considered as a non-renewable resource. Hence, preparations for its ultimate exhaustion should be seriously considered.[8] Besides the likely crowding-out of domestic activities in tradeable sectors, ICBT may bias trade flows and deprive Benin of its comparative advantages at a regional level. More subtly, but as importantly, the informality implied by ICBT nurtures tax evasion in the rest of the economy, and undermines any reform designed to incite firms to become formal. Corruption can also be identified as a major cost: it is an indispensable attribute of ICBT and it involves civil servants and government officials, as well as big players with contacts at high political levels and who are active in other sectors of the economy. The ensuing erosion of norms and neglect of the rule of law have contagious effects across the whole economy, its institutions, its business climate, and its attractiveness to foreign investors.

For Golub and Mbaye, the way forward for Benin is to progressively move away from smuggling and towards formal trade. Benin could aim to become a competitive, efficient regional centre for legal trade and services to its hinterland countries, as well as to Nigeria. Once Benin has definitely opted to privilege formal trade above smuggling, political relationships with Nigeria might become more serene and new avenues of cooperation could then be explored. To achieve this transition, Benin needs to adopt an ambitious agenda to upgrade the quality of its port logistics and communication infrastructure, to significantly enhance accountability and transparency within customs and the civil service, and to improve its business climate. Such a move towards increased formality and a more attractive business environment has an important pre-condition: it requires from the legislative, executive, and judicial spheres a strong and sustained determination to fight corruption and to enforce full respect for Benin's institutions and the rule of law. These tasks currently present a huge challenge. Full control of the border with Nigeria is practically impossible and the main ICBT actors would have too much to lose for them not to exert heavy pressure on the executive to prevent the adoption of such a policy.

[8] It is worth stressing that at the time of writing this chapter, Nigeria has unexpectedly closed its main border with Benin.

Yet, the main obstacle to ending ICBT with Nigeria on the Beninese side lies in the fact that re-exports to Nigeria are a net and practically riskless gain, as long as the difference between tariffs in Nigeria and in Benin remains large enough. It has drawbacks in the sense that, being necessarily informal, it cannot be taxed and thus used by the state for development purposes. It also has some negative spill-over effects on the rest of the economy. Alternatives are riskier, however. They require investments with uncertain return and long gestation delays: a bad substitute for a quick, riskless gain.

C The Main Overall Institutional Weaknesses That Affect Benin's Development

Ex post, it is somewhat remarkable that the in-depth analysis of critical areas for the economic development of Benin fully confirms the rough institutional diagnostic derived from the synthetic indicators, and the results of the opinion survey discussed in Chapter 3 and summarised previously in this chapter. Overall, four general weaknesses appear throughout the preceding thematic studies that affect the efficiency of Benin's economy under different forms depending on the area being considered. They are corruption, weak public management, opacity of public decision-making and its results, and excessive informality. Of course, these weaknesses are not independent of each other, and more will be said in what follows on the deep factors behind them. Also, they take different forms depending on the area one is looking at.

Corruption really is ubiquitous, even though it does not always appear as such when diagnosing institutional failures. Corruption is evidently as much behind the domination that big business exerts over politicians and policy making as it is behind the inefficiency of public management, the lack of independence of magistrates or tax collectors, or the pervasiveness of informality. How corruption should be fought depends on which of those channels is being considered. A key point, however, is that they are strongly tied to each other. For instance, it might be difficult for the government to impose order on tax collection if, at the same time, a public procurement scandal breaks out that involves top public management.

To be sure, corruption per se does not necessarily hinder development. Several fast-developing countries are known to be very corrupt, for instance Bangladesh, China, Vietnam, and it was seen in Chapter 3 that Benin was found to be less corrupt than countries that grew much faster from the same base in several international databases on governance. The real question is whether a sustainable and vigorous growth engine is available or not. If it is, corruption is very much a way of appropriating a larger share of an increasing pie. It may slow down growth but it does not turn off the engine. If it is not, however, the same corrupt behaviour may make the economy inefficient and prevent growth opportunities from being seized. The analysis in this volume, as summarised in the preceding sections, unfortunately suggests that Benin better fits this scenario.

The weakness of public management appears in many different forms in the thematic studies presented here. The weak enforcement of the law, possibly due in some cases to the complexity or ambiguity of the law, appears very clearly in the case of land rights. The absent or ill-adapted regulation of key sectors is patent in the cotton sector, but also in the ICBT with Nigeria. If direct regulation of an informal and illegal activity is difficult, something is likely to be achieved, indirectly, through controlling import duties and taxes for re-export. State coordination – that is, the capacity of various government ministers or agencies to act together – is shown to be poor again in the administration of land issues. State capacity is notoriously low in the management of land issues and in tax collection. Given the importance of that particular state function, this suggests that the same may hold in other public departments. Finally, the very low quality of education and the deficient management of the power sector are signs that priorities in the delivery of public services are inadequate. All of these deficiencies of public management are strong and are likely to weigh heavily on the efficiency of the whole economy.

Opacity may be considered as one of the weaknesses of public management, or possibly a consequence of them. The unaccountability of the governing bodies entails the lack of evaluation of policies and hence prevents the correction of inefficiencies and accentuates the mistrust of the public with respect to government action. Be it land laws, the management structure of cotton, or the educational system, no rigorous evaluation is available that could suggest effective directions of reform.

Informality is the last main weakness stressed repeatedly in the preceding analyses. Benin is one of the countries in sub-Saharan Africa where informality is most widespread. It is the huge size of the illegal cross-border trade between Benin and Nigeria that generates that high level of informality. Even though this activity brings easy gains to Benin, it has negative spill-over effects on the rest of the economy. These spill-over effects disincentivise firms from formalising, they reduce tax revenues, and they encourage corruption. They also prevent Benin from seeking more sustainable and dynamic development alternatives.

We now turn to the factors that are ultimately responsible for these weaknesses. Together with the preceding list, this constitutes the core of our institutional diagnostic of Benin. Reform directions that might partly correct these weaknesses or neutralise some of their effects will be suggested afterwards.

III INSTITUTIONAL DIAGNOSTIC OF BENIN: A COMPACT VIEW

In light of the list of institutional weaknesses impeding Benin's long-term development outlined in Section II, we are now in a position to present a compact view of the institutional diagnostic of Benin. This is done in two steps. We first devise a synthetic ordering of the institutional factors impeding long-run development, where identified institutional weaknesses are traced back to proximate and ultimate (deep) causes, while in the other direction we unfold the economic consequences of these weaknesses (see Table 9.1). In the second step, we emphasise the critical role of political economy factors, around which we articulate many of the elements of the compact diagnostic. We are then ready to move on to Section IV of this chapter where we consider the most important policy implications of our institutional analysis; that is, we highlight what seem to be the best ways to help overcome or circumvent the institutional barriers to development in Benin.

A An Ordering of the Institutional Barriers and Their Economic Consequences

The main results of our comprehensive approach to Benin's institutional weaknesses are summarised in Table 9.1.

In our view, five deep factors ultimately help to account for the key institutional weaknesses detected in Benin: (1) a political system that is characterised by a neo-patrimonial logic and where there are multiple contenders; (2) a social landscape in which multiple ethnic groups have coexisted for a long time; (3) a geographical/neighbourhood landscape in which Benin appears as a small country that possesses a long border with a big neighbour (Nigeria); (4) a legacy of centralised management of key economic sectors (the cotton export sector, in particular) dating back to the French colonial period; and (5) the heavy presence of aid agencies that evinces a rather lenient attitude towards the dysfunctional aspects of the political system. Factor 1, the way the political system influences the institutional set-up of Benin, is complex and deserves a more detailed analysis, to which we will soon turn. Factor 2, which points to a legacy of multiple ethnic groups combined with a strong regional (north–south) divide, provides an important source of identity around which competing factions and divided loyalties are formed. Factor 3 determines the existence of considerable rent opportunities or profits from informal, illegal trade with Nigeria – opportunities that have actually been seized by entrepreneurs, Big Men in particular. Factor 4 is a legacy of centralised management of key economic sectors (the cotton export sector in particular) dating back to the French colonial period. Finally, factor 5 explains the low level of external disciplining pressures exerted on the country's public actors.

A series of proximate institutional problems generated by neo-patrimonialism and ethno-regional fragmentation can be regrouped around the syndrome of policy instability. They are manifested in frequent changes of law (e.g. land laws) and the unenforceability of some legal provisions (see, for example, the land law of 2017), as well as in frequent changes in the organisation of key economic sectors (the cotton sector in particular). The lack of long-term economic planning is also a consequence of a political system in which competition among Big Men who are uncertain about their future political standing is not governed by clear rules. Competition is especially fierce, and uncertainty

TABLE 9.1 *A synthetic ordering of the institutional factors impeding Benin's long-term development*

Deep factors	Proximate causes	Basic institutional weaknesses	Economic consequences
Political game (neo-patrimonialism, with multiple oligarchs)	Policy instability (1): frequent changes in law	Widespread corruption (e.g. business and politics, lack of independence of tax collectors and magistrates)	Low quality of education
Multiple ethnic groups and regional divide	Policy instability (2): frequent changes in the organisation of key economic sectors (e.g. cotton sector)	Weak enforcement (and complexity) of laws	Weak sustainability of the growth pattern
Geography (small country with a big resource-rich overly protectionist neighbour)	Lack of long-term development planning	Weak regulation (domination by big business of key sectors)	Low productivity growth
Colonial legacy of top-down management of key economic sectors (cotton, in particular)	Elite capture of key state functions	Lack of state coordination (e.g. fierce competition between ministries)	Low diversification
Role of donors	Weakness of state, reflected in its inability to exert control over all its administrations, and in the insufficient amount of resources (skills, equipment, etc.) for efficient management of the public sector	Low state capacity (e.g. understaffing of key administrations, low quality of education)	Low level and pace of industrialisation

(continued)

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TABLE 9.1 *(continued)*

Deep factors	Proximate causes	Basic institutional weaknesses	Economic consequences
	Existence of rent opportunities in illegal trade with big neighbour	Low prioritising of critical public goods (e.g. education or power generation)	Poor investment climate
	Lack of genuine competition in the cotton sector	Opacity of policy-making and economic management; unaccountability of public agencies in key sectors	Lopsided spatial development
		Pervasive informal practices, magnified by illegal cross-border trade	Increasing inequality and slow reduction of poverty
			Chronic aid dependence
			Lack of citizens' trust in key institutions
			Vulnerability to external shocks

especially great, because of the division of Beninese society into multiple ethno-regional groupings. Beside policy instability, there is the problem that key state functions are captured by the dominating faction(s), resulting in a weak state that is unable to exert control over all its administrations, a difficulty that is compounded by a lack of administrative resources (skills, staff, and equipment). This situation of low effectiveness in the management of the public sector and unfair distribution of the country's rents is not adequately mitigated by the pressures emanating from external donor agencies or international (African) institutions. It is not mitigated either by pressures for opening up key economic sectors (the cotton sector in particular) to competition, owing to a long tradition of public monopoly that is easily transformed into private monopoly. As for geography, the presence of Nigeria at the border of Benin gives rise to considerable opportunities for rent that can be earned through illegal trade.

The basic institutional weaknesses that the proximate factors have created are essentially those mentioned in Section II, A.3 and C. Frequent changes of law and the unenforceability of some legal provisions make for weak implementation of the law, while frequent changes in the organisation of key economic sectors make for weak regulation of big business. Elite capture of key functions of the state gives rise to opaque policy-making and economic management, as well as to the unaccountability of the agencies in charge of key economic sectors. It also gives free rein to widespread corruption and, in particular, makes tax collectors and magistrates susceptible to political pressures. In addition, the weakness of the Beninese state causes low state coordination, as reflected in its inability to discipline the sometimes fierce competition that opposes certain ministries (think of the Ministry of Finance and the Ministry of Agriculture in matters related to the formalisation or semi-formalisation of land rights). The same weakness also means a low state capacity, such as is manifested in the understaffing of key administrations (the tax collection department in particular). It is moreover evident that the lack of long-term planning and development perspectives that give sufficient weight to sustainability considerations implies that sectors such as education and power generation do not receive the priority they deserve. Finally, pervasive informal practices, magnified by illegal cross-border trade, directly result from the existence of vast rent opportunities in illegal trade with Nigeria, the big neighbour.

The last column of Table 9.1 depicts the main economic consequences of these institutional failures. The growth pattern, centred on a product (cotton) the future prospects of which are uncertain and on a cross-border trade that narrowly depends on Nigerian policies, is not sustainable in the long run. In addition, the slow productivity growth and the slow pace of industrialisation, combined with pervasive inefficiencies in the running of the state, make Benin chronically dependent on foreign resources. At the same time, a bad investment climate results from poor governance, widespread corruption, and confusing and loosely enforced laws and regulations. Since foreign direct investment is therefore deterred, foreign aid is the buoy that keeps the country's finance afloat. All these effects, as well as other effects that include lopsided spatial development, increasing inequality, slow reduction of poverty, and lack of citizens' trust in key institutions, can be traced back to Benin's political economy. We now elaborate on this point in some detail.

B The Key Role of Political Economy Factors

The neo-patrimonial system at work in the country has numerous effects that bear upon almost all of the institutional weaknesses detected in our diagnostic. It is true that some weaknesses cannot be uniquely explained by the prevailing political economy of Benin, as attested by the aforementioned roles of geography, ethno-regional fragmentation, and donors' behaviour. Yet, a central lesson from our whole analysis is the following: it is impossible to reach a correct understanding of the institutional barriers to Benin's long-term development without bringing political economic factors to the foreground and placing them at the heart of the diagnostic.

Behind the façade of an apparently well-functioning democracy, Benin has a fundamentally unstable policy-making machine, which goes a long way towards explaining why its government announces and enacts many reforms while being unable to carry them out. Let us look at the underlying political system more carefully. The post-independence period was chaotic, characterised by successive coups and counter-coups. These abrupt shifts of power were the outcome of an all-out war between strong personalities representing different regions and ethnic groups. Then came the authoritarian Marxist regime of Mathieu Kérékou, a man from the northern region. He was obviously incapable of bringing order and political stability in spite of the relative long duration of his rule. This is attested by the numerous attempts to overthrow him that punctuated his regime, including attempts from the same quarter of the army from which he emanated. In spite of the official ideology of socialism, Kérékou's regime was deeply corrupt and anchored in factional clientelism. It was marred by numerous scandals that reflected the lust for private wealth accumulation among his inner circle. After its demise came the Renouveau Démocratique and its promise of a more transparent and competitive political game that would put an end to kleptocratic practices and blatant favouritism. Unfortunately, these hopes were soon shattered as the old game continued to be played by new actors. In essence, the political system remained patrimonial, in the sense that wealth and power were narrowly intertwined. At this stage, it is useful to remember the definition of (neo-)patrimonialism proposed by Michael Bratton and Nicolas van de Walle (1997):

> In neo-patrimonial regimes, the chief executive maintains authority through personal patronage, rather than through ideology or law. As with classical patrimonialism, the right to rule is ascribed to a person rather than to an office. In contemporary neo-patrimonialism, relationships of loyalty and dependence pervade a formal political and administrative system and leaders occupy bureaucratic offices less to perform public service than to acquire personal wealth and status. The distinction between private and public interests is purposely blurred. The essence of neo-patrimonialism is the award by public officials of personal favors, both within the state (notably public sector jobs) and in society (for instance, licenses, contracts and projects). In return for material reward, clients mobilise political support and refer all decisions upward as a mark of deference to patrons. (Bratton and van de Walle, 1997, p. 458)

Célestin Monga (1997, p. 56) has rightly pointed out that this form of patrimonialism has evolved in sub-Saharan Africa: 'Even the most extreme forms of African patrimonialism have undergone revision. Far from being a system of mere privilege trafficking and influence peddling, patrimonialism is attuned to the social exigencies of the times and seeks to craft a type of power that is less direct and primitive, more equilibrated, and in a certain sense, interactive'. The fact remains that the basic feature of the system, namely the lack of separation between political power and private wealth accumulation, is enduring.

These excerpts deal with the functioning of the (neo-)patrimonial rule once it is in place. But we also need to understand how power is accessed. In the absence of a well-enforced rule governing electoral campaigning, or in the absence of a strong man who dictates the rules to make sure he is 'elected', competition for state power is rather wild. Adopting a Coasian framework in which bargaining with compensatory transfers is feasible among the contenders yields the following conclusion: a stable agreement may be reached between two contenders provided that a certain number of critical conditions are satisfied. Among these are the absence of negotiation costs, the credibility of promises or threats, and perfect information about the net gains associated with the exercise of power. It is evident that in many circumstances at least some of these conditions are violated. Lack of trust between the Big Men jeopardises their ability to strike a sustainable agreement, while (too much) divergence regarding the benefit of holding power prevents them from conceiving of a mutually agreeable way of sharing the spoils of power. For instance, the Big Man who would hold central power finds the compensation required by his rival excessive given his own assessment of the cost of remaining out of power. As a result, agreements are difficult to reach or, if they are reached, they are difficult to maintain. To illustrate the latter situation, consider the case where two Big Men have enough mutual trust and sufficiently converging information to make a deal. After the deal is made, new elements of information come out that lead one of the parties to revise his evaluation of the worthiness of the deal from his own standpoint, or to call into question the trust he has placed in the rival contender. The deal may then swiftly collapse.

When there are more than two contenders, the situation is worse in the sense that, even assuming that trust is well established and information about the benefits of an agreement is common to everybody, a stable agreement may be impossible to conclude (see Chapter 1).[9] Theory shows that an endless series of such coalitions and counter-coalitions may unfold, thereby creating a situation of continuous instability (Shapley and Shubick, 1969). If we define a Big Man or an oligarch as a faction leader deeply involved in business while being tightly connected to the high spheres of politics, whether or not business involvement preceded or followed engagement in politics, the description of a political game with more than two players is a good fit for the political stage of Benin. We should therefore not be surprised that policy instability has

[9] Thus, in the case of a political contest between three Big Men, A, B, and C, a triangular game is involved and a coalition between two of them (say, A and B) may soon be defeated by a counter-coalition initiated by the excluded contender (C proposes to B an agreement that is more profitable for B than his previous agreement with A). Yet, A will not remain passive and may bargain with C in order to exclude the 'traitor' B.

characterised the country for most of its post-independence period, as epitomised by the dance between the private and the public status of the firms or agencies in charge of the cotton sector since 2000.

There is another feature of Benin that needs to be emphasised at this point. Although it does not possess abundant natural (mineral and non-mineral) resources that typically give rise to the well-known resource curse problem, two sectors of its economy are potential sources of huge rents and practically make Benin akin to a resource-rich country: the cotton sector, which represents a sizeable part of the economy and where vast rents can be reaped in a monopoly situation; and illegal trading with Nigeria, where high profits can be made by big operators, especially those in control of the customs system. In a world where state power confers considerable economic privileges on its holder and his clique, the existence of these huge potential rents makes it immensely attractive, thereby justifying fierce struggles for its conquest. Behind the screen of formally democratic institutions, the oligarchs make key decisions in, and act as if they were the effective owners of parastatals and private entities formally independent from them. This is especially patent in the case of the privatised cotton sector, but it also holds true for the large unofficial sector organised around cross-border trade, and for external trade organisations (customs, regulatory bodies for the issuing of import licences, etc.).

Benin's neo-patrimonial political system with multiple oligarchs (Big Men) produces a number of important adverse effects, static and dynamic, that reduce economic efficiency. They are detailed in the following. Overall, they suggest a picture of a country that has been weakly governed, structurally stagnant, ill adapted to the challenges of long-term development, aid dependent, and vulnerable to external shocks.

1 Lack of Attention to General Public Goods

A first negative consequence of the political system at work in Benin is directly associated with widespread clientelistic practices. Particularised privileges and the prioritising of public goods targeted at specific groups mean that general public goods, such as education, nationwide communication, and power infrastructure, as well as key administrative departments, have not received the attention that they deserve. It is true that efforts have recently been made to fill some of these gaps, yet they still do not reflect sufficient awareness of the critical role these factors play in sustained growth and development. Thus, while the construction of roads is essentially financed by external aid, the expansion of education has largely been conceived in quantitative terms, implying that its quality has probably even deteriorated. This is worrisome because, since it is deprived of mineral and non-mineral resources, Benin's long-term growth path will have to rest on the emergence and rapid development of sectors that create substantial added value, whether in the processing of agricultural goods, in the production of manufactured goods, or in services. On the other hand, the understaffing of the tax collection administration has not been remedied and, combined with the low efficiency of its mode of operation, this probably explains the disappointing performance of Benin in matters of tax collection. The same holds true of the administration of justice: judicial and legal officers are in very short supply and, by causing stresses and delays in the system, this shortage contributes to increasing the mistrust of the population.

2 Allocative Inefficiencies

A second negative upshot of Benin's political economy system lies in significant distortions in the allocation of resources. This is especially evident in the case of the two sectors that dominate the national economy: the cotton sector and illegal trading with Nigeria. In the former, distortions are the result of a deliberate suppression of competition, and the gradual takeover of the whole sector by a single private actor controlling the various stages of the value chain, from input supply to marketing through processing (ginneries). Unregulated private monopolies are rarely economically efficient, and, in any case, they have unfair distributional consequences.[10] This evolution has taken place through various successive transformations of the sector's organisational structure during the last twenty-five years. Such transformations were chaotic and largely reflected a cut-throat struggle for the control of this vital sector, rather than a continuous search and experimentation aimed at greater efficiency. So far, the outcome has proven disastrous for the country. Organisational instability over those years made production lag behind competitors and growth be under potential.

Regarding the second key sector of the Beninese economy, the ICBT with Nigeria, there are potential distortions arising from both the illegal import side and the re-export side of this trade. For the former, illegal imports thrive on artificial price differences – in fact, the equivalent of the WAEMU import duty rates to which Benin is committed and which are foregone. There is also the possibility of a crowding-out of private and public resources that could have been put to better use in the agricultural value chain or the manufacturing sector. As far as re-export activities are concerned, the price difference consists of the difference between prevailing duty rates in Nigeria and Benin (the WAEMU common tariff). The numerous advantages enjoyed by re-export activities (specific tax rates and customs procedures, large public and private infrastructures, and easy access to import financing) are likely to create further distortions, with the consequence that trade flows are biased away from the pattern that would result from the official protection regime. The same advantages granted to, or invested in, other activities could have produced a more sustainable and possibly faster regime of growth.

All this being said, there cannot be any doubt that, in the aggregate, Benin benefits from the ICBT: it buys from abroad at 100 and resells at 120! But

[10] It is not certain that the public monopoly system that prevailed before was more efficient if managed so as to provide rents to the political elite.

three issues arise: (1) this is not sustainable, as Nigeria at any moment may align its tariffs with those of the WAEMU; (2) even though it may lift numerous workers out of poverty, the gain may be badly distributed, accruing mostly to a few tycoons; and (3) illegal trade and informality spill over to other sectors. In fact, Benin is exactly in the situation of the resource-rich countries exporting minerals, except for the fact that the rent generated by this activity is essentially informal, this also being true of the jobs that it creates. The alternative development strategy is uncertain, however, and it would be difficult to do without this rent. The main issue here is that, as in resource-rich countries, the rent should be used to prepare for the future, which is not the case.

3 Lopsided Spatial Development

If faction leaders were only Big Men benevolently representing the interests of their region or ethnic group, the balanced rotation of high political positions (presidency, members of the executive and the parliament) between various regions and ethnicities in Benin could create a situation in which inter-regional inequalities are moderated. As seen earlier, however, political factions tend to be articulated around the business interests of their leaders and their clique. Since business opportunities are concentrated in essentially two regions that benefit from the presence of two growth poles, in the form of the two biggest commercial cities of the country (Cotonou and Porto Nuovo), it is not surprising that economic growth, inequality, and poverty reduction tend to primarily occur in a few privileged regions. The other regions – remote regions in particular – are bypassed or do not receive the special efforts that they require. In particular, they suffer from an acute shortage of teachers and medical personnel while richer areas have a surplus of them. The result is lopsided spatial development, economic inequality, and concentration of poverty in the neglected areas of the country. Alternative strategies might yield more balanced development.

4 Vulnerability to External Shocks

A fourth negative effect of the country's political system is vulnerability to external shocks, and the consequent unpredictability of the environment on which the sustainable growth of its key sectors depends. For the cotton sector, unpredictability takes the form of both natural hazards at a time of rapid climatic change, and the quick development of substitute products (synthetic fibres). More generally, the economy remains heavily dependent on the export of a few raw agricultural products (among which cotton stands foremost), which are highly vulnerable to swings in international commodity prices. As far as cross-border trade with Nigeria is concerned, it is obviously at the mercy of the giant neighbour's policies, since it is its oil rent and the way its government decides to use it that determine the scope of the gains achievable by Benin. While Benin's re-exports respond to Nigerian demand, which is heavily dependent on oil revenues, cross-border imports are driven by the share of the oil rent that Nigeria decides to allocate to the subsidising of its domestic oil prices and the protection it wants to provide to its manufacturing industry. Alternatively, given the peg of Benin's currency – the CFA Franc – to the Euro, re-exports also depend on the fluctuations of Nigeria's own currency – the Naira – with respect to the Euro or hard currencies in general.

5 Vulnerability to Political Changes and Lack of Structural Transformation

To these strictly external sources of unpredictability, one must add a source that is only partly external to economic agents: namely, political instability in a context where rulers tend to follow a winner-takes-all approach. The intense struggle for state power and the attached economic privileges implies that long-term development strategies are hard to devise and enforce. Those who suffer are not only ordinary economic agents who need the support of such strategies, but also the big business leaders who fear the consequences of abrupt changes of personnel at the highest levels of state power. In the case of the Big Men themselves, this uncertainty typically encourages the adoption of short-term behaviour that involves the quick accumulation of wealth at the expense of long-term profitability. Lack of structural transformation of the Beninese economy, which is the expected consequence of this short-sightedness, is acutely reflected in the following: the significant decrease in the share of agriculture in domestic value-added has not been associated with a corresponding increase in the share of tradeable manufactured goods, but with a rapid increase in the share of non-tradeable services, which often act as a last-resort employer. Note that smuggling in and out of Nigeria is a 'tradeable service', but the snag is that it may be unsustainable and it generates negative externalities.

6 Poor Business Environment and Perverse 'Morale Effects'

We must also consider all the adverse consequences of a general climate of weak governance involving huge elite capture and corruption. The first aspect is the poor business environment it creates, with all the attendant implications for investment incentives. In particular, weak governance and corruption deter foreign investment,[11] thus causing a lack of capital and low productivity growth. Combined with stagnant yields in agriculture, low productivity growth in the manufacturing and tertiary sectors makes for slow progress in per capita income. A second aspect is the 'morale effect': when rent capture is blatant and corruption is widespread and involves civil servants and government officials, the citizens of the country have low trust in their elites and in national institutions. The citizens then try to escape the grip of the elites and, if this is impossible, they nurture a feeling of anger and powerlessness that may

[11] Over the 2009–2017 period, i.e. after the global financial crisis, Benin ranked in the bottom third of sub-Saharan countries in terms of the foreign direct investment (FDI)/GDP ratio, behind countries like Togo, Mali, Ghana, or Rwanda, but close to Burkina Faso or Senegal.

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one day be vented in open and violent demonstrations. Lack of trust is especially evident in the case of judicial and tax collection institutions. Regarding the former, courts are the place where executive authorities and their cronies intervene to distort settlements in their own favour, using corrupt magistrates to obtain the verdict they want. As for the latter, they are a privileged source of discriminatory treatment and undue privileges that directly translate into economic inequality: rich people are easily exempted from paying the taxes rightfully due, whereas ordinary people like farmers and small traders are illegally taxed by unscrupulous officials whenever the opportunity arises (like when they transport goods to the market). These illegal taxes are imposed in spite of the fact that special notices displayed at local police offices explicitly forbid them. Finally, a third aspect is the fragmentation of loyalties and ethno-regional divisiveness that elite capture and corruption encourage when they obviously promote particular, faction-based interests.

Note that in the illegal cross-border trade with Nigeria, bribing and corruption are pervasive at each stage of the process, and this is especially noxious because the trade is carried out on a large scale. Moreover, this sector of activity encourages a tax evasion habit, which is the direct result of its outright illegality, and its actors are therefore inclined to resist and undermine any attempt to formalise their operations.

7 Chronic Aid Dependence

Turning now to the seventh effect, the approach to statehood in Benin means that two options are precluded: (1) state capitalism or socialism whereby state resources are mobilised in a big way to meet the challenges of modernisation and development; and (2) a (competitive) market-based strategy involving the taming of the state so that the dynamism inherent in private entrepreneurship and risk-taking can be unleashed. When none of these options is available and elite capture of state power dominates, a third option becomes very attractive because it helps absorb and conceal the effects of the ensuing inefficiencies: dependence on foreign aid. Benin has no doubt entered into such dependence, on external financial flows and official development assistance in particular. A disturbing sign of excessive external dependence is the growth of external debt as a percentage of GDP after the major debt write-off that took place in the early 2000s. Unfortunately, the prospects of the Beninese economy as already highlighted do not hold out the promise of a foreseeable change in this situation. Strong dependence on external financing seems to be accepted as an unavoidable consequence of maintaining the prevailing political system.

Relying systematically and massively on foreign support may be costly because the consequent loss of independence and autonomy may mean that the donor's priorities take precedence over the national ones. A vivid illustration of this possibility is provided by the three successive Structural Adjustment Programmes (SAPs) implemented between 1989 and 1999. Sponsored by the

International Monetary Fund and the World Bank, these programmes pursued valuable objectives, yet at the cost of severe austerity measures, some of which have had adverse effects on long-term economic development. In particular, the education and health sectors were hit by the fiscal restraint of adjustment, and the need for training and upgrading of the staff of government departments was largely ignored by the three SAPs. Especially hurtful was the total discontinuation of teacher training schools, which caused a severe shortage of teachers in many parts of the country, particularly in the poor north where outsized classes and substitution of poorly trained teachers for the missing qualified personnel entailed a substantial fall in the quality of basic education.

8 Confusing and Changing Laws and Policies

When state power is unstable, in the sense that the current holders of high offices in the executive, legislative, judiciary, and administrative spheres are uncertain about the duration of their mandate, they tend to be vulnerable to the pressures of various groups on whose cooperation they rely. This creates fertile ground for policies and laws that betray a clientelistic approach to the resolution of national problems. However, in the presence of supporting groups that are in conflict on a particular issue, a tempting strategy for the political elite consists of trying to please all or most of them at the same time. This has the frequent effect of producing policies and laws that are inconsistent and so complex as to create confusion, unintelligibility, and unenforceability. Moreover, a direct effect of changes of personnel at the highest levels of the state system is that policies and laws are often rescinded or amended over successive periods of time, with the same consequence of creating confusion and unpredictability. Land laws offer a striking illustration of this predicament. To add further complexity, and as seen earlier, they are also the outcomes of fierce struggles among rival administrative entities that are eager to appropriate to themselves the various gains and advantages of managing land issues.

IV POLICY IMPLICATIONS

We now present a number of policy implications that follow from our institutional diagnostic. In so doing we draw attention to potential ways of overcoming or circumventing the prevailing institutional barriers to long-term development. The points are grouped around two major themes: overcoming Benin's political ills, and overcoming its economic ills.

A Overcoming the Political and Governance Ills: Internal Regulation and External Pressures

Since our diagnostic has highlighted the key role of political economy factors, it is logical to think of means of countering their noxious influence. Several mechanisms come to mind. One obvious mechanism consists of regulations regarding the financing of electoral campaigns. These include the effective capping of the amount allowed for the purpose, and obligations of transparency with respect to not only the amount of the donations received but also their sources. The problem with such rules is that in weakly governed countries, they tend to be ignored whenever they are enacted. This is illustrated by Benin, where they do indeed exist but are not strictly enforced. The same restriction probably applies to all rules prescribing rigorous impact evaluations of public-sector actions in order to achieve greater accountability of major actors at the state level. And it also applies to many laws, decrees, and regulations that ban day-to-day malpractices, such as the taking of bribes or petty corruption and money extortion by local officials.

The conditionality mechanism that external aid providers can put into place offers still another (theoretical) solution to political dysfunction. Here, what bears noticing is that this mechanism has not been effectively used in the case of Benin, in spite of all the scandals revealed by the press attesting to large-scale corruption, frequent fund embezzlements, and widespread cronyism. To our knowledge, there are only a few exceptions to this rule, namely the (temporary) suspension of aid delivery by the Dutch government following clear evidence of embezzlement in a water infrastructure project, and the (temporary) suspension of the Millennium Challenge Account II funding on the grounds that the Doing Business indicator for Benin fell below a pre-determined threshold.

The question therefore arises of why big international organisations such as the World Bank and the International Monetary Fund have so far abstained from sanctioning state-level malpractices. A plausible explanation lies in the appearance of democracy that the country presents, which seems to receive a disproportionately positive weighting in the evaluation of the country's performances by the international donor community. This may itself be due to two different causes: either the governance indicators are excessively based on measures of formal aspects of institutions, thereby overlooking their real functioning; or the donors are well aware of this functioning, yet deliberately decide not to pay too much attention to it. Evidence in support of the first interpretation is the fact that the Country Policy and Institutional Assessment (CPIA) World Bank measure on the control of corruption works out at 3.5 for Benin, slightly above the mean among low-income countries. It is hard to believe that Benin can enjoy such a good relative ranking in light of the numerous scandals that have taken place in recent decades. As for the second interpretation, donors who decide to ignore disturbing evidence of bad governance may be driven by considerations of political expediency, including geo-political considerations. Or they may consider that if they sanctioned a country like Benin, by refusing to release budgeted aid tranches, they would have to mete out the same treatment to many other poor countries, in sub-Saharan Africa in particular, and their mission would thus be seriously jeopardised. This can be linked to a general budget pressure problem, understood as the need to spend money allocated to aid, regardless of the effects generated. This interpretation is supported by the exceptional character of permanent aid disruption: the main impression we are left with is that threats of aid cancellation in the event of serious malpractices are not generally credible – warnings may be issued, sanctions may (rarely) be imposed, but, ultimately, the objective of both the donor and the beneficiary is to restore the aid relation, through superficial or perfunctory accommodating measures if necessary.

If overemphasis on the formal aspects of institutions in the indicators of governance used is the most important problem, then a rethink of these indicators is the logical conclusion of this discussion. If this is not the only problem, a key implication is that donors must avoid giving aid for budget support[12] and concentrate on project and programme aid. This does not relieve them of the need to carefully monitor the actual use of the aid and to act upon the conclusion reached in any monitoring exercise. At the same time, it remains essential that donors are guarded against the danger of imposing their own development agenda on a weakly governed country that is prompted to accept any aid proposed, whatever its compatibility with the priorities, needs, and constraints as perceived by local actors. This is particularly evident in the case of programmes aimed at formalising land rights.

B Overcoming the Economic Ills: Towards Greater Economic Diversification and Upgrading

To get out of underdevelopment and to increase average income per head, the Beninese economy must be drastically transformed. This implies a sectoral transformation of its structure and determined efforts to improve labour productivity in key sectors.

Regarding the first dimension, a realistic strategy consists of promoting agro-processing industries outside the cotton sector. This involves (1) the identification of agricultural products for which the country's natural conditions are appropriate and which can generate enough added value; and (2) the integration of their producers and intermediaries into a value chain that includes input and credit supply; collection of the produce; and its transportation, storage, processing, packaging, and marketing up to the final consumer points in rich countries if needed. In a country like Benin, where there are many experienced traders and intermediaries (including those of Indian or Pakistani origin who crisscross the country), this is best done through a great deal of market activation or facilitation. On the part of the state, the main tasks required are the construction and maintenance of rural feeder roads that can be branched off into the main grid, and the effective suppression of all the money-extorting posts placed on the routes used by producers and traders.

[12] Budget support aid is actually provided by the European Union and by a few programs of the World Bank (macro-economic reform or the PRSG, Poverty Reduction Support Grant).

Valuable efforts have actually started to be made in this direction. Thus, for example, schemes for the production and export of pineapples and pineapple products (like juice) have recently been launched under the impulse of the present government and with the financial and logistical support of several aid agencies and development cooperation programmes (French, Belgian, Canadian, etc.). The organisation of the value chain up to a European supermarket company (Carrefour in France), the high quality of the product, and the quick supply response from the farmers in the Allada region are important advantages for the success of this initiative. To the extent that fertiliser use is almost non-existent in the cultivation of pineapples in Benin, a promising niche is the market for biologically produced, fresh pineapples. Yet, success will be eventually achieved only if a number of serious problems are resolved. First, pineapples grown in Benin have a shape and a colour to which European consumers are not accustomed. Second, they are more difficult to transport and conserve than pineapples from competing countries (Costa Rica, for example). Third, cultivation of pineapples is concentrated in one of the richest parts of the country, not far from the two main commercial cities in the south. This is not without creating a problem of its own, since many young people are tempted to move to these cities, thereby creating tensions on the local labour market.

Fourth, there arise the typical problems of many outgrower schemes (also observed for cashew nuts): when several traders compete among themselves for access to the producers, and when they provide the latter with inputs and credit, there is a high risk that contracts will be violated by opportunistic producers. In most cases, this moral hazard problem takes the following form: a producer receives inputs on credit from a trader-cum-lender against the promise to deliver his or her harvest to him or her at a pre-determined price; if the former is approached by a competing trader who offers him or her a higher price, the temptation is great to ignore the original contract and accept the new deal. This clearly points to a market failure that needs to be carefully monitored. The alternative is to have a buyer, whether public or private, who enjoys a monopsonistic position, such as is observed in the cotton sector. The problem then lies in the fact that the buyer is likely to be tempted to abuse his or her privileged position. This risk is to be weighed against the benefits of an organisation that can contractually provide the producers of the raw produce with credit and modern inputs in addition to a guaranteed sale outlet. In the case of cotton, thanks to long experience accumulated since the pre-independence times, these benefits are substantial. Assuming that the present organisation of the cotton sector proves satisfactory in the years to come, the question is thus whether its organisational set-up should be replicated in other parts of the agricultural sector, or at least inspire efforts to improve their organisational efficiency.

Note that the first two problems mentioned do not arise when pineapples are processed into juice or jam. Here, expansion is mostly constrained by foreign competition, especially in the European markets where Chinese and Thai exporters presently have a price advantage. Beninese firms must therefore look for closer foreign markets, such as Burkina Faso and Nigeria, until they improve their competitiveness (through the development of by-products, for example).

The choice of pineapples is not coincidental. Not only has the government put a priority on their development, but they also illustrate the sort of difficulties that need to be surmounted before a new value chain can be solidly established in the present state of world-level competition. Detection of profitable opportunities, organisation of effective linkages with distant markets, and research and development destined to improve the quality of the product and uncover promising by-products are complex tasks that require appropriate skills, learning by doing, exposure of the management staff to foreign experiences, and a well-functioning infrastructure (adequate harbour facilities, uncorrupted customs, good roads, reliable internet and mobile phone services, and a regular supply of electricity) in which the government has a key role to play.

As we have pointed out, pineapple expansion is confined to the southern part of the country. A big challenge is how to encourage the same type of initiative in the northern part, lest the north–south income gap should widen and interregional tensions increase. Admittedly, some initiatives have taken place in the north as well, for example around rice production in the region of Natitingou. But these efforts need to be extended and pursued with the same determination as in the south, especially so because two south–north highways will soon be available. Moreover, one central lesson from the analysis of land reforms is that the issuing of land certificates is not sufficient to ensure significant production increases in agriculture: the profitability of land investments must be demonstrated, and this precisely necessitates that new crops with higher added value and new production techniques are disseminated throughout the countryside.

Increasing labour productivity in industrial ventures is another pressing challenge for Benin. This requires not only that more efficient production techniques and capital equipment are used, but also that better management systems are put in place. The most effective way to attain this objective is to mobilise FDI, but that requires, in turn, that governance conditions are improved in the country so as to reassure potential investors. This takes us back to the first aspect of our policy implications.

It must also be stressed that the development of these new activities may compete with old activities, in particular the two major ones, cotton and ICBT. Land is apparently still available in the north of the country and transport infrastructure may encourage investment in new agricultural production there, provided appropriate feeder roads are available. As for other inputs, trade-offs do exist and decisions must be taken, something particularly difficult in the presence of a huge informal sector like ICBT. Regulating it may thus prove a necessary condition for the unavoidable diversification of the Beninese economy. Membership of the WAEMU may be another constraint, since the fixity of the exchange rate with hard currencies may in some cases weaken foreign competitiveness.

Finally, productivity gains also require major progress to be achieved in education. If significant efforts have been made to increase enrolment, much remains to be done to improve educational quality in order to reach decent standards, even at the primary school level. In the absence of significant improvements in educational quality, it is difficult to see how Benin could gradually move to an economy intensive in skilled labour, as befits a country that is deprived of mineral and non-mineral resources. Furthermore, technical and professional schools must be created to help fill up the prevailing skill gaps on the labour market, as has now been well understood by the government. The educational challenge is especially pressing because an increasing number of rural residents from the younger generations aspire to enjoy an urban life and hold an urban occupation.

Benin must be seen as a promising country endowed with entrepreneurial people and well-experienced traders and merchants, as well as good climate and fertile agricultural lands in certain parts of its territory. It has a comparative advantage not only in traditional products such as cotton, but also in new agricultural products that can be processed and sold at remunerative prices in the international, regional, and domestic markets. In other words, Benin has potential for development that could be unleashed if only the right institutional and policy environment could be established. No deep constraint condemns it to stagnation. What is needed is first and foremost that a country that has succeeded in laying down and enforcing rules regarding democratic elections and the duration of political mandates also succeeds in breaking the link between business and politics that has poisoned its political life since independence. Relatedly, the state must reinforce its tax-collecting capacity, create attractive conditions for FDI, and enhance its ability to coordinate the actions of its various administrative departments. Public money should be used in the pursuit of long-term objectives, which means that a significant part of it should be devoted to the development of high-quality human capital and the construction and proper maintenance of physical infrastructure. Finally, the state should aim at more sustainable or autonomous development in the sense of reducing the country's vulnerability to external shocks and foreign aid. These are formidable challenges but, given the stakes involved, they deserve the utmost attention and determined actions.

C Are We Witnessing a Regime Change?

Things have been moving quickly since Patrice Talon rose to supreme power in 2016. His winning gamble caused the defeat of the old political elite, considered to be too obstructive and unreliable by the country's top businessman and most ambitious entrepreneur. The question then arises of whether this major political change can be a game changer. On the one hand, because Talon has succeeded in consolidating his power and taking firm control of the polity and the economy of Benin, democracy has suffered. This causes a major stir in a country where freedom of expression is highly valued and where free elections and changes of incumbents had become a regular feature of the political scene during the last decades. On the other hand, precisely because Talon holds key decision-making levers in his hands, he could become an enlightened autocrat eager to promote his fame and reputation as the man who rescued his country from stagnation and pervasive corruption.

It is true, however, that a priori the profile of a president-cum-oligarch raises serious doubts about his ability to design enlightened policies that give priority to common good considerations. But it could be retorted that precisely because he exerts wide control over the economy, and has now secured the vast wealth that he owns, he does not need to bother about accumulating more of it. Therefore, he can devote his energies to a high-order mission that will bring him superior satisfaction.

It is of course too early to form a judgement on such a thorny issue, and the near future will be particularly interesting to watch. In addition to avoiding the great waste of resources and the political instability caused by Big Men's internal struggles, three facts tend to indicate that the combination of politics and business in a single figurehead could achieve results in the specific context of Benin.

First, Talon has surrounded himself with a team of highly competent collaborators, some of whom work in an office directly attached to the presidency and specially dedicated to the task of designing economic and social policies (the Bureau d'Analyse et d'Investigation).

Second, there is no denying that the new president has established clear priorities and so far shown a determined willingness to launch important reforms. Overall, the priorities chosen go in the right direction, as they are addressing key constraints that hamper the country's economic development (in fact, they match most of our policy implications stated in Section III). Especially worth singling out are the reforms of the education system (with an emphasis on the creation of technical schools and training institutions), plans for infrastructure expansion (including improvement of the generation and distribution of electricity, considered as a critical constraint on industrialisation), and measures intended for diversifying the economy in the sense of adding value to agricultural and raw material (e.g. cotton) products.

Third, a war against corruption has been declared and in just a few years the petty corruption that was so extensively observed under all the previous regimes appears to have been significantly reduced as a result of drastic sanctions introduced by Talon. Since day-to-day extraction of bribes by officials (by the police in particular) hits poor and ordinary people particularly hard, any step in that direction is bound to earn him popular support, among those people especially.

Taking all this into account, it remains to be seen how a president-cum-oligarch can surmount the numerous conflicts of interests that necessarily confront him. For example, how can a man who privately controls the customs end corruption in that vital part of the revenue collection system? How can his monopoly position in key sectors of the economy (including the retail distribution of petroleum products) be made to work for the general good? And how can one be assured that tax avoidance by members of his business entourage will be actively fought against?

Those are the sort of issues that unavoidably arise when an authoritarian ruler is simultaneously a successful oligarch. In sum, they revolve around the following central question: will the president-cum-oligarch have the wisdom to accept sacrifices when his private business interests will run counter to the public interest, and will he be able to impose similar sacrifices on his fellow businesspeople? For the strong rule of Talon to be truly enlightening and widely supported by the population, this challenge must be met.

This is not the only challenge that Talon must face up to. The abrupt closure of the border with Nigeria has disrupted the (illegal) cross-border trade on which the country's economy depends to a great extent. The lucrative import-and-re-export business centred around the port of Cotonou is not the only sector of the economy affected. Also undermined are the export opportunities for products that the new regime itself is promoting, such as pineapples and pineapple juice. A fall in the market price of fresh pineapples has occurred that may eventually discourage farmers from continuing to invest in this product, especially if the output price decreases are accompanied by rising input prices (including wage increases for agricultural labour), thus creating a nasty 'price scissor' effect.

The adverse external shock caused by the closure of the Nigerian border confirms that, as repeatedly stressed in this book, Benin is highly vulnerable to events occurring beyond its big neighbour's frontier and to policies implemented by the Nigerian government. How to transform the proximity of a giant economy from a source of vulnerability into an economic advantage is one of the most difficult and pressing problems that any ruler of Benin must solve with a long-term horizon in mind. In the long run, instead of relying on the benefits of illegal trade, Benin must develop comparative advantages that lead to an intra-regional specialisation benefiting the two countries.

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Afterword

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This study was developed in a context where Benin has been experiencing several institutional changes since President Talon was elected in 2016 and re-elected for a second term in 2021 (see Chapter 3 for details). Moreover, the COVID-19 pandemic has severely impacted Benin since 2020. We were not able to systematically study the 2016–2022 period due to the evolving nature of the institutional changes that have been occurring in Benin since 2016, but also due to the lack of consistent and systematic data for that period. It is nonetheless natural to ask whether the main conclusions of the diagnostics presented in this volume are still valid today. We now revisit a number of critical issues that were identified in our analysis.

Overall, there have been significant improvements along several dimensions since President Talon took power in 2016. Some issues remain, however. Moreover, it is not clear whether the improvements will persist.

1 ECONOMIC PERFORMANCE

The growth rate of Benin increased from 3.3 to about 7.0 per cent in 2016–2019. This performance was much better than sub-Saharan average growth of 1.3–2.6 per cent over the same period.[1] Gross domestic product (GDP) per capita growth in Benin also significantly increased (from 0.5 to 4.0 per cent) over that in the average sub-Saharan country in 2016–2019 (from −1.4 to −0.1 per cent). Even though Benin suffered from the COVID-19 crisis, it has proven more resilient than the rest of West Africa, as testified by the fact that it had the

[1] World Bank, https://data.worldbank.org/indicator.

highest growth rate of GDP per capita in 2020.[2] As a result, Benin moved from low-income status to the status of a lower middle-income country in 2020. The acceleration of Benin's growth coincided with the impressive growth in the cotton sector and huge investments in infrastructure mostly financed from debt (domestic and external). The public debt-to-GDP ratio increased from about 31 per cent to 41.2 per cent in 2019 and to 48.7 per cent by September 2020. The capacity of the country to borrow from the international capital market is an indication of the confidence of international investors towards the government. In 2019, for instance, Benin issued its first government Eurobond, equivalent to about 3 per cent of GDP. The increase in government debt in Benin also implies some cost, however. The debt service to GDP ratio was slightly above 4% in 2019, but, worryingly, amounting to as much as 50% of government revenues (IMF 2021).

II INSTITUTIONAL CAPACITY TO RESPOND TO UNEXPECTED ADVERSE SHOCKS

In Africa, Benin was unique for its effective strategy for handling the COVID-19 pandemic. In contrast to many countries of the region, where lockdowns were imposed by the government during the pandemic, Benin developed an original approach, termed *cordon sanitaire*, which consists of dividing the country between the north and the south–centre regions. Limited movement was allowed across the two regions, while free movement was authorised within each region. At the same time, strict measures of testing and quarantining for those tested positive on their entry into Benin were implemented. Moreover, several government supports were provided to households and firms. To what extent such a strategy contributed to the country's resilience is hard to assess, however, since other factors were simultaneously at play.

III THE COTTON SECTOR

Since President Talon took power in 2016, the performance of the cotton sector has significantly improved and, together with Burkina Faso and Mali, Benin is now the top cotton producer in Africa. This improvement coincides with a change of governance in the sector, which shifted from public to private status in 2016, as discussed in Chapter 5. According to experts, the change has helped to restore trust among stakeholders. Among the main implications of the change are a vertically integrated coordination approach by the

[2] GDP per capita growth in Benin was 3.8 per cent in 2020 compared to other West African countries (Burkina Faso 1.9 per cent, Côte d'Ivoire 2 per cent, Ghana 0.5 per cent, Niger 3.6 per cent, Nigeria −1.9 per cent, Senegal 1.6 per cent, Togo 1.8 per cent). It was also much lower in the average sub-Saharan African country in 2020 at −2 per cent (World Bank, https://data.worldbank.org/indicator).

Association Interprofessionnelle de Coton (AIC), timely payment of cotton growers, and efficient delivery of inputs.

IV CROSS-BORDER TRADE WITH NIGERIA

Nigeria officially closed its border with Benin from August 2019 to December 2020 and Benin was severely affected, thus confirming the vulnerability of one of the country's main leading economic activities, as was stressed in our diagnostic in Chapters 2 and 8. Even though Benin has suffered from this shock, the good news is that growth in the agricultural sector (cotton in particular) and the boom of investment expenditure in infrastructure appear to have allowed the country to surmount it. That said, tax revenue has significantly contracted following the shock (IMF, 2021). Moreover, if massive investments have been undertaken to improve the country's infrastructure (especially roads and electricity), lack of transparency regarding the management of the contracts involved seems to be a persistent problem. On the other hand, the closure of the Nigerian border has not signalled a significant decline in informality, and formal firms continue to cite unfair competition from the informal sector as one of the most important constraints they face. Moreover, firms continue to be severely constrained by limited access to external financing.

V POLITICAL GOVERNANCE

Benin's score for the Global Freedom index deteriorated dramatically from 82/100 in 2017 to 59/100 in 2022. The score for political rights has undergone the most severe decrease, from 33/40 to 17/40.[3]

As a matter of fact, no opposition party has sat in the parliament since the last parliamentary election of 2019 (see Chapter 4 for details). Early in his second mandate, however, President Talon has initiated a number of consultations with former presidents Nicephore Soglo and Boni Yayi and past/present presidents of the parliament, with a view to achieving reconciliation with political opponents. The last parliamentary elections, in January 2023, saw the participation of the main opposition party, Les Démocrates, which won 28 out of the 109 seats. These changes confirmed the intent of President Talon to re-establish more political competition in the country.

There is one governance aspect on which Talon has scored some success: namely, the control of corruption. This is a critical area, since many people were constantly complaining about the pervasive incidence of bribe-taking by officials. While a range of political freedoms were restricted, the Transparency International score for control over corruption perception increased from 36/100 to 42/100 between 2016 and 2021.[4]

[3] See https://freedomhouse.org/country/benin/freedom-world/2022.
[4] See www.transparency.org/en/cpi/2016/index/ben.

The new regime has attacked the corruption problem upfront, at least where it hits ordinary people and small-scale entrepreneurs or traders the most, such as in bribes extracted by police officers and by officials who manage roadblocks. Low-level officials accused of bribes are severely sanctioned. As for higher-level officials, they can be sentenced to jail if proven guilty of malfeasance. It is encouraging to notice that, unlike what is observed in so many countries formally dedicated to anti-corruption struggles, the President of Benin did not try to block jail sentences for some of his political supporters.[5]

VI PUBLIC ADMINISTRATION

Since 2016 the tax administration has implemented several reforms that household and firms seem to appreciate: digitisation of several public services and VAT invoicing, the possibility of online tax payments, various tax reductions for business, simplification of procedures, and so on. It is noteworthy that most of the reforms are being enforced through direct control exercised by the President's cabinet, which is composed of high-level technicians. This evokes the Rwandan and East Asian models of top-down governance and, so far, the results are encouraging. Whether this top-down enforcement will survive a regime change is a tricky question that remains unsolved in the minds of close observers of the Beninese scene.

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[5] For instance, in a land scandal in Abomey-Calavi involving expropriation of thirty-nine hectares of a public domain, Georges Bada, a former mayor of the city of Abomey-Calavi and a supporter of President Talon, as well as several other members of his entourage have been put in jail (see https://mediapartbenin.com/article/1394/benin-affaire-39-hectares-abomey-calavi-georges-bada-plusieurs-coaccuses-condamnes-peines-2-10-ans-emprisonnement). Unfortunately, Georges Bada succeeded in escaping while he was receiving health care at the main hospital in Cotonou. The two police officers who were on duty guarding Bada in the hospital were condemned (see www.banouto.bj/article/securite-humaine/20220630-evasion-de-georges-bada-les-02-policiers-charges-de-sa-garde-condamnes-a-24-mois-dont-6-fermes).

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