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Benin - Is the "Revelation" within reach?

Author
Thibault Vasse

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Benin – Is the “Revelation” within reach?

Thibault Vasse – vasset@afd.fr

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Summary: A West African coastal country, Benin has shown remarkable economic performance and resilience in recent years, bolstered by its reform momentum, strong donor support, and a proactive fiscal policy. These strengths have enabled the country to maintain its high growth rates, averaging almost 6% during the years of successive crises between 2020 and 2022, and underpin its good economic prospects.

The global shocks and Benin’s own specific ones in recent years have eroded its fiscal space, with an increase in public debt of 13 pp (percentage points) of gross domestic product (GDP) in five years. However, the authorities have launched a promising fiscal consolidation program, focused on revenue mobilization. It has already yielded results, with a reduction in the public deficit by 2% of GDP since 2022. The macro-fiscal outlook thus appears favorable in the short-to-medium term.

However, the Beninese economic model, which remains largely informal (97% of employment), unproductive, and provides little quality employment, needs to be revitalized. The structural transformation of the economy has not yet led to the emergence of high-value-added activities, the opening up of trade is stagnating, and human capital remains underutilized. These weaknesses also come with a human cost: Benin ranks 173rd (out of 192) in the Human Development Index and is one of the poorest countries in the world while socio-economic pressures remain high.

The authorities have realized the seriousness of the challenges facing the economic and social model. They are implementing a government strategy which aims to capitalize on national know-how and strengths to build high-value-added sectors, in particular by ramping up industrial policies. They are also making efforts to strengthen social systems, which remain underdeveloped compared to regional peer countries.

The government will need to remove several structural bottlenecks to fully drive this transformation, including the low level of revenue mobilization, the still limited access to private financing, and an inefficient, unreliable and costly energy system. In addition, the jihadist threat taking root in the north of the country comes with a heavy human cost and may hinder prospects for the country’s economic emergence.

Thematic area: **Macroeconomics, country risk**

Geographical area: **Benin**

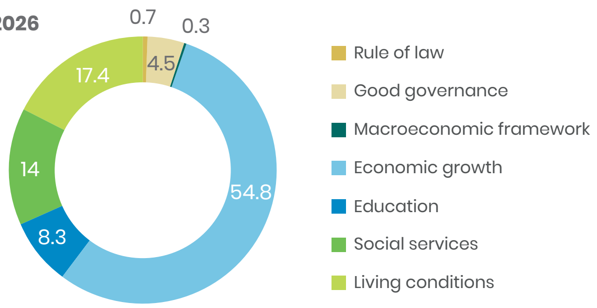
1. Introduction: In pursuit of a "Revealed Benin"

Graph 1 - Overview of the Government Action Program 2021-2026

Accelerate the economic and social development of Benin

Pillar 1 Strengthen democracy, the rule of law and good governance		Pillar 2 Continue the structural transformation of the economy			Pillar 3 Continue to improve the social well-being of people	
Axe 1 Strengthening of democracy and the rule of law	**Axe 2** Consolidation of good governance	**Axe 3** Strengthening of macro-economic framework and stability	**Axe 4** Acceleration of economic growth	**Axe 5** Promotion of quality education and TVET (Technical and Vocational Education and Training)	**Axe 6** Improvement in access to basic social services and social protection	**Axe 7** Strengthening of balanced and sustainable development

Estimated costs of the PAG 2021-2026



Source: Presidency of the Republic of Benin.

Benin, a West African coastal economy, has been experiencing a strong reform momentum and robust economic dynamics since 2016. The authorities have since been implementing an extensive and ambitious program of economic, institutional and social reforms to profoundly transform the country. The Government Action Program (PAG) 2021-2026, the north star of Beninese public action, is based on three core pillars: i) strengthen institutions and governance; ii) structurally transform the economy; and iii) improve social well-being (Graph 1). There is an array of major projects and reforms, public management is improving, and Benin is now among the most dynamic African economies.

However, the government still needs to address major challenges. There are strong social pressures (poverty, inequalities, lack of economic opportunities), growth is still not sufficiently inclusive, the prospects for structural transformation are uncertain, and the jihadist threat hangs over the country. The economic model, which is largely based on unproductive, informal and precarious activities, will not be sufficient to create the quantity and quality of jobs required to offer real opportunities for prosperity to Benin's future generations. In this context, the authorities are making considerable efforts towards a profound transformation of Benin's economic and social model.

What are the long-term economic and development prospects of Benin? What are the barriers, challenges and threats facing the country? What vision are the authorities putting forward to address them, and is the "Benin Revealed" sought by the authorities really within reach?

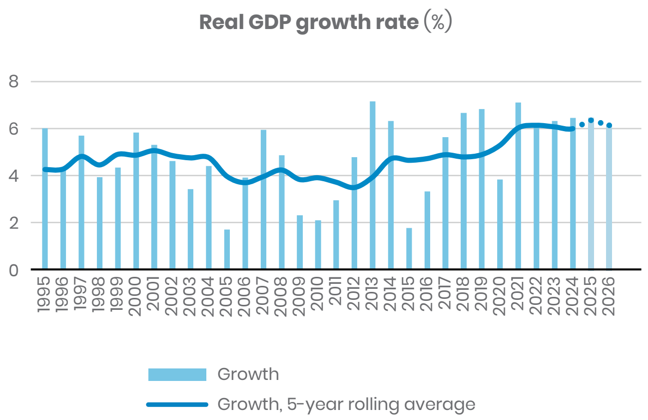
2. A promising macro-fiscal outlook in the short and medium term

Following a highly volatile period in the 1970s and 1980s, economic growth has accelerated. A series of national and regional reforms initiated in the 1990s, supported by the structural adjustment programs of the IMF and World Bank, have strengthened the stability of the economy.[1] At national level, these reforms have diversified exports, improved macroeconomic and fiscal management, and strengthened governance and institutions. At regional level, the reforms of the West African Economic and Monetary Union (WAEMU), in particular the realignment of the CFA franc (African Financial Community) in 1994 and the strengthening of the monetary policy frameworks have improved macroeconomic stability and increased (albeit partially) the trade integration of member countries. Indeed, the Beninese economy is increasingly dynamic, with an upward trend for average growth rates for more than a decade (Graph 2). Real GDP growth thus rose from an average of 3-4% between 2010 and 2019 to 5-6% between 2020 and 2023.

Growth is also proving more resilient. It has remained robust in the face of the successive global shocks of Covid-19 (3.8% in 2020) and the commodity crisis (6.2% in 2022). The fiscal stimulus by the authorities, a healthy service sector, the increase in prices for agricultural exports and, especially, the dynamism of private investments have contributed to this resilience. The Beninese economy has since been on a robust path, despite the idiosyncratic shocks related to the devaluation of the Nigerian naira and the closure of the border with Niger in 2023. With an average growth of 6%, Benin has thus been among the five African countries with the most rapid economic growth since 2020.

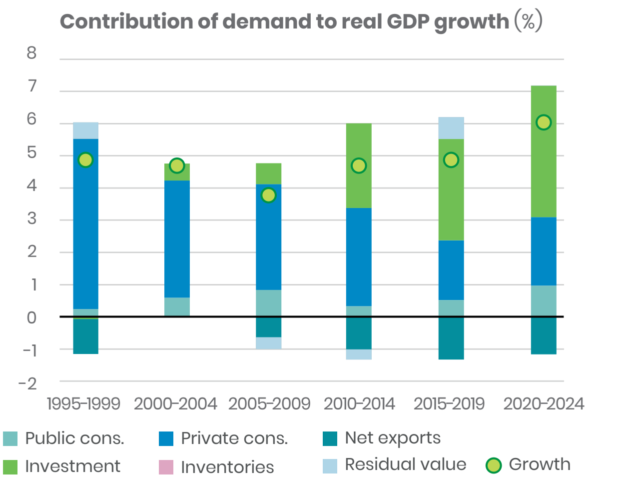
Investment is now one of the main growth drivers. Indeed, while it had traditionally made a marginal contribution to growth, from 2015-2019 onwards it became the main vehicle for growth on the demand side (Graph 3). While consumption was negatively affected at the end of the commodity supercycle, which started in 2014 and was further eroded by the crises in 2020-2022, the upward trend in investment has in particular made a major contribution to economic resilience in recent years.

Graph 2 - An accelerating growth trend



Source: IMF.

Graph 3 - Investments increasingly contributing to growth

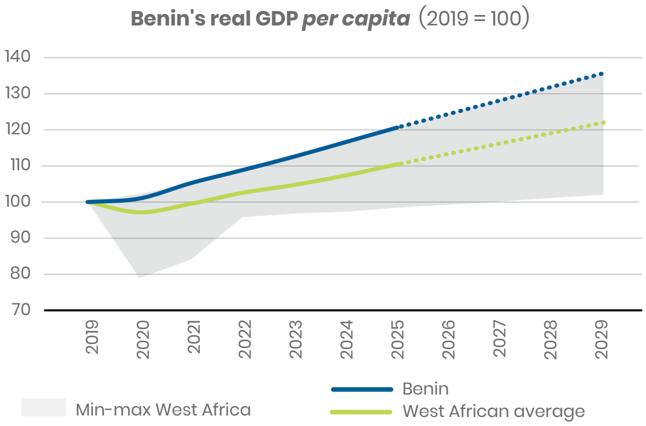


Source: IMF, BCEAO, AFD calculations.

[1] World Bank (2022), *Accelerating the Growth Momentum and Creating Better Jobs.*

Growth prospects are highly favorable. The International Monetary Fund (IMF)[2] expects growth to stabilize at a high level in the medium term, at around its potential of 6%, supported by the implementation of major infrastructure projects, the acceleration of private investment, and the dynamism of the agriculture and construction sectors. Benin would thus be the West African country with the fastest growing GDP *per capita* by 2029 (Graph 4). This provides solid foundations for a more general improvement in the living conditions of Beninese people. The World Bank estimates that this will lead to a further reduction in the poverty rate to 36% (at $3.65 a day) by 2026, against 43% in 2021.[3]

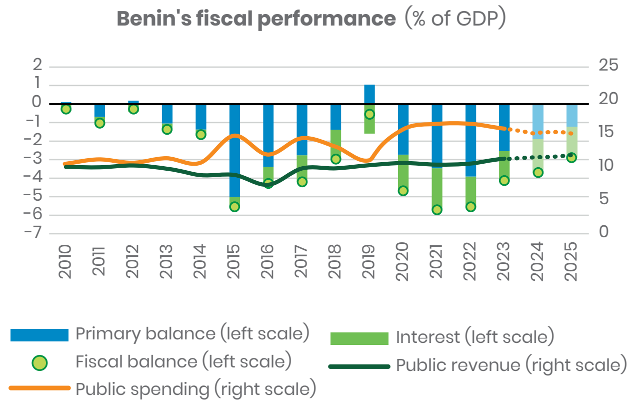
Graph 4 - Rapid growth in *per capita* GDP



Source: IMF, AFD calculations.

The successive shocks since 2020 have had an adverse impact on government accounts. When the Covid-19 crisis broke out, Benin had considerably consolidated its public finances. Indeed, the government had reduced the public deficit from 5.6% of GDP in 2016 to 0.5% of GDP in 2019, and had stabilized the debt ratio at 41% of GDP. The pandemic, the cost-of-living crisis, and the extensive government program to support the economy gave rise to a new period of reduced fiscal space. Public expenditure rose from 14.6% of GDP in 2019 to 19.9% in 2022 and the deficit reached 5.3% of GDP on average between 2020 and 2022 (Graph 5). Similarly, public debt rose sharply to 55% of GDP in 2023, an increase of 13 pp (percentage points) compared to the 2019 level.

Graph 5 - The successive crises have increased the public deficit



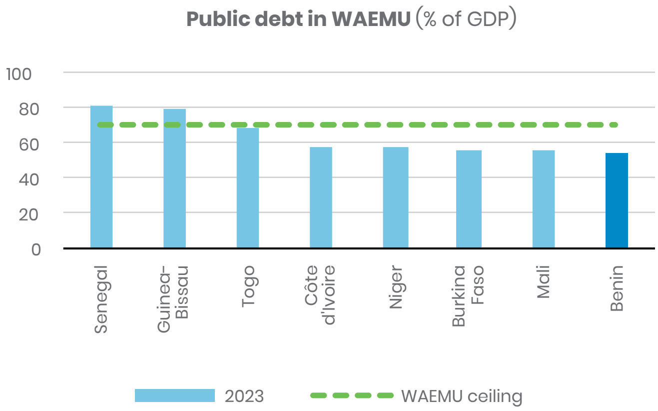
Source: IMF, AFD calculations.

Despite this recent deterioration, Benin's public finances are relatively robust compared to its WAEMU peers. Firstly, Benin's public debt ratio remains the lowest in the region and is well below the Community ceiling of 70% of GDP (Graph 6). In addition, its structure is favorable and mitigates the associated risks; 41% is held by donors and the exposure to variable rate debt (3%), short-term debt (4%) and non-euro debt (20%) is low. The anchoring of the CFA franc to the euro, the main currency of Benin's external debt (48%), limits the exposure of public debt to exchange rate risk.

[2] Unless otherwise specified, the IMF's macroeconomic projections mentioned in this report refer to the *World Economic Outlook* of October 2024.

[3] World Bank (2024), *Benin: Macro Poverty Outlook*.

Graph 6 - Relatively moderate debt among WAEMU countries



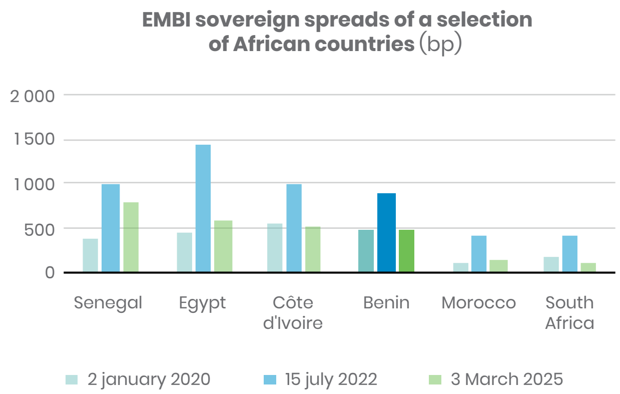
Source: IMF.

Benin benefits from diversified private financing. Its first Eurobond issue in 2019 (€500 million with a 6-year maturity and a coupon of 5.75%) was followed by a first African SDG (Sustainable Development Goal) bond in 2021 (€500 million with a 12.5-year maturity and a coupon of 4.95%, supported by a guarantee from the African Development Bank/ AfDB). Its first Eurobond in dollars ($750 million, with a 14-year maturity and a coupon of 7.96%) in February 2024 received more than $5 billion of subscriptions, a record for the country, demonstrating its attractiveness to international investors. In January 2025, the country mobilized a further $1 billion, including a $500 million Eurobond (with a 16-year maturity and a coupon of 6.48%) and a $500 million loan with Deutsche Bank (15-year maturity) which benefits from a partial guarantee from the World Bank. This financing, the first from the World Bank guarantee platform launched in July 2024, reflects Benin's leading role in financial innovation.

Furthermore, the close relations with international donors give it access to substantial funding on preferential terms. Bilateral and multilateral partners have disbursed approximately $2.1 billion since 2020, representing 43% of external financing. There are also two IMF programs: the ECF/ EFF (Extended Credit Facility/ Extended Fund Facility) for $650 million since July 2022, and the RSF (Resilience and Sustainability Facility) for $200 million since December 2023. In addition to providing additional funds, these programs support the implementation of the authorities' structural reform and fiscal consolidation program.

But Benin needs to rebuild fiscal space. Indeed, there has been a marked deterioration in public finances compared to 2019. While the cost of financing is reasonable, as the Eurobond spreads are below those in Côte d'Ivoire and Senegal (Graph 7), there remains the risk of a sudden tightening of global financial conditions in the event of persistent inflation.[4] In such case, Benin's interest expense (currently stabilized at around 10% of public revenues) would increase and the budgetary constraint would increasingly bite. And there is a real risk of a new economic shock over the next five to ten years. Since the turn of the 21st century, Benin has experienced a shock every three to four years on average.[5] It thus seems essential to take full advantage of this period of economic dynamism to rebuild fiscal space.

Graph 7 - Relatively favorable financing costs on international markets



Source: J.P. Morgan.

[4] IMF (2024), *Global Financial Stability Report: Steadying the Course.*

[5] Three international shocks: global financial crisis (2007-2009), Covid-19 crisis (2020), commodity crisis (2022); two regional shocks: massive floods (2010); Ebola virus epidemic (2013-2016); two national shocks: trade crisis with Nigeria (2003-2004); devaluation of the Nigerian naira and closure of the border with Niger (2023).

The authorities undertook revenue-based fiscal consolidation efforts in 2023. The multi-year consolidation strategy is based on domestic revenue mobilization, with the aim of increasing recurring revenues by 0.5 pp of GDP each year. The revenue mobilization strategy is based on: i) the promotion of tax compliance and a broadening of the tax base; ii) the strengthening of the human, administrative and digital capacities of financial administrations; and iii) the digitalization of tax processes.[6] According to the IMF, the digitalization of certain tax processes and the broadening of the tax base and income tax rate have already permanently increased tax revenues by 0.7% of GDP (Table 1). This is expected to continue in 2024 and 2025, with an average increase in tax revenues of 0.5% of GDP according to the IMF.

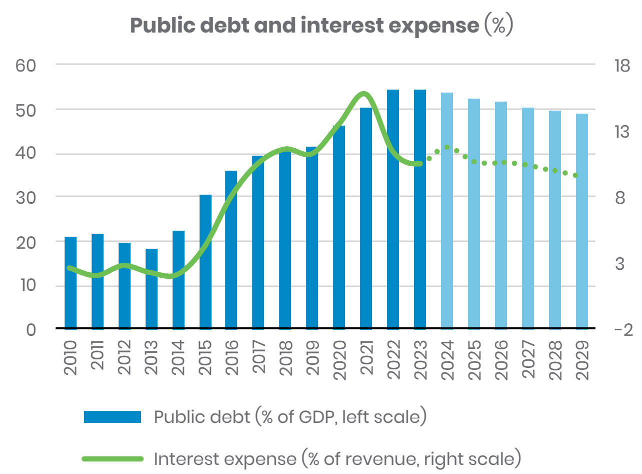
Table 1 - The fiscal consolidation efforts have yielded results

	2022	2023	2024	2025
Revenue	-	0.5	0.6	0.4
Tax measures	-	0.7	0.6	0.4
Non-tax measures	-	-0.2	0.0	0.0
Subsidies	-	0.3	-0.2	-0.1
Expenditure	-	0.7	0.3	0.4
Current expenditure	-	0.3	-0.8	-0.3
Investment expenditure	-	0.3	0.9	0.6
Total adjustment	-	1.4	0.6	0.7
Primary deficit	-3.9	-2.5	-1.9	-1.2
Budget deficit	-5.6	-4.1	-3.7	-2.9

Source: IMF, AFD calculations.

The authorities are also taking a more prudent approach to expenditure. They are expected to control public spending through a more effective prioritization of investment expenditure, the effects of economies of scale on current expenditure, for example, in public procurement, and more effective expenditure. This would offset the increase in expenditure related to the expansion of social services. A fall in public investment remains a major risk. Indeed, if the macroeconomic environment deteriorates, or if the effect of the above-mentioned measures is below expectations, the authorities may use investment expenditure (by nature more flexible) as an adjustment variable. This could negatively affect the country's long-term development path. For the time being, this risk seems under control, as the authorities are making progress with revenue mobilization and are using the flexibility generated to finance investments and public services (including social systems).

Graph 8 - Public debt is on a downward path



Source: IMF, AFD calculations.

[6] Republic of Benin (2023), *Medium-term Revenue Mobilization Strategy 2024-2026.*

The deficit is thus gradually decreasing and public debt is on a downward path. The measures taken by the authorities had already reduced the public deficit by 1.4 pp and 0.6 pp of GDP in 2023 and 2024, respectively, and this path is expected to continue in the medium term. The IMF and the 2025 Finance Law anticipate a return to the WAEMU convergence criterion of 3% of GDP. This, combined with sustained growth, would place public debt on a downward path (Graph 8). Finally, the public financing requirement, which amounted to 10.1% of GDP in 2023, is expected to decrease further in the medium term (around 5-6% in 2027-2030). Broadly speaking, the performance of the IMF programs at the time of the last review (December 2024)[7] is robust. Indeed, all the quantitative performance criteria and indicative targets have been achieved, and the structural reform agenda is moving forward in line with expectations.

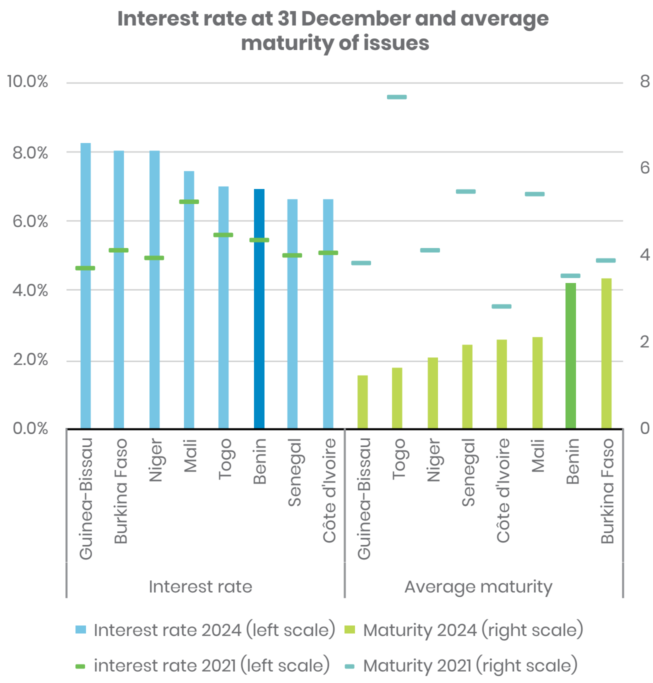
The main macroeconomic risks in the short and medium term are regional:

- **(Geo)political and (geo)economic fragmentation:** Since 2020, the six military coups in West Africa – in Mali (twice), Guinea, Burkina Faso (twice) and Niger – have affected the soundness of regional institutions and undermined political, economic and security cooperation, while none of these countries have restored the constitutional order.[8] The announced withdrawal of Mali, Niger and Burkina Faso from the Economic Community of West African States (ECOWAS), and tensions between certain coastal countries and Sahel States, pose risks of geoeconomic fragmentation and raise questions over the sustainability of regionalism in West Africa.

[7] IMF (2024), *Benin: 2024 Article IV Consultation-Fourth Review under the EFF/ECF, and First Review under the RSF.*

[8] United Nations (UN) (2024), *West Africa: The Security Council is informed of delays in the return to constitutional order in several countries, at the risk of protracted uncertainty.*

Graph 9 - Tensions on refinancing conditions on the regional market

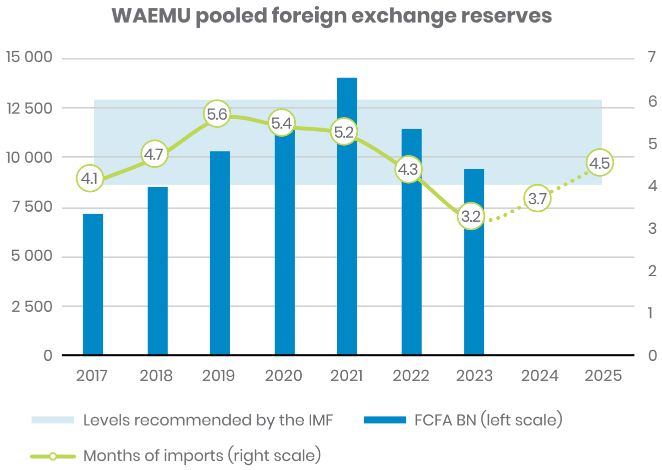


Source: UMOA-Titres, AFD calculations.

- **Refinancing tensions on the regional market:** The inflation crisis of 2022, monetary policy tightening, and a liquidity shortage in banks in the subregion have led to widespread tensions on sovereign bonds. This results in an increase in interest rates, a decrease in coverage rates, and a shortening of maturities (Graph 9). However, Benin is relatively well positioned among the countries in the region in terms of addressing these risks. Indeed, it benefits from more favorable conditions on the regional market than Sahel countries and has access to a diversified pool of international financing.

- **The erosion of WAEMU foreign exchange reserves:** The external shocks (Covid-19, cost-of-living crisis, regional insecurity) affecting the region since 2020 and the associated recovery plans have led to an accumulation of external imbalances in recent years. This has resulted in a substantial erosion of pooled foreign exchange

Graph 10 - An erosion of pooled foreign exchange reserves



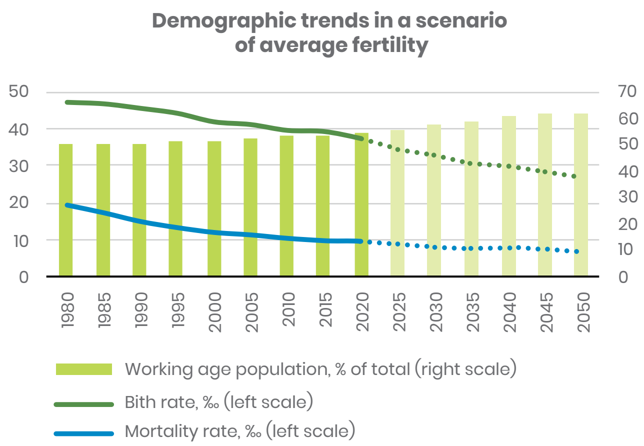
Source: IMF, BCEAO.

reserves, which fell from 5.2 months of imports at the end of 2021 to 3.2 months of imports at the end of 2023, below the adequate level recommended by the IMF, of between 4 and 6 months (Graph 10). More recently, the Eurobond issues of Benin, Côte d'Ivoire and Senegal, and the disbursements from the various IMF programs, have supported an increase in the level to 3.7 months of imports at the end of September 2024. The Central Bank of West African States (BCEAO) expects the reserves to continue to increase and reach 4.5 months of imports at the end of 2025.[9] However, this path is subject to major risks in a context of uncertainties over the access of countries in the region to international capital markets.

[9] BCEAO (2024), *Report on Monetary Policy in WAMU - December 2024.*

3. The economic and social model needs to be revitalized

Graph 11 - Benin's demographic dividend is on the horizon

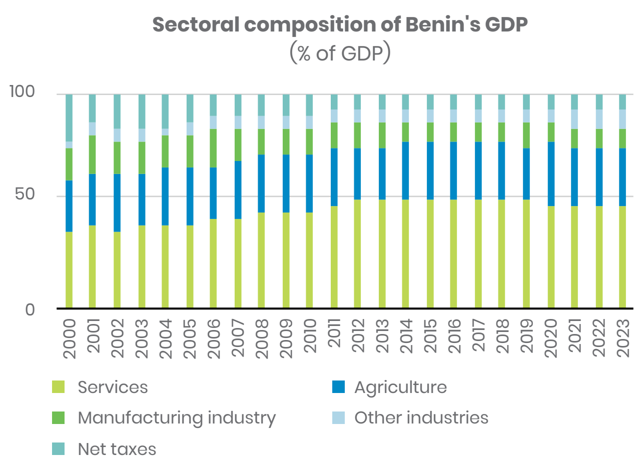


Source: UN, AFD calculations.

Fundamental trends point to a demographic dividend, but which could also pose a major challenge for the labor market. With rapid population growth (~3%) and high but declining fertility and mortality rates, the working age population is expected to more than double from 7 to 15 million by 2050, representing approximately 380,000 people a year (Graph 11). Benin would thus appear to be in a pre-dividend phase. If population growth and fertility rates continue to decline, the increase in the working age population could strengthen productivity and accelerate growth. However, to take full advantage of the benefits and meet the aspirations of future generations of young people, it is essential to have an economic model able to provide sufficient jobs in terms of both quantity and quality. The question then is: Does Benin have such a model today?

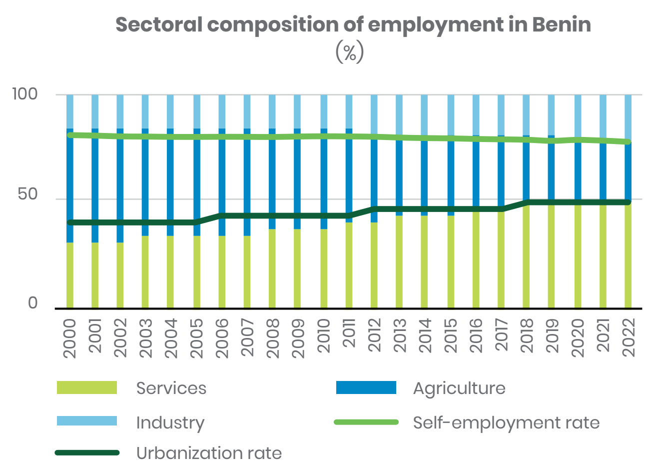
In recent decades, the economy has gradually shifted towards services. The share of services in the economy rose from 35% of GDP in 2000 to 48% in 2023 (Graph 12). At the same time, there has also been strong growth in the agriculture sector, which has stabilized its weight in the economy. This automatically means that the weight in the economy of industry, and more specifically manufacturing, which have not benefited from the same dynamism, has declined. There is thus a tangible risk of premature deindustrialization, which could deprive Benin of potential sources of diversification and prosperity.

Graph 12 - A gradual transition towards a service economy...



Source: World Bank.

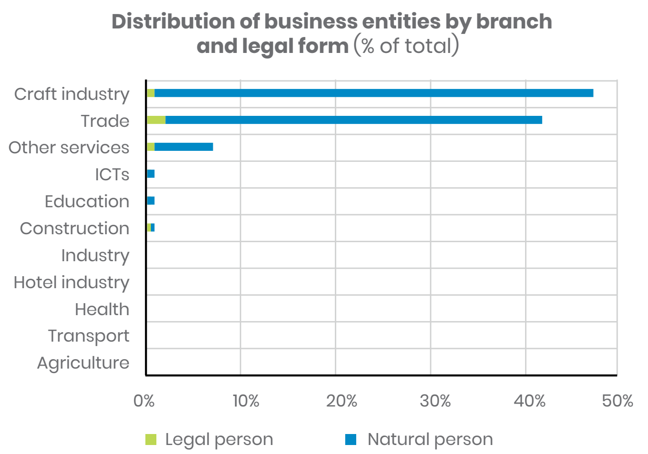
Graph 13 - ...but which primarily reflects growing urbanization



Source: World Bank, UN.

This structural transformation towards services needs to be put into perspective and primarily reflects the gradual urbanization of society. Indeed, the rural exodus in Benin results in an increase in employment in the service sector as Beninese people leave agricultural areas, while the self-employment rate has been remarkably stable at around 80% for the last 30 years (Graph 13). However, it has not resulted in the creation of a significant number of new and more productive companies, benefiting from economies of scale leading to higher salaries and better-quality jobs.

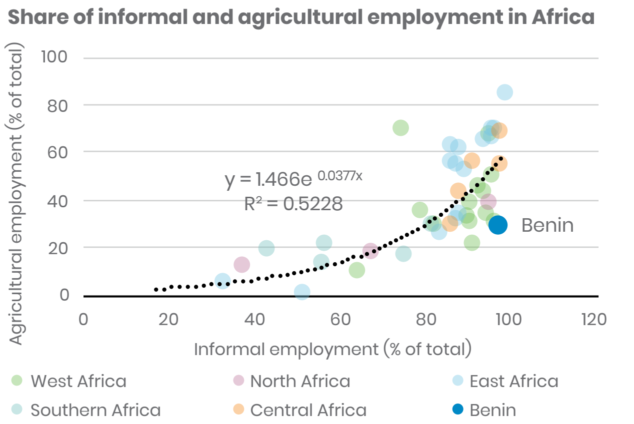
Graph 14 - An economy based on low-added-value and informal activities



Source: National Institute of Statistics and Demography (INStaD), Republic of Benin, AFD calculations.

The informal economy continues to dominate. The general census of businesses of 2024 ranks self-employed artisans and traders as the leading business segments, accounting for 46% and 39% of business entities, respectively (Graph 14). The proportion of informal jobs in Benin, estimated at 96%, is thus the highest in West Africa and the third highest in Africa, despite a relatively moderate proportion of agricultural jobs (for which informality is more widespread) (Graph 15). The structural transformation in Benin would thus appear to be more about a shift from a model of precarious agricultural employment in rural areas towards precarious employment in the service sector in urban areas, partly due to the growing urbanization of the country.

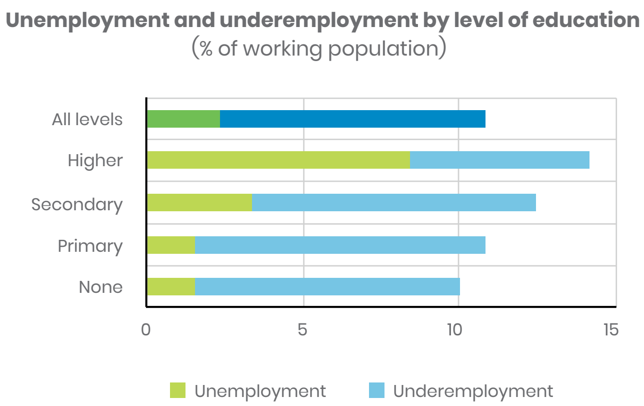
Graph 15 - Widespread informality despite the small share of agricultural jobs



Source: International Labour Organization (ILO), World Bank, AFD calculations.

The labor market has so far not created sufficient jobs in terms of quantity and quality to absorb the future generations of young people. While the unemployment rate is low (~2%), it mainly concerns people who have completed higher education, as is the case for underemployment (Graph 16). Low unemployment, concentrated in the most educated segments, reflects a largely informal economy (ranking 3rd in Sub-Saharan

Graph 16 - Unemployment and underemployment mainly affect educated workers



Source: INStaD.

Africa), dominated by self-employment and characterized by low incomes. The growth regime that has characterized Benin for decades, focused on the expansion of low-added-value services, providing few quality jobs, thus requires a revitalization towards more virtuous and inclusive growth

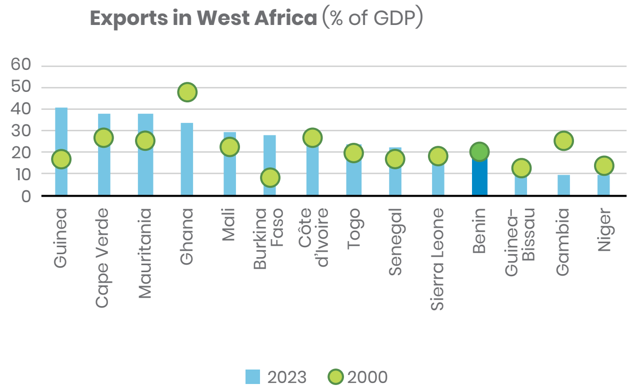
Export performance is relatively weak and stagnant. Following a peak at 31% of GDP in 2014, exports only accounted for 21% of GDP in 2023, one of the lowest levels in West Africa and almost unchanged compared to the level 20 years ago (Graph 17). This stagnation has occurred despite trade liberalization and regional integration efforts, supported in particular by ECOWAS and WAEMU, as well as the expansion of transit activities. While the diversification of exports is real, it needs to be put into perspective. The export concentration index has fallen considerably since the 1990s. It is close to the Sub-Saharan African average and among the lowest in the subregion. However, it remains well above the levels in Europe, Asia, and even Latin America (Graph 18). According to the United Nations Conference on Trade and Development (UNCTAD),[10] raw materials continue to account for 92% of Benin's exports. This diversification has thus historically concerned other raw materials, mainly agricultural, rather than new sectors.

Beyond the purely economic aspects, social systems face major challenges:

- **Education:** Past efforts to reform the education system have only resulted in a relative improvement in human capital. In 2006, the government introduced free primary schooling, removing the tuition fees paid by parents and significantly increasing the resources allocated to education. The net enrolment rate in primary education thus rose from 82% in 2005 to 97% in 2018, and the literacy rate rose from 35% in 2005 to 47% in 2022. However, Benin's education system is marked by a significant dropout rate: six children in ten go to secondary school, and only two of these six complete it. Similarly, skills continue to be mismatched with private sector expectations. On average, students in higher education only account for 4% of the total workforce and are primarily from the

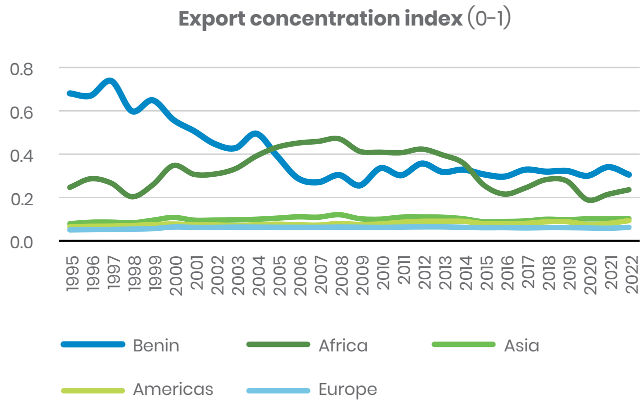
[10] UNCTAD (2023), State of Commodity Dependence 2023.

Graph 17 - Exports remain low compared to regional peers



Source: World Bank.

Graph 18 - The diversification of exports has been towards other agricultural products



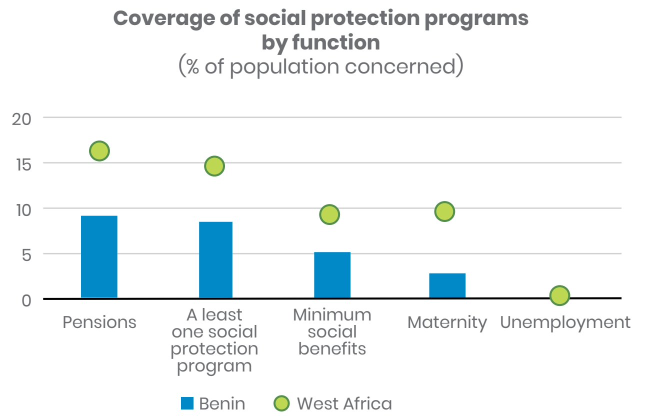
Source: UNCTAD.

wealthy classes, while only about 5% of students receive vocational training. The traditional apprenticeship system, which attracts many young people, suffers from inadequate training standards and does not enable them to join the formal sector.[11]

- **Health:** Benin's health system lags far behind its peers. Benin is a country where diseases have one of the highest human and economic costs in the world.[12] In 2019, there were 51 years of life lost per 100 inhabitants on average in the country due to disease, disability or premature death, the 14th highest rate in the world. The country's health outcomes are below its level of wealth, with a child mortality rate of 90‰, against 76‰ on average for Sub-Saharan Africa. Similarly, the maternal survival rate of 99.6% is lower than its peers. Finally, the prevalence of malaria, estimated at 38% of the population at risk, is the highest in West Africa and remains at a level similar to 20 years ago.
- **Social protection:** The coverage of social protection programs in Benin is extremely low, a reflection of the high level of informality of the economy. According to the United Nations Department of Economic and Social Affairs (UNDESA), only 8% of the population was covered by at least one program in 2020, well below the West African average (15%, Graph 19)

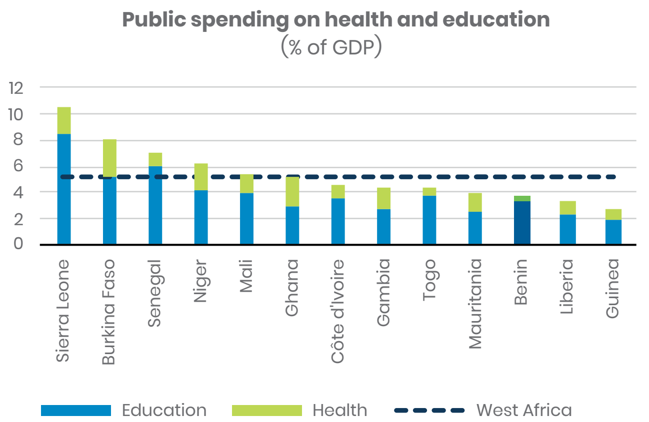
All these elements impede human capital formation. Benin thus had one of the lowest scores in the world in the 2020 Human Capital Index. On average, a child born in Benin today will only be 40% as productive as they could have been if they had had access to better education, better healthcare and better nutrition. One of the reasons is the substantial lack of public investment: Benin only spends 3.3% of GDP on education and health, one of the lowest levels in West Africa and well below the regional average of 5.2% of GDP (Graph 20).

Graph 19 - Low social protection coverage



Source: UNDESA, AFD calculations.

Graph 20 - Social spending among the lowest in West Africa



Source: World Bank, AFD calculations

[11] GIZ (2021), Improving Vocational Training in Benin.

[12] World Bank (2022), Benin Public Finance Review: Creating Fiscal Space to Build Human Capital.

Tableau 2 - Overview of regional socio-economic disparities

Regions		Rate of access to drinking water	Rate of access to electricity	Monetary poverty rate*	Rate of severe food insecurity	Rate of 15-27 year-olds who have never been to school	Participation rate
Northern regions	Alibori	56.5	43.8	44.7	7.2	64.5	45.3
	Atacora	59.9	31.9	53.1	12.4	5.3	48.8
	Atlantique	75.5	53.1	23.9	15.7	15.6	73.1
	Borgou	64.5	46.1	47.7	5.3	48.3	52.3
	Donga	39.5	44.5	48.4	6.1	44.5	57.9
Central regions	Collines	89.5	38.1	22.1	19.0	29.9	59.1
	Couffe	74.1	31.4	54.1	23.3	32.5	65.8
	Plateau	66.4	25.9	34.1	18.4	30.6	71.9
	Zou	68.3	37.8	41.4	7.5	24.3	67.7
Southern regions	Littoral	98.4	85.9	18.3	10.3	12.6	68.5
	Mono	76.8	27.9	45.1	34.2	16.0	69.0
	Ouémé	82.8	53.7	16.0	20.9	16.9	68.4
Benin		**72.9**	**45.0**	**36.2**	**14.3**	**31.1**	**62.9**

* Data from the EHCVM 2021-2022.
Source: EHCVM 2018-2019, EHCVM 2021-2022.

There are marked regional inequalities which put a strain on social cohesion. The disparities between the northern regions and southern regions can be seen in almost all dimensions of social well-being (Table 2). The social indicators of the Littoral region, where the economic capital Cotonou is located, are particularly positive compared to the other regions. For example, the poverty rate and the out-of-school rate for 15-27 year-olds in the northern regions are on average two and three times higher, respectively, than in the Littoral region. This development gap can adversely affect social cohesion.

The initial results from the Harmonized Survey on Household Living Conditions (EHCVM) (2021-2022) are encouraging. The incidence of monetary poverty has fallen by 2.3 pp compared to the 2018-2019 data at national level, but the decline is on average higher in the four northern regions (-4 pp).[13] However, in the medium and long term, it is essential to further reduce the disparities in terms of poverty and access to basic services to enable more virtuous and balanced development, ensuring social peace.

[13] INStad (2023), *Poverty Brief 2022.*

4. Organized economic transformation as the spearhead of the authorities

Graph 21 - Glo-Djigbé: An integrated special economic zone

Source: GDIZ (Glo-Djigbé Industrial Zone) Benin, AFD.

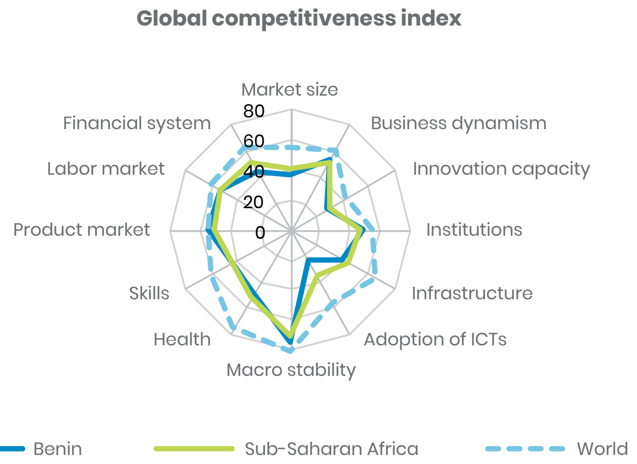
The structural transformation of the economy is the top priority for the authorities. Pillar 2 of the PAG 2021-2026 represents more than 60% of the costs estimated by the government and aims to broaden the country's productive base. The authorities aim to establish new growth-enhancing and high-value-added sectors providing quality jobs. Several priority sectors have thus been identified to develop the country's existing strengths (know-how, culture, natural capital), including agriculture, agribusiness, textiles, and tourism.

The government's strategy is based on ramping up the industrial policy. The Investment Code was amended in 2020 to establish three special regimes with targeted tax benefits for the priority sectors. Similarly, the Glo-Djigbé special economic zone is one of the government's flagship projects. It aims to attract manufacturing industries through tax incentives and an integrated provision of facilities and services to promote local value chains, accelerate exports, and support port activities. At the end of 2023, the zone already had 36 investors, 12 production units, and had created 10,000 direct jobs, with 14 other sites under development and the aim of creating 40,000 jobs. Glo-Djigbé ultimately aims to create 300,000 direct jobs. However, this job creation would be lower than the annual increase in the working age population projected by the UN (~380,000 people a year between 2020 and 2050). Consequently, it is essential to enable the emerging sectors in the economic zone to expand nationwide and benefit Beninese companies. However, the effectiveness of the special economic zones in terms of achieving a nationwide transformation is disputed. An empirical study by the World Bank shows that, although there are economic benefits with positive spillover effects at local level, they are often barely noticeable more than 50 km away from the zone.[14]

Vertical policies to promote the development of the priority sectors could be improved by accompanying them with horizontal policies for the entire economy. To create sufficient jobs in terms of both quantity and quality, the high-potential sectors will ultimately need to be developed nationwide. Benin continues to lag well behind in terms of competitiveness, which could hinder the development of a robust and productive private sector (Graph 22). Indeed, the country has one of the lowest world rankings in the Global Competitiveness Report in terms of infrastructure quality (127 out of 141), market size (128), the effectiveness of the financial system (130), and the adoption of information and communication technologies (ICTs) (134). The gaps in infrastructure, in particular for transport, pose a major challenge given the key role of transit activities for the Beninese economy.

The authorities' holistic and coordinated approach could make Benin a model of successful industrial policy in Africa. A successful industrial policy needs to go beyond simply providing tax benefits. Multi-sectoral complementarities and a coherent set of measures are critical for establishing robust and competitive sectors.[15] In Benin, there are coordination efforts between the various actors and the government's spheres of action. For example, the national education strategy has been revised to promote technical and vocational training. The objective is to ultimately direct 70% of students towards these courses to meet the needs of the new emerging sectors. Similarly, the measures planned to support the agriculture sector and facilitate access to inputs could improve the performance of the sector and thereby secure the supply of raw materials for the agribusiness industry. Infrastructure projects would also be designed to take account of the present and future areas where these sectors are established. If the government continues its industrial policy in an effective, coherent and coordinated manner, and complements it with further structural reforms and investments that benefit the whole country, the transformation of the economy could indeed accelerate.

Graph 22 - Benin still has a significant competitiveness gap

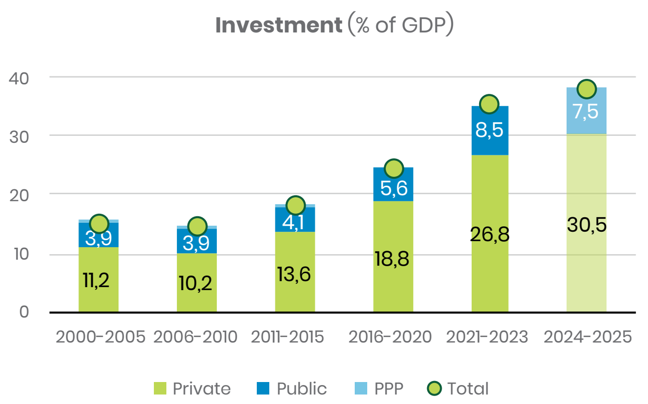


Source: World Economic Forum, AFD calculations.

[14] World Bank (2017), *Special Economic Zones: An Operational Review of Their Impacts.*

[15] UNIDO (United Nations Industrial Development Organization) (2020), *Industrialization as the Driver of Sustained Prosperity.*

Graph 23 - A marked increase in private investment



Source: IMF, AFD calculations.

As a positive development, there is a strong upward trend in structural investments for the economy. Since the 2010s, the total investment to GDP ratio has risen almost continuously. This is mainly due to an acceleration in private investment, with the share of public investment in GDP remaining broadly stable at around 3-4% until 2016 (Graph 23). From 2016 onwards, public investment gradually increased under the impetus of the government's infrastructure development program. This investment plays a major role in revitalizing the economy and improving the quality of infrastructure, in particular for transport. It also has a knock-on effect on private investment, which has been growing rapidly since 2016. The investment rate thus increased from 18% of GDP on average for 2011-2015 to 35% of GDP for 2021-2023. This trend is expected to continue in the medium term and support the transformation of the economy.

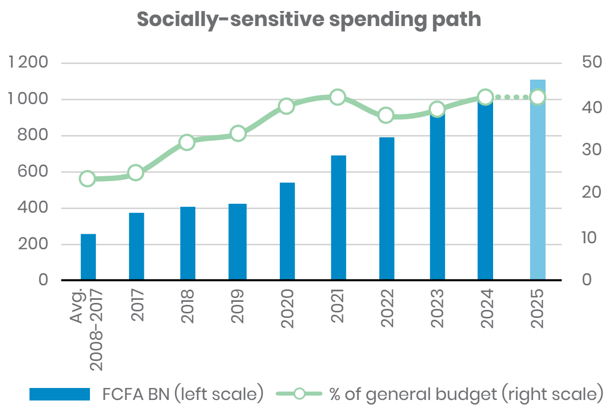
5. Need to strengthen social systems

Efforts to strengthen the social fabric are being stepped up to take full advantage of the country's good economic performance.

The government has launched initiatives to gradually extend social protection. Since 2019, the authorities have been implementing the "Insurance for Human Capital Strengthening" (ARCH) program which aims to strengthen basic social service capacity and access and offer more economic opportunities (training, insurance services, pensions, health coverage), targeting the poorest population groups. At the end of 2022, almost 900,000 people from the poorest segments of the population had been identified and enrolled in ARCH. They now benefit from free treatment in Benin's public health facilities.[16] Finally, Benin has also adopted a Holistic Social Protection Policy (2024-2033) which sets out the policy directions and priority policies to strengthen social systems. To more effectively target the social programs while mitigating the budgetary impact of their expansion, the creation of a unique social register is moving forward and will improve the identification and monitoring of vulnerable people.

A major overhaul of the education system is underway. In line with its industrial strategy and to better adapt training to private sector needs, the government has developed a National Education and Technical and Vocational Training Strategy (2020-2030). The objective is for 70% of post-primary students to follow these courses by 2030, against 5% in 2018.[17] The government has in particular launched a program to build and refurbish 30 agricultural colleges and 7 trade schools. To improve primary school retention, the Integrated National School Feeding Program (PNASI) was established in 2018 to extend school canteens to all public primary schools in food-insecure areas with lagging school enrolment. The PNASI now covers 75% of public primary schools with more than 1.3 million beneficiaries.

Graph 24 - Rise in social spending



Source: Ministry of Economy and Finance.

The budgetary resources allocated to social issues are increasing. In 2024, socially-sensitive spending[18] was estimated at FCFA 1 trillion, four times the average for 2008-2017 (Graph 24). This trend is expected to continue in 2025, with almost 42% of the general budget allocated to this type of spending, well above the share allocated in 2017 (24%). The budgets for social protection, education and health should thus increase by more than 30%, 40% and 50%, respectively, by 2027.

[16] World Health Organization (WHO), *Towards Universal Health Coverage (UHC): Government of Benin Expanding Health Coverage to Extreme Poor.*

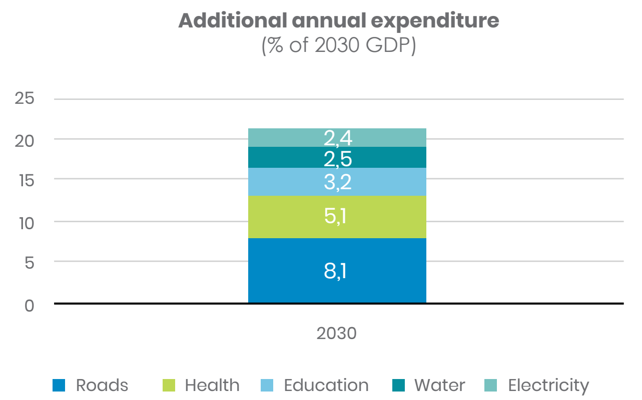
[17] Ministry of Secondary Education and Technical and Vocational Training (2020), *National Education and Technical and Vocational Training Strategy (2020-2030).*

[18] Socially-sensitive spending, as defined by the Beninese government, includes economic and social action to improve the well-being of people: social protection/social affairs and microfinance, youth and women's employment, energy and water, digital technologies, education, health, sanitation of the living environment, security and civil protection, sport, and agriculture.

6. Barriers still need to be removed to sustain the emergence

There are substantial long-term public spending requirements. Benin would need to increase its spending on education and health by 1.5% of GDP, if only to catch up with the West African average. The authorities target a rate of 0.5 percentage points *per* year, meaning three years of revenue mobilization. In the long term, Benin faces increased financing needs for its road, energy and water supply infrastructure. The IMF estimates that the additional financing required to achieve the SDGs in Benin will represent 21% of GDP a year in 2030 (Graph 25). These estimates do not fully reflect the cost of the measures planned by the government to tackle climate change. Benin's latest Nationally Determined Contribution estimates the costs associated with this at approximately $11 billion for ten years (5.6% of GDP a year), including $8.6 billion (4.4% of GDP) for mitigation measures and $2.4 billion (1.2% of GDP) for adaptation.[19]

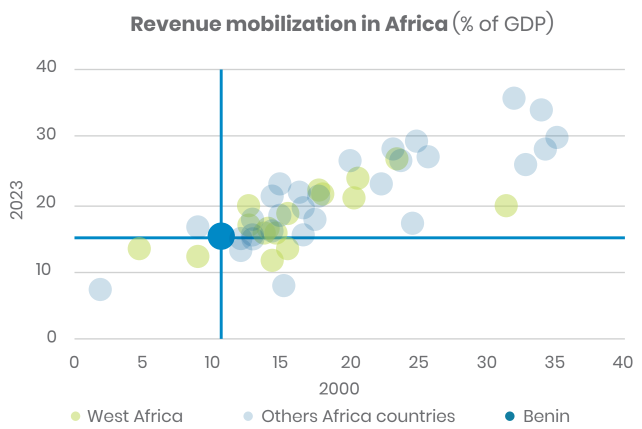
Graph 25 - Substantial financing is needed for the achievement of the SDGs



Source: Prady, D. & M. Sy (2019).

Consequently, revenue mobilization poses a major challenge for the long-term development path. With a tax-to-GDP ratio of 15%, Benin is one of the Sub-Saharan African countries that mobilizes domestic revenue the least (Graph 26). This level of mobilization is insufficient to meet the country's financing needs. The authorities have managed to reverse the downward trend seen before 2016, when government revenue reached its lowest level (11% of GDP). Maintaining this course of a phased revenue mobilization over the long term is thus essential to support the development path, while preserving the sustainability of public finances.

Graph 26 - One of the lowest levels of revenue mobilization in Africa



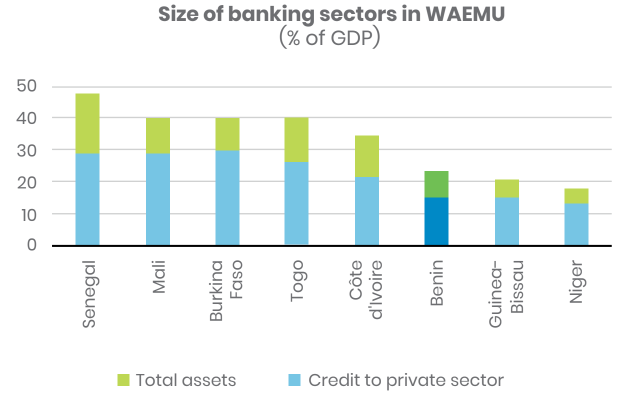
Source: IMF.

The financial sector also has a role to play, but it remains underdeveloped and participates too little in financing the economy. This financing is dominated by banks (90% of assets), with 15 commercial banks, the 4 largest being pan-African institutions. With total assets of 24% of GDP and credit to the private sector of 15% of GDP, Benin is one of the WAEMU countries with the least developed banking sector (Graph 27). Benin's financial system has developed gradually in recent decades, but this trend was reversed as of 2018, with an increasing gap

[19] Ministry of the Living Environment and Sustainable Development (2021), *Benin's Updated Nationally Determined Contribution.*

with the rest of the region. In addition, access to bank financing is often the preserve of a small number of dominant formal enterprises, while the vast majority of operators, often informal microenterprises, struggle to access financing. In September 2024, only a handful of 50 large corporations accounted for 37% of credit to the economy.[20] This has an impact on the country's economic performance and hinders private sector development.

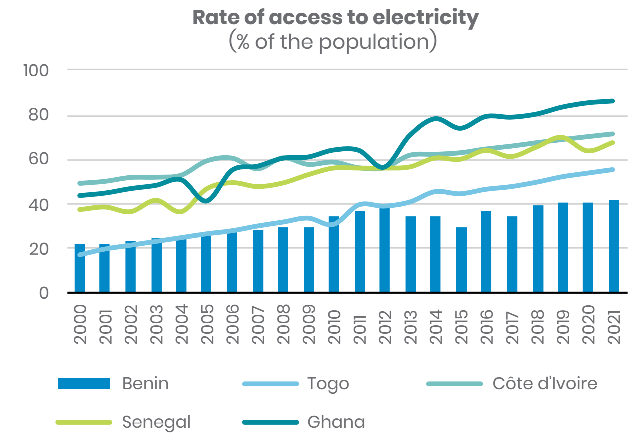
Graph 27 - Banking system lacks depth



Source: World Bank.

An ageing, inefficient and costly energy system is a major barrier to the development of domestic industries. Benin's industrialization will not be possible without reliable and cheap energy.[21] Yet Benin's energy system remains underdeveloped and suffers from chronic deficiencies. Only 42% of the population has access to electricity (against 56% in Togo, 68% in Senegal, 71% in Côte d'Ivoire and 86% in Ghana, Graph 28), while the population and companies face recurrent power cuts. In addition, the cost is high, with tariffs at $0.25 *per* kilowatt-hour (kWh) in 2021, above the averages in Sub-Saharan African ($0.17/kWh) and the world ($0.13/kWh), while they remain insufficient to cover operators' production costs.[22] Domestic demand is currently covered by imports of fossil fuels, which accounted for 40% of total energy supply and almost quadrupled between 2000 and 2022, and electricity (56% of total electricity supply). With a growing population, an expansion of economic activities, and the ambition of improving living standards, the issue arises of ensuring a robust and sustainable energy supply. In response, the authorities are implementing a national electrification strategy which aims to ensure universal access to electricity by 2030, while energy self-sufficiency is among the priority actions of the PAG 2021-2026.

Graph 28 - Access to electricity remains limited



Source: World Bank.

To ensure sufficient and autonomous energy supply, it is essential to ramp up renewable energies. The energy mix is low-carbon, with 50% based on biomass (used in traditional heating and cooking appliances), 36% oil (mainly for mobility) and 3% natural gas (used in thermal power plants), while solar and hydro energy account for a negligible share of the energy mix (<1%), along with sources of electricity generation (3.3%). Yet the country has strong solar, hydro and wind

[20] BCEAO (2024), *Report on Monetary Policy in WAMU - December 2024.*

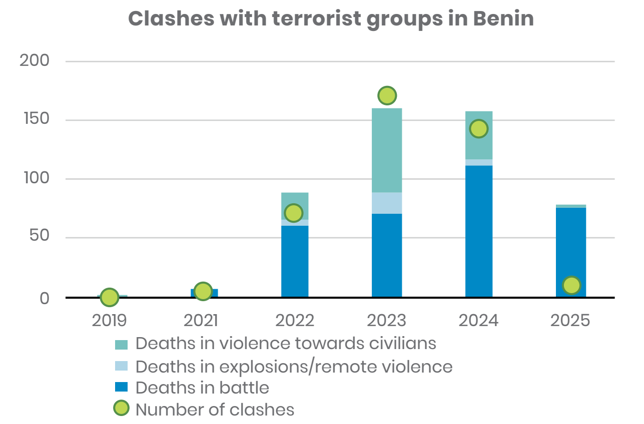
[21] Nkoa, B.E.O. & A.B.F Ngoh (2024), *Industrialization in Africa: The Role of Energy Transition*; Djeunankan, R. (2024), *Linking Energy Poverty and Industrialization: Empirical Evidence from African Countries.*

[22] World Bank (2023), *Creating Markets in Benin: Leveraging Private Investment for Inclusive Growth.*

potential,[23] which the government intends to develop, with the objective of achieving a penetration of 20 to 30% of renewable energies in the energy mix by 2035. The development of these energies would not only support the sovereignty of Benin's energy system, but would also address the issue of energy poverty in rural areas through off-grid systems for instance.

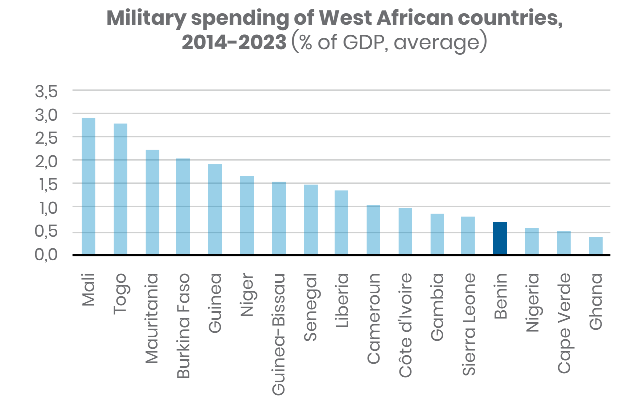
and takes part in regional security cooperation initiatives, including the Accra Initiative. France, the European Union, the USA and China (among others) have all provided military support in recent years. The authorities' approach is not purely military and combines security measures with inclusive development strategies an approach lauded by the UN High Commissioner for Human Rights.[26]

Graph 29 - Clashes with terrorist groups are on the rise [24]



Source: ACLED (Armed Conflict Location & Event Data), AFD calculations.

Graph 30 - A historically low level of military spending



Source : ACLED, calculs AFD

The extremist threat is no longer a distant issue. Since 2018, Benin has been experiencing a rising tide of jihadist attacks, with a significant increase in the number of clashes with terrorist groups and almost 500 people killed (many being the terrorists themselves) since 2019 (Graph 29). The jihadist threat has *de facto* taken root in the northern regions.[25] The authorities are stepping up the fight, in particular by recruiting and deploying thousands of new military recruits and procuring new heavy equipment. The country also benefits from strong support from its international partners

The security challenges pose major humanitarian, economic and budgetary risks. According to the United Nations High Commissioner for Refugees (UNHCR), Benin hosts more than 16,000 refugees and 7,000 asylum seekers (mainly from Burkina Faso), in addition to almost 9,000 internally displaced people.[27] This puts additional pressure on communities and public services in the northern region. Furthermore, the prospects for developing priority sectors could be dampened in a scenario where the threat is not contained: i) the transit activities and the port of Cotonou are exposed to

[23] Akpahou, R., L. Mensah & D. Quansah (2023), *Renewable Energy in Benin: Current Situation and Future Prospects.*

[24] The data in the graph compile the violent events involving "rebel groups" according to ACLED terminology. For Benin, these groups comprise jihadist organizations (JNIM, a group supporting Islam and Muslims, Islamic State in West Africa/the Sahel, Katiba Macina and Boko Haram).

[25] Bidouzo & Ologou (2023), *Le terrorisme au Benin : Perceptions, actions et perspectives.*

[26] UN (2024), *Benin: UN expert welcomes holistic approach to countering terrorism and urges timely justice.*

[27] UNHCR (2025), *Operational Data Portal: Benin Country Profile.*

attacks on roads towards Sahel countries; ii) tourism could suffer from a general feeling of insecurity; iii) supplies for the agro-industry would be at risk (for instance, the four northern regions account for 87% of domestic cotton production and 53% of cashew nuts). In any case, the response to these challenges requires considerable expenditure and could put a strain on public finances. Over the last decade, Benin has been one of the West African countries investing the least in its armed forces (0.7% of GDP on average, Graph 30). While this reflects the stability and the limited geopolitical risks the country had previously enjoyed, the authorities are increasing their defense spending in the deteriorated regional security environment. The 2025 budget thus provides for FCFA 123 billion for defense, a 24% and 40% increase compared to the 2024 and 2023 budgets, respectively.[28]

[28] Ministry of Economy and Finance (2025), *Cross-classification table of government expenditure over the multi-year period 2022-2027.*

7. Conclusion

Benin has undeniably become one of the most dynamic economies in Africa, but the revitalization of its economic and social model remains a key issue for its long-term development path. Significant economic and social strides have been achieved, but the country's strong growth for a number of years now will alone not be enough to improve the standard of living of the entire population and offer economic opportunities to future generations. Beyond growth, it is the transformation of the economy towards sectors with high growth potential, creating jobs in terms of quantity and quality, and the strengthening of social systems, that will enable Benin to enter into a new era of prosperity.

The momentum generated by the authorities reflects a real effort to build the foundations for this transformation. The reforms, programs and projects are being implemented to serve a holistic vision and are already yielding results. However, this strategy is not without risks. The ramp-up of the industrial policy may certainly provide effective tools for the creation of promising sectors, but it requires effective coordination between the various public and private sector actors and a response through horizontal policies, otherwise it will be difficult to extend the benefits nationwide. In addition, the challenges of financing need to be addressed through government revenue and the financial sector, as well as the creation of a reliable, efficient and sustainable energy system. Finally, there are multiple threats. The regional fragmentation, the global geopolitical and financial tensions, as well as the deterioration of the security situation and inequalities across the country, all pose risks for Benin. This is why it is important to continue the transformation, while maintaining social peace, as well as the institutions and good governance of the country, which have historically made it a model for French-speaking Africa.

If the authorities manage to make headway with all three pillars of the PAG – democracy and rule of law, structural transformation of the economy, and social well-being – over the long term, "Benin Revealed" would indeed appear to be within reach.

List of acronyms and abbreviations

AfDB	African Development Bank
ARCH	Insurance for Human Capital Strengthening
BCEAO	Central Bank of West African States
BN	Billion
CFA	African Financial Community
ECF	Extended Credit Facility
ECOWAS	Economic Community of West African States
EFF	Extended Fund Facility
EHCVM	Harmonized Survey on Household Living Conditions
GDP	Gross domestic product
ICTs	Information and communication technologies
ILO	International Labour Organization
IMF	International Monetary Fund
INStaD	National Institute of Statistics and Demography of Benin
KWh	Kilowatt-hour
M	Million
PAG	Government Action Program
RSF	Resilience and Sustainability Facility
SDGs	Sustainable Development Goals
TVET	Technical and Vocational Education and Training
UN	United Nations
UNCTAD	United Nations Conference on Trade and Development
UNDESA	United Nations Department of Economic and Social Affairs
UNHCR	United Nations High Commissioner for Refugees
UNIDO	United Nations Industrial Development Organization
USD	U.S. dollar
WAEMU	West African Economic and Monetary Union
WHO	World Health Organization

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Agence française de développement
5, rue Roland Barthes
75012 Paris I France
www.afd.fr

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