MINISTÈRE DE L'ÉCONOMIE ET DES FINANCES

RÉPUBLIQUE DU BÉNIN

INFF Integrated National Financing Frameworks

2ème African Workshop on National Integrated Financing Frameworks

SDG BOND ISSUE AND RESTRUCTURING OF THE DEBT OF BENIN

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PRESENTATION PLAN

- Some introductory reminders
- Characteristics of the SDG bond issue
- Eligible expenses
- Resource Allocation
- Focus on public debt
- CNFI
- Concluding words

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1. some introductory reminders

- In 2015, the 193 member states of the United Nations adopted the 2030 Agenda for Sustainable Development. This Agenda "provides a shared blueprint for peace and prosperity for people and the planet, now and in the future" and includes 17 Sustainable Development Goals (SDGs).

- After five years of implementation, the international community has launched the decade of action that calls on all countries to accelerate the implementation of sustainable solutions to the major challenges facing the world, poverty and gender inequality, climate change including various inequalities.

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1. some introductory reminders

- In Benin, as early as 2016, the Government set up a new dynamic through the adoption of a coordinated approach to internalize the Sustainable Development Goals (SDGs), which allowed for the successive prioritization of the most pressing targets for Benin and the costing of achieving the SDGs.

- On the strength of its institutional arrangements for achieving the SDGs, and to affirm its determination to make significant progress on the SDGs in the decade of action, Benin launched in July 2021, for the first time in its history and in Africa, a bond issue intended to finance projects with a high impact on the achievement of its relevant SDG targets, called **Eurobond SDG.**

2. Characteristics of the bond issue

- In July 2021, Benin made its mark on the international market with a **500 million euro** issue (**328 billion CFA francs** with a **12.5-year maturity**). The particularity of this issue (the first issue of an ODD Eurobond by an African country and one of the first worldwide) is that it is exclusively intended to finance various social and environmental projects contributing to Benin's commitments to achieve the ODD.

- Benin has reaffirmed the innovative nature of its debt management strategy with this ODD Eurobond issue and renewed its commitment to the ODD. The **4.95%** coupon obtained for this ODD Eurobond reflects investors' confidence (with **a subscription rate of 300%)** in Benin's creditworthiness. The negative new issue premium of 0.20 percentage points obtained, testifies to the significant appetite of investors for this innovative instrument.

2. Characteristics of the bond issue

The success of the Eurobond ODD issue depends on the implementation of a clear strategy by the Government through the following major steps:

- **Drafting of an SDO bond issue framework document**
- **Agreement with Vigéo Eiris (Moody's group)**
- **Benin's financial rating continues to improve**
- **Establishment of a steering, monitoring and reporting committee for the SDO obligations.**

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2. Characteristics of the bond issue

Summary of the main financial characteristics of the loan

Transmitter	Republic of Benin
Date of issue	July 15, 2021
Credit rating (requested)	S&P: B+ (stable outlook) / Moody's: B1 (stable outlook)
Currency	Euro
Tenor	12.5 years
Maturity	January 22, 2035
Amount	500 million
Performance	5.25%
Coupon rate	4,95 %
Premium	**0.20 percentage points**

Source: MEF, July 2022

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3. Eligible expenses

The proceeds of Benin's ODD bonds are housed in the Public Treasury's common and unique account. It is intended for State expenditures and for the financing of projects/programs contributing in general to the four objectives of the National Development Plan, namely

(i) develop a healthy, competent and competitive human capital;
(ii) to increase the competitiveness of the Beninese economy in a sustainable way;
(iii) ensure the sustainable management of the living environment and the emergence of regional development poles; and
(iv) consolidate the rule of law and good governance,

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3. Eligible expenses

Four pillars (**Population**, **Prosperity**, **Planet and Partnerships**) have been built around these goals in the framework of the SDG bond issue, which are themselves broken down into **12 categories of eligible expenditure**.

These 12 categories from which eligible ODD expenditures are selected, as well as the associated eligibility criteria, have been defined in the framework document available on the website of the Ministry of Economy and Finance.

3. Eligible expenses

The selection process for eligible SDO expenditures is conducted by a **steering committee**.

This committee carries out fundamental tasks, including **validating the eligibility of** projects, assets and expenses, **evaluating and selecting** eligible **expenses, and** **analytically allocating the funds raised.**

3. Eligible expenses

Président : MEF

Le Comité de Pilotage est présidé par le Ministre d'État en charge de l'Economie et des Finances (MEF) , avec pour bras opérationnel le **directeur général de l'économie (DGE)** appuyé par **le directeur général du budget** (DGB).

Vice-Président : DGCS-ODD

Le directeur général de la coordination et du suivi des ODD (DGCS-ODD) assure la vice-présidence du Comité de Pilotage au nom du ministre d'État en charge du développement et de la coordination de l'action gouvernementale.

Sous-Comité Population

Le secrétariat technique est co-assuré par **l'Agence nationale de protection sociale (ANPS) et l'Institut national de la statistique et de la démographie (INSD)**.

Sous-Comité Prospérité

Le secrétariat technique est assuré par la **Direction générale de la programmation et du suivi des investissements publics (DGPSIP)** au vu de son rôle de mise en œuvre de la gestion du cadre général des investissements publics et du suivi de ces investissements.

Sous-Comité Planète

Le secrétariat technique est co-assuré par **l'Agence béninoise pour l'environnement (ABE) et la Direction générale de l'environnement et du climat** pour le suivi des dépenses et des projets.

Sous-Comité Partenariats

Le secrétariat technique est assuré par **la Direction générale de la promotion touristique** pour le suivi des dépenses et des projets.

DGPD

La Direction générale des politiques de développement (DGPD), du ministère du développement et de la coordination de l'action gouvernementale, participe aux travaux de consolidation des documents produits par les sous-comités et à la production du rapport de suivi annuel.

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3. Eligible Expenditures

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Selection process for eligible expenses

Budget in relation to the SDGs	Supervised by each ministry in accordance with the expenditure lines defined in the national budget
Initial budget analysis to identify eligible expenses	Supervised by the General Directorate of the Economy in accordance with the issuing framework
Analysis of the most important expenses for prioritization	Supervised by the DGCS-ODD with the help of the DPP of each ministry
Finalization of the list of eligible expenses	Monitoring of expenditures and reporting by the SDO Steering Committee

Source : SDO bond issuance framework , 2021

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4. Resource Allocation

Summary of funding allocations to selected projects

Pillars	Nbr of eligible categories	Nbr of projects funded	Reimbursement		New funding		Total allowance	
			Amount (in millions €)	Share (%)	Amount (in millions €)	Share (%)	Amount (in millions €)	Share (%)
Population	5	31	173,2	49,4	177,3	50,6	350,5	72,2
Prosperity	3	15	24,7	45,9	29,1	54,1	53,8	11,1
Planet	3	9	38,5	53,1	34,0	46,9	72,5	14,9
Partnership	1	2	6,3	73,2	2,3	26,8	8,5	1,8
Set	12	57	242,7	50	242,7	50	485,4	100

4. Resource Allocation

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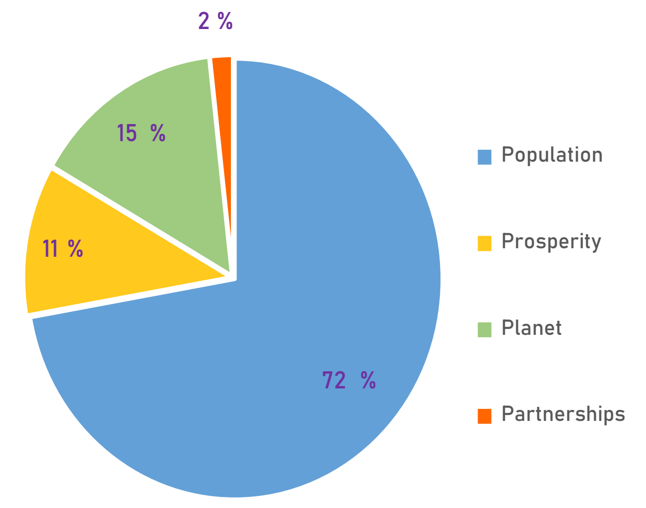
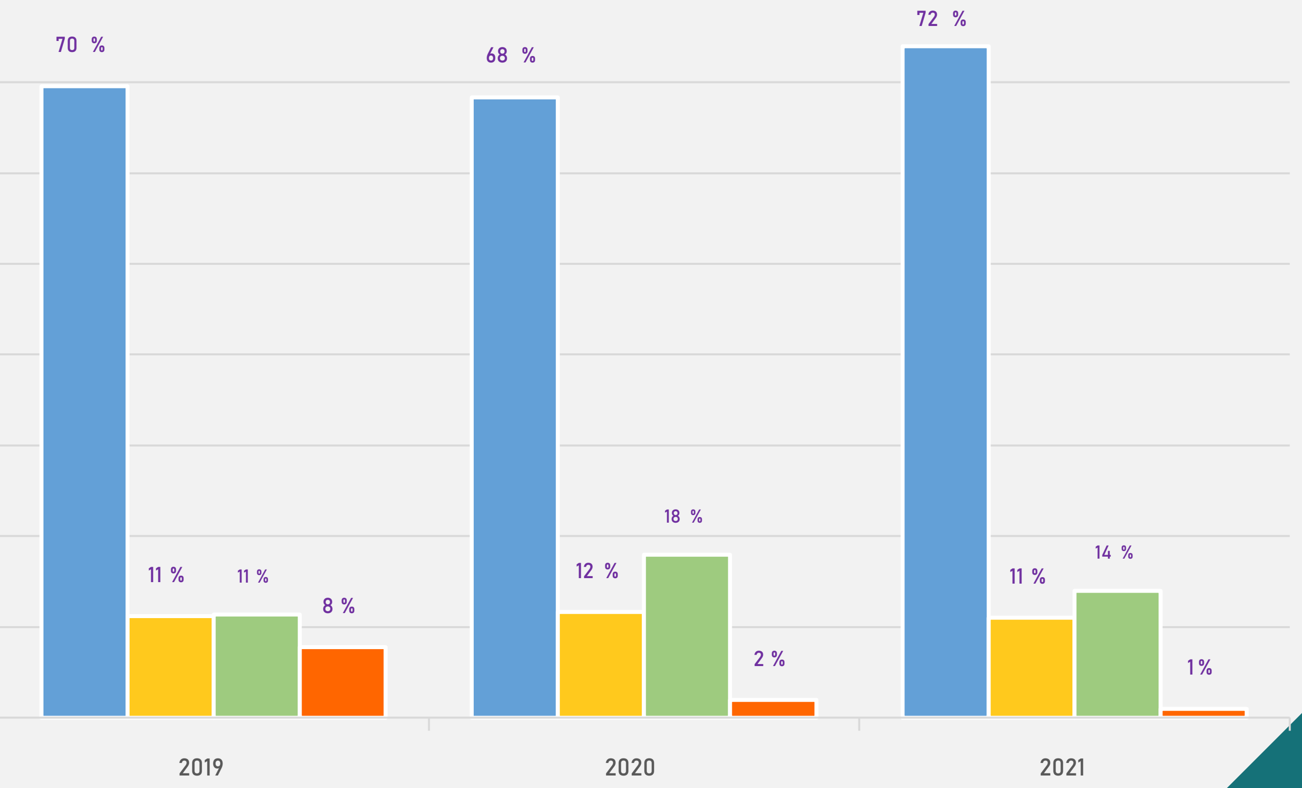
Graphical representation of the allocation of funds to the selected projects





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4. Resource Allocation

485,4
Millions €
allocate
d

57 projects
and expenses
funded

A diversity of
From group of
beneficiaries

- ❖ The allocation of resources is for the totality of the funds raised;
- ❖ This funding covered a variety of eligible projects and expenses for a diverse and varied target population;
- ❖ The mapping of projects in the portfolio shows that all of the country's communes are taken into account in the distribution of funds

5. Focus on public debt

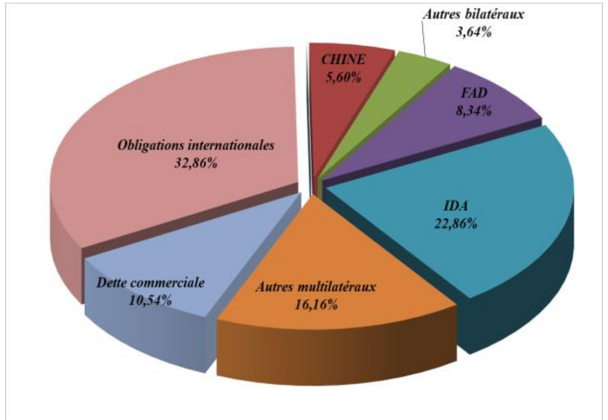
At the end of 2021, the public debt has risen to **49.7% of GDP** from **46.1% in 2020**, an increase of about 4 percentage points of GDP, linked to the adverse effects of the health and economic crisis related to COVID-19.

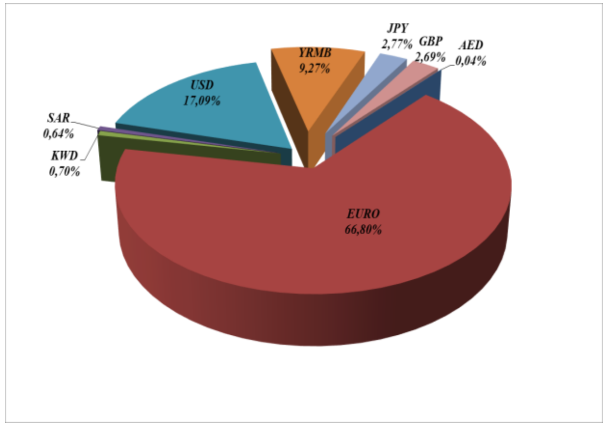
Most of the public external debt is contracted with multilateral creditors **(47.4%),** on concessional terms at the end of 2021.

The stock of external debt at the end of December 2021 amounted to CFAF **3,345.2 billion** compared with CFAF **2,339.7 billion** in 2020. This debt represents **34.0% of GDP and 68.5%** of total debt in 2020, compared with **25.9% and 56.3%** respectively **in 2020.**

5. Focus on public debt

Graph: Breakdown of external debt outstanding by donor and currency





Source: CAA, March 2022

- The main multilateral creditors remain the International Development Association and the African Development Fund, which account for **22.9% and 8.3%** of external debt respectively.
- As far as bilateral debt is concerned, China is the most important creditor with **5.6%** of the external debt.

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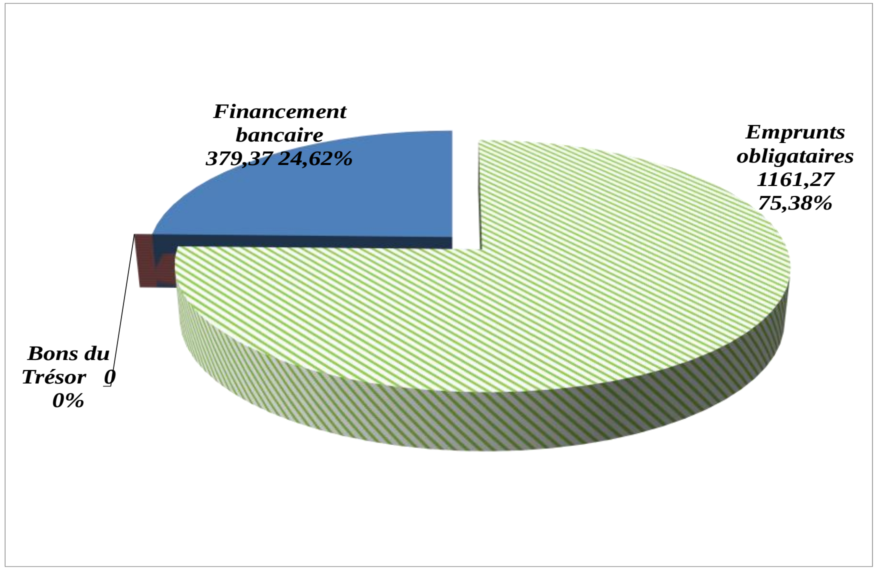
5. Focus on public debt

Graph: Breakdown of domestic debt outstanding by debt instrument



Source: CAA, March 2022

- Domestic debt represents **15.8% of GDP and 31.5% of total public debt at the end of December 2021**. The stock of domestic debt at the end of December 2021 was CFAF 1,540.6 billion, compared with CFAF 1,817.2 billion in 2020.

- This debt is dominated by Treasury **bonds, which account for 75.4%** (CFAF 1,161.27 billion) of its stock, followed by **bank loans** (CFAF 379.4 billion).

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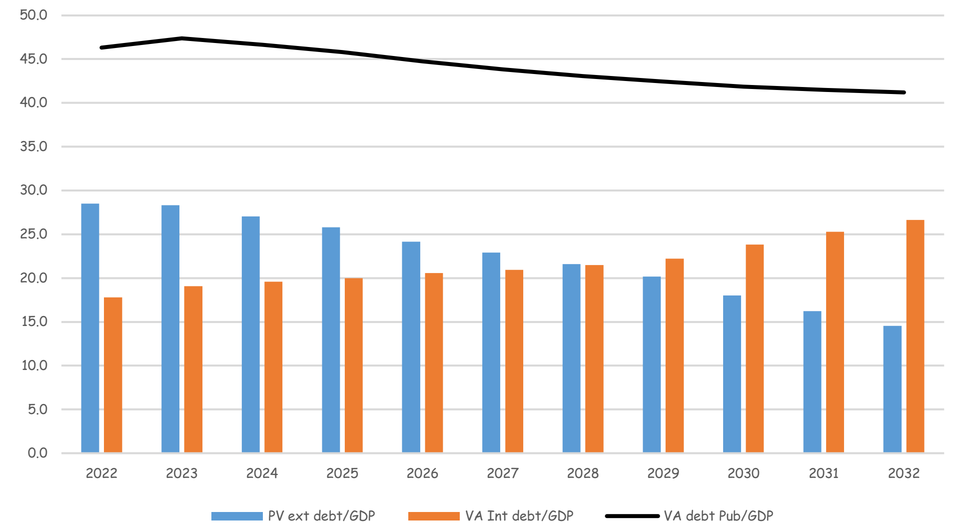
5. Focus on public debt

Graph: Current values of public debt, external debt and domestic debt as a % of GDP



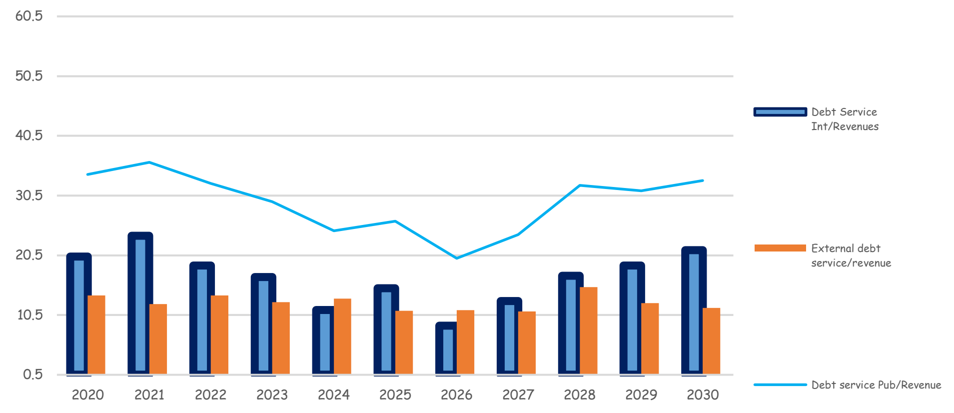
Source: CAA, March 2022

- The public debt ratio would show an upward trend from 2022 to 2024 and then gradually decline from 2025 before stabilizing between 2026 and 2031 at an average of **42.9%**.

- This ratio would rise to 46.9% of GDP, its maximum, in 2039, 8.1 percentage points below its benchmark of 55%.

5. Focus on public debt

<u>Graph</u>: Debt service to budget revenue ratio (%)



<u>Source</u>: CTA/CNE, March 2022

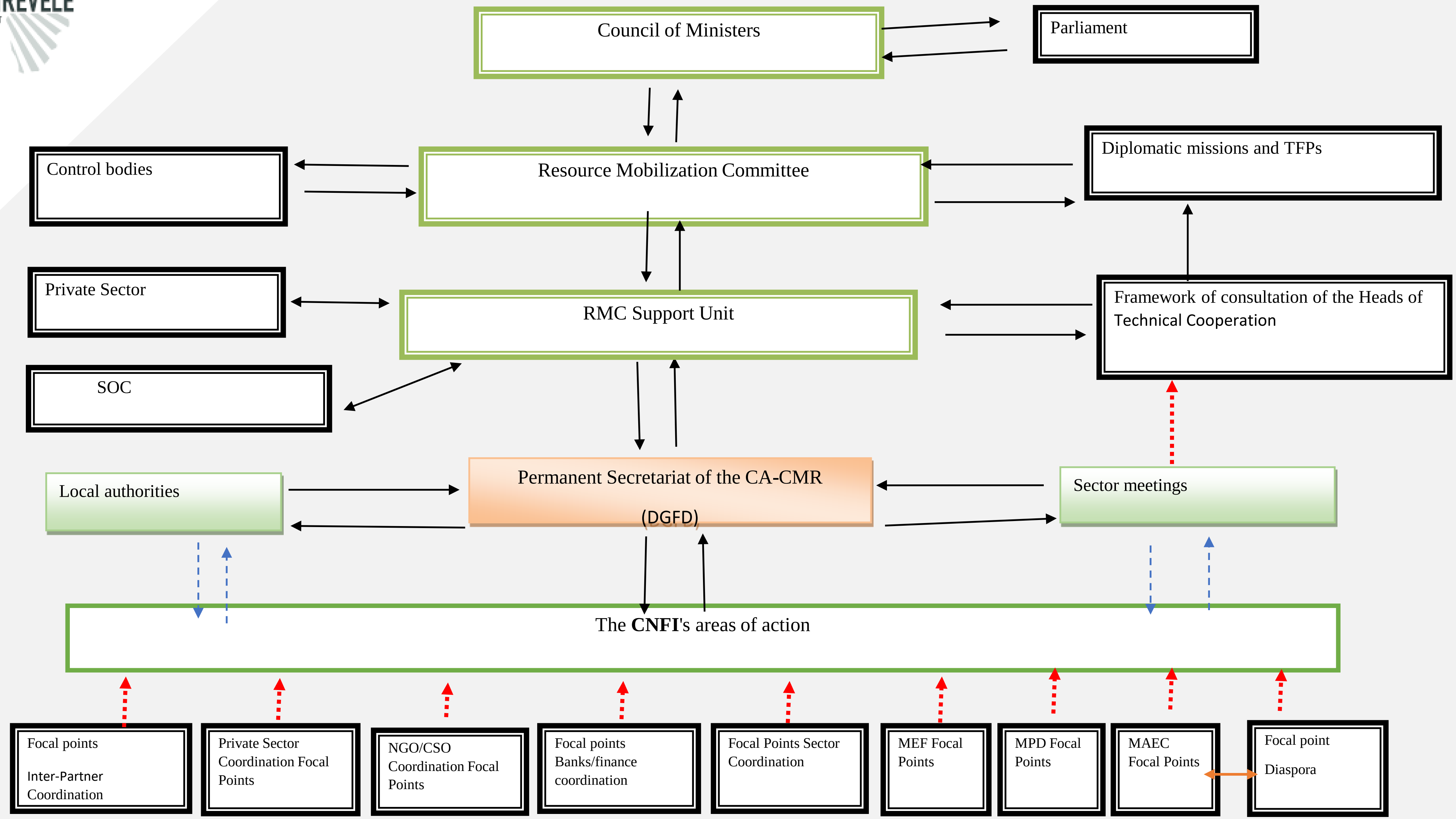
- Debt service would fall from 34.4 percent of revenue in 2022 to 24.6 percent in 2027. The high level of service at the beginning of the period is attributable to the servicing of the domestic debt induced by the repayment of government securities in 2023.
- The external debt service to exports ratio would rise to 11.6% in 2030 due to Eurobond repayments. The ratio of external debt service to budgetary revenues (excluding grants) would rise to an annual average of around 13.3% over the period 2030-32 in connection with the repayment of the 2032 Eurobond.

5. Focus on public debt

Distinctions for good financial and debt management

- ✓ The prestigious international financial affairs magazine The Banker, a publication of the Financial Times Group, **awarded on May 4, 2022, the "Deal of the year" prize** in the "Sustainable Finance - Africa" category to Benin's Eurobond issue, dedicated to the financing of projects with a high impact on the United Nations' Sustainable Development Goals (SDGs).
- ✓ Benin ranked **first out of 76 for debt transparency in IDA countries** by the World Bank (2020), illustrating the Republic's high standards of governance. As of July 2020, Benin is classified by the World Bank as a **lower middle-income country**;
- ✓ Benin received the "**Most Impressive African Issuer**" award in 2021 by GlobalCapital (3rd place) Benin's Minister of State in charge of Finance received the "**Most Impressive African Funding Official"** award **in 2021** by GlobalCapital;
- ✓ Benin received the **2019 Global Markets Award** for Best Public Debt Management Agency in Sub-Saharan Africa.

6. CNFI



Council of Ministers
Parliament
Control bodies
Resource Mobilization Committee
Diplomatic missions and TFPs
Private Sector
RMC Support Unit
Framework of consultation of the Heads of Technical Cooperation
SOC
Local authorities
Permanent Secretariat of the CA-CMR (DGFD)
Sector meetings
The CNFI's areas of action
Focal points Inter-Partner Coordination
Private Sector Coordination Focal Points
NGO/CSO Coordination Focal Points
Focal points Banks/finance coordination
Focal Points Sector Coordination
MEF Focal Points
MPD Focal Points
MAEC Focal Points
Focal point Diaspora

6. Concluding words

- ✓Financing development requires significant financial resources that domestic revenues cannot cover.

- ✓ODA is certainly necessary but remains insufficient to finance development projects and programs.

- ✓It is becoming scarce nowadays and leads to the use of other instruments and forms of financing such as green climate funds, PPP, innovative financing, diaspora funds, etc.

6. Concluding words

- The use of sustainable bonds sends a signal to international capital markets about the determination of national authorities to make progress in achieving sustainable development.
- The debt sustainability analysis reveals that Benin is at moderate risk of external and overall public debt distress. The external and overall public debt indicators would remain well below their respective thresholds under the baseline scenario.
- The important thing for us is to improve the quality of the use of these resources in order to eventually get out of the dependence on ODA, following the example of emerging countries.
- The operationalization of the CNFI will contribute to increasing the resources needed for financing the SDGs in Benin.
- ✓ The Government of Benin is more than ever mobilized to implement the United Nations 2030 Agenda.

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FOR FURTHER INFORMATION

See the sites below:

- https://odd.finances.bj
- https://www.caa.bj

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