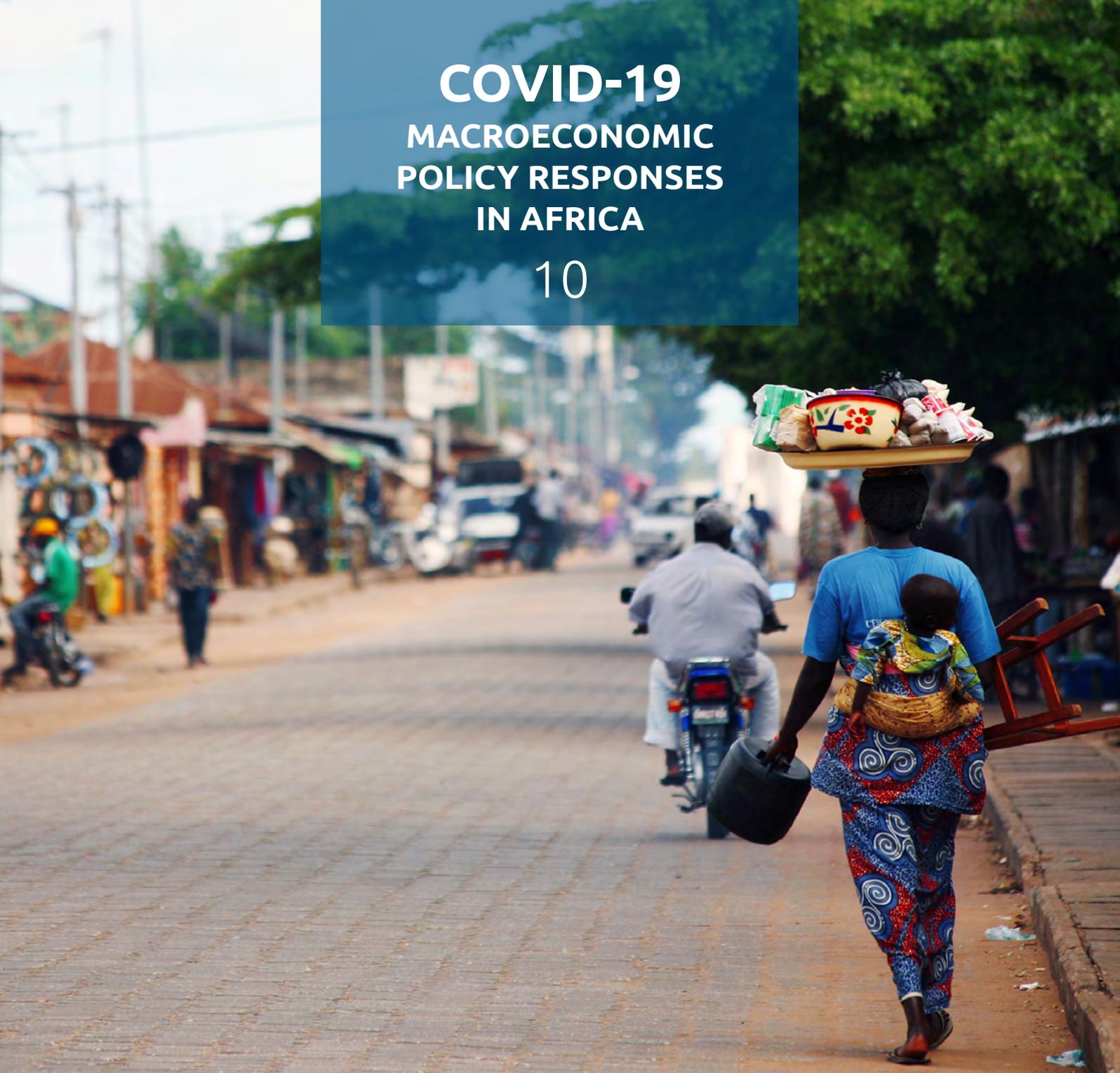


COVID-19 MACROECONOMIC POLICY RESPONSES IN AFRICA

10



Macroeconomic Policy Development in Benin

Ian Heffernan



International Development Research Centre
Centre de recherches pour le développement international



About CoMPRA

The COVID-19 Macroeconomic Policy Response in Africa (CoMPRA) project was developed following a call for rapid response policy research into the COVID-19 pandemic by the IDRC. The project's overall goal is to inform macroeconomic policy development in response to the COVID-19 pandemic by low and middle-income countries (LMICs) and development partners that results in more inclusive, climate-resilient, effective and gender-responsive measures through evidence-based research. This will help to mitigate COVID-19's social and economic impact, promote recovery from the pandemic in the short term and position LMICs in the longer term for a more climate-resilient, sustainable and stable future. The CoMPRA project will focus broadly on African countries and specifically on six countries (Benin, Senegal, Tanzania, Uganda, Nigeria and South Africa). SAIIA and CSEA, as the lead implementing partners for this project, also work with think tank partners in these countries.

Our Donor

This project is supported by the International Development Research Centre (IDRC). The IDRC is a Canadian federal Crown corporation. It is part of Canada's foreign affairs and development efforts and invests in knowledge, innovation, and solutions to improve the lives of people in the developing world.

Abstract

This document outlines the economic impact of the COVID-19 pandemic in Benin. We focus on the monetary and fiscal policy implemented by the government of Benin and the Central Bank of West African States (BCEAO). We found that the government and the central bank acted rapidly to contain the spread of the virus to minimise any adverse economic consequences. Fiscal policy took the form of cash transfers and subsidies for households and firms. Monetary policy expanded liquidity through banking and microfinance institutions. A portion of liquidity was specifically allocated to the agricultural sector to ensure food security. The expansion in liquidity

increased consumer prices, which increased the cost of living and could potentially increase poverty. Future fiscal policy should better target those households most impacted by the price increase.

Introduction

The government of Benin has taken decisive action to limit the negative health and economic consequences of the COVID-19 pandemic. In this paper, we outline the policy actions taken by the government and the BCEAO to limit the negative economic consequences in Benin. In particular, we focus on fiscal and monetary policy. Fiscal policy focuses on cash transfers and subsidies as related to the expenses of households and businesses. Monetary policy focuses on increasing liquidity in the banking sector. This is accomplished by lowering interest rates and temporarily easing prudential banking regulation. To help facilitate lending, the government has guaranteed a fraction of new debt issued. In addition to a general expansion in liquidity across all sectors, the agricultural and microfinance sectors have been prioritised. Ensuring access to credit in the agricultural sector will help prevent food shortages and help ensure future food security. Increasing liquidity at microfinance institutions helps to ensure that the informal sector is not left out of the expansionary monetary policy.

Relative to the most affected countries, the spread of the COVID-19 virus in Benin was minimal. As of May 2021, 101 individuals had died of COVID-19 in Benin according to the World Health Organization. In response to the threat of the virus, the government implemented a relatively stringent set of policies to prevent the spread of the virus. This policy response was complemented by a high degree of compliance with social distancing and shutdown orders for the country's citizens. Evidence of this can be seen in the reduction in mobility measured using data from cell phone activity. As described above, the government and the BCEAO responded

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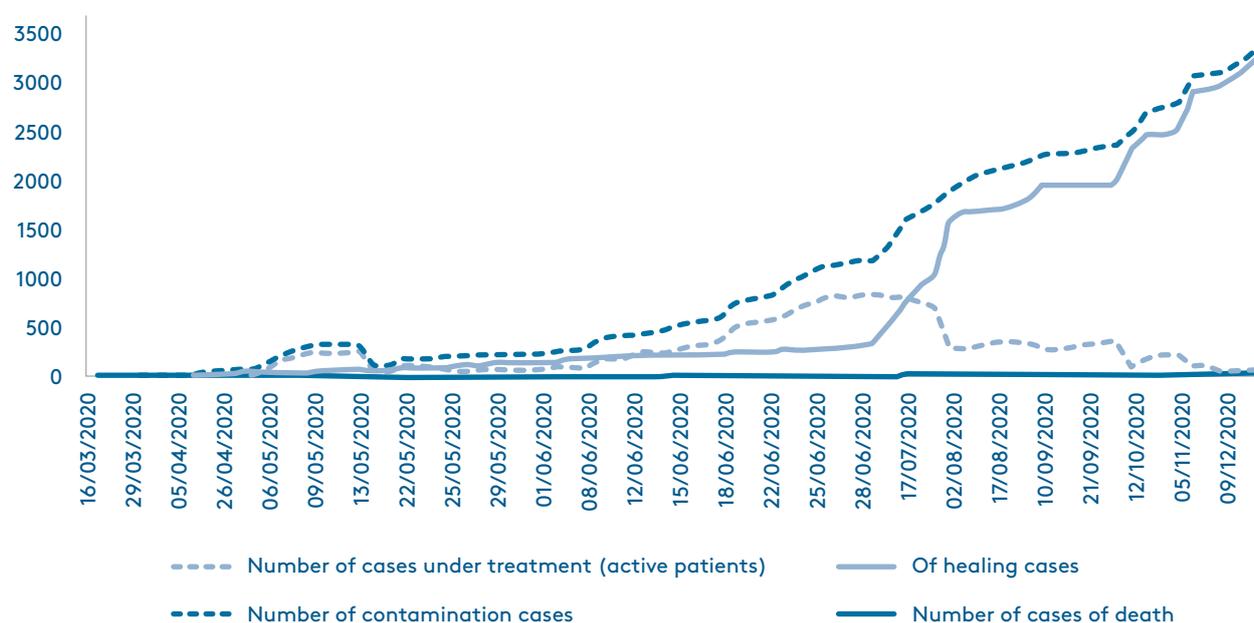
“In response to the threat of the virus, the government implemented a relatively stringent set of policies to prevent the spread of the virus. This policy response was complemented by a high degree of compliance with social distancing and shutdown orders for the country's citizens”

rapidly to the negative economic shock caused by COVID-19. Despite this response, Benin's GDP growth rate fell from 6.5% in 2019 to 4.8% in 2020, and investment fell by 13.4% during the same period.

COVID-19 in Benin

The spread of COVID-19 has been relatively minimal in Benin. As of May 2021, there have been 101 deaths from COVID-19, which is .87 deaths per hundred thousand people. The average for Africa is 536 deaths per hundred thousand and globally there have been 43.1 deaths per hundred thousand.¹ The appearance of the first case of COVID-19 was on March 16, 2020 – the number of contaminations evolved to cross the bar of 1 000 infected people on June 24, 2020. On June 18, Benin recorded its highest number of new cases – 53 – bringing the number of cases to 650. The first death linked to COVID-19 was recorded on April 6, 2020.² (see Figure 1 for a detailed breakdown of COVID in 2020.)

Figure 1 Variability of COVID-19 cases (2020) since the appearance of the first case



Source: Government of Benin, National Institute of Statistics, <https://www.gouv.bj/coronavirus>

1 World Health Organization, WHO Coronavirus (COVID-19) Dashboard, <https://covid19.who.int/>.

2 Government of Benin, National Institute of Statistics, <https://www.gouv.bj/coronavirus>.

By January 4th, 2021 Benin had 75 active cases with a total of 3 304 confirmed cases including 3 185 cured and 44 deaths.³ In the following sections we document the health and economics policies used by the government to contain the spread of COVID-19.

Government response

The government of Benin acted swiftly to contain the adverse health and economic consequences of the pandemic. To measure the magnitude of the government's response to the pandemic, we used the Oxford COVID-19 Government Response Tracker (OxCGRT) dataset. OxCGRT reports publicly available information on fifteen indicators of government responses. The data is collected from sources such as news articles, government press releases and briefings.⁴ This information is aggregated into a series of four policy indexes: government responses; stringency; containment and health; and economic support.⁵ The index is updated regularly as the pandemic and the responses by governments evolve. Figures 2 and 3 plot the indices over time. The indices show that the government responded early to the threat of COVID-19, with most indices reaching their peak in April 2020. The exception was the economic support index that reached its peak in July 2020. However, it should be noted that the BCEAO's economic support through expansionary monetary policy in March 2020 is not captured in the index. Figure 3 plots the stringency index for Benin alongside the average for all African countries. As seen in this figure, the index in Benin tracks that of the average for Africa relatively closely. Given that Benin suffered far less cases than the average African country this suggests that the government responded appropriately to the threat of COVID-19.

Compliance with policy

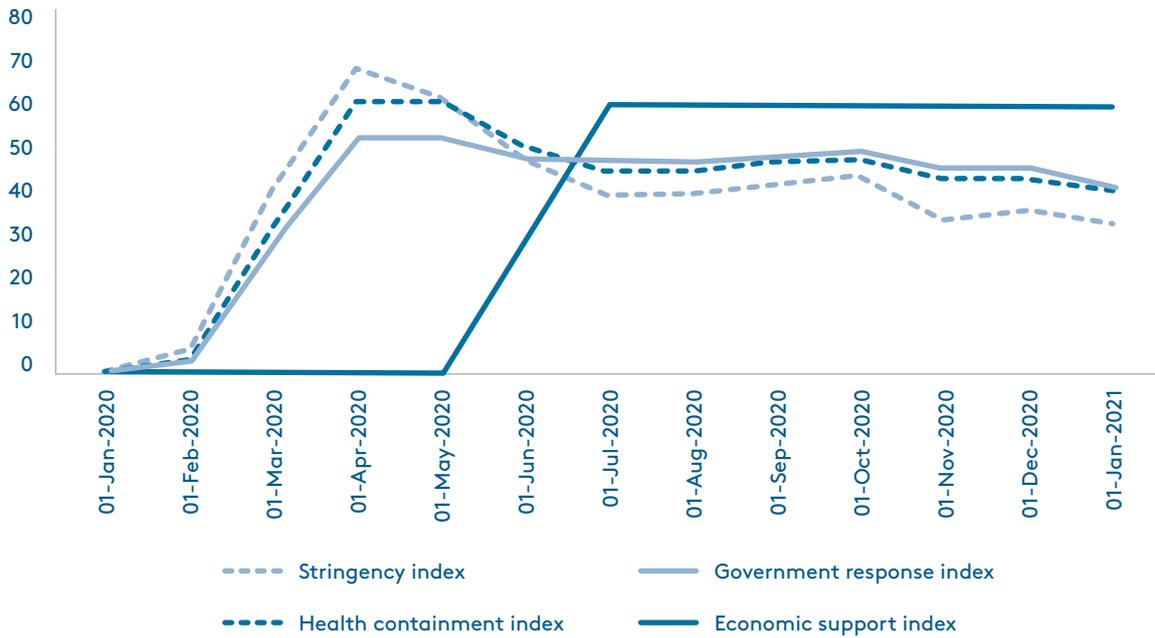
The citizens of Benin contributed to limiting the spread of COVID-19 by limiting their movement and abiding with lockdown orders. We measure the reduction in movement to capture the degree of social distancing and compliance with stay-at-home directives. The reduction in movement variable is measured using Google's [community mobility reports](#). This data documents the number of visits around a range of locations in the community by tracking cell phone internet usage. Figure 4 presents the change in movement to retail locations in Benin. The reported values are the percentage change in visits to retail locations relative to the median value of the

3 Government of Benin, National Institute of Statistics.

4 These sources are identified via internet searches by a team of over 100 Oxford University students and staff. OxCGRT records the original source material so that coding can be checked and substantiated.

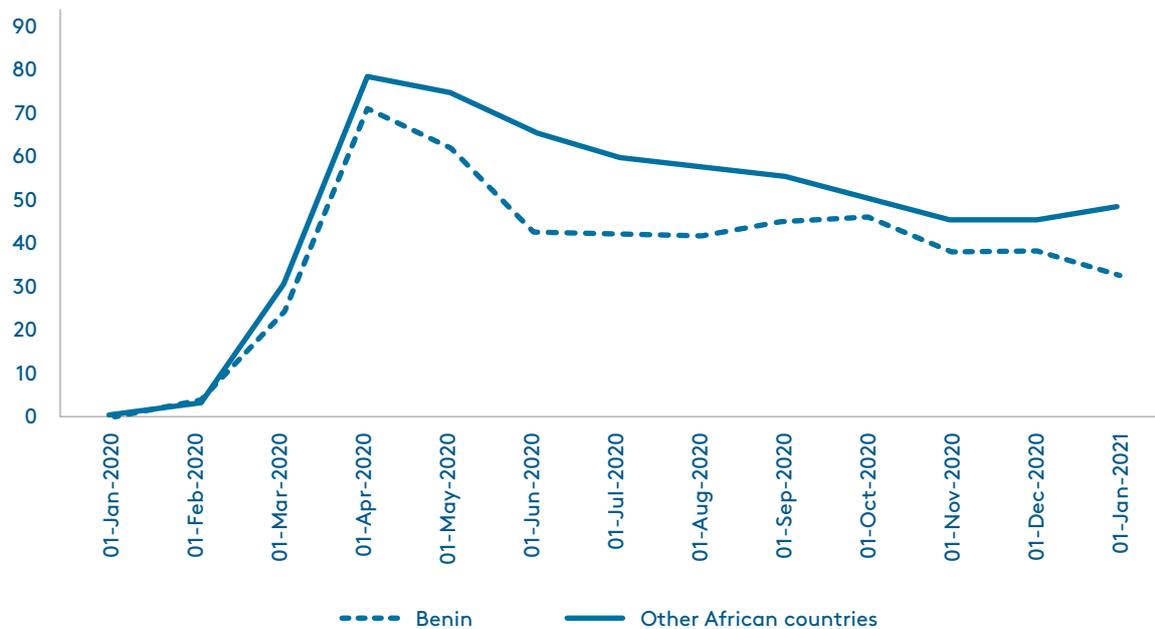
5 Thomas Hale, Noam Angrist, Rafael Goldszmidt, et al. "A Global Panel Database of Pandemic Policies (Oxford COVID-19 Government Response Tracker)", *Nature Human Behaviour*, Volume 5, Issue 4, 2021: 529-538.

Figure 2 Global means index values for Benin (January 2020 to January 2021)



Source: Oxford University, Blavatnik School of Government, Oxford COVID-19 Government Response Tracker (OxCGRT), <https://covidtracker.bsg.ox.ac.uk/>

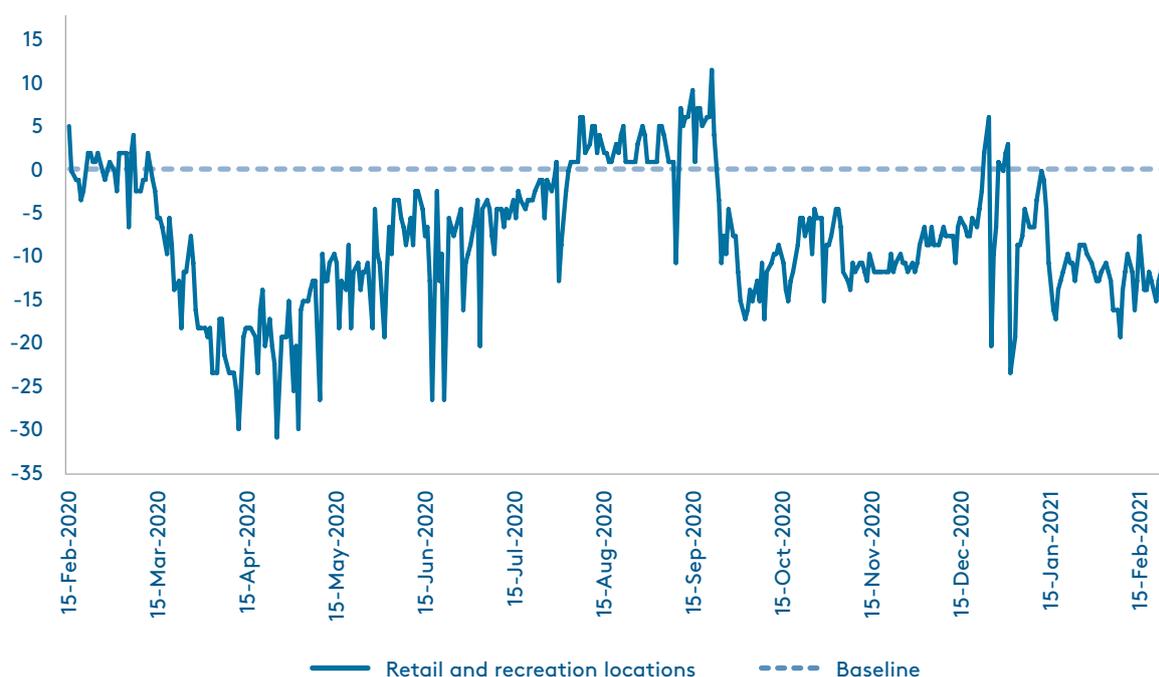
Figure 3 Average stringency index values for Benin and other African countries (January 2020 to January 2021)



Source: Oxford University, Blavatnik School of Government, Oxford COVID-19 Government Response Tracker (OxCGRT), <https://covidtracker.bsg.ox.ac.uk/>

corresponding day in the five weeks between January 3 and February 6, 2020.⁶ As seen in the figure, there is a large drop in mobility in March and April, which corresponds with the most stringent containment measures. Taken together, the figures show a rapid policy response combined with a high degree of compliance by the citizens of Benin.

Figure 4 Movement to retail locations measured using cell phone data



Source: COVID-19 Community Mobility Reports, <https://www.google.com/covid19/mobility/>

Economic impact of COVID-19

The COVID-19 pandemic has had a severe effect on Benin's economy. As seen in Table 1, the GDP growth rate has fallen from 6.5% in 2019 to 4.8% in 2020. Despite this reduction in growth, the agriculture sector continued to grow with the growth rate increasing from 1.9% in 2019 to 5.3% in

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⁶ COVID-19 Community Mobility Reports, <https://www.google.com/covid19/mobility/>.

2020. This can possibly be explained by the government’s focus on the agricultural sector in its economic stimulus plan.

The industrial and service sectors experienced a decline in growth rates. This is particularly concerning given that the service sector is Benin’s largest. Figure 5 plots the value of output in the three sectors from 2015 to 2020. As indicated in Figure 5, the service sector has grown rapidly over the past five years. The government has implemented policies to address the economic hardships of the service sector with a focus on the hospitality and tourism sectors.

Table 1 shows a large increase in the growth rate of consumption in Benin – from 4.7% to 10.8% over the past two years. This may be attributed to the expansionary monetary and fiscal policy implemented by the government of Benin and the BCEAO. As seen in the table, both private and public consumption increased with the growth rate of public consumption increasing dramatically from 5.8% to 21.8%.

Table 1 GDP growth rate

	2018-2019	2019-2020
GDP	6.5%	4.8%
Agriculture	1.9%	5.3%
Industry	18.6%	9.5%
Services	5.7%	3.2%
Consumption	4.7%	10.8%
Private	4.5%	9.2%
Public	5.8%	21.8%
Investment	4.1%	-9.3%
Exports	-3.5%	-24.1%
Imports	-8.2%	-16.2%

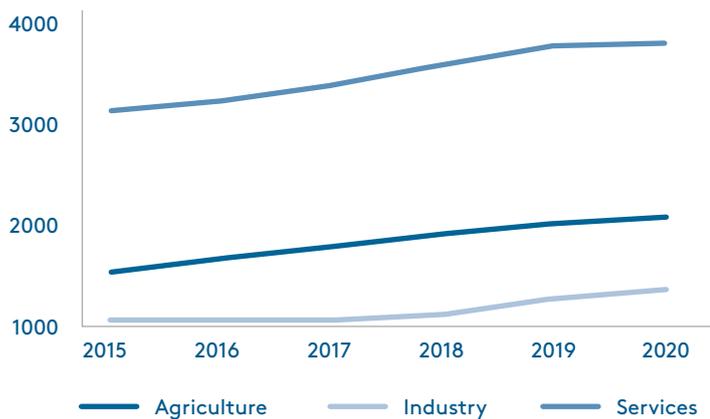
Source: The Central Bank of West African States, GDP and its Components at Nominal Values, <https://edenpub.bceao.int/rapportPredefini.php>

Benin also experienced a large decline in the growth of investment. In 2019, investment represented 25.63% of GDP and 22.22% in 2020. From 2019 to 2020, the growth in investment declined to -9.3%. The decline in investment likely reflects the global negative income shock combined with uncertainty as to how the pandemic was going to affect African countries. To gain insight into how uncertainty has changed, Figure 6 plots the World Uncertainty Index over time.⁷

7 The World Uncertainty Index measures uncertainty by conducting text analysis on the Economist Intelligent Unit country reports.

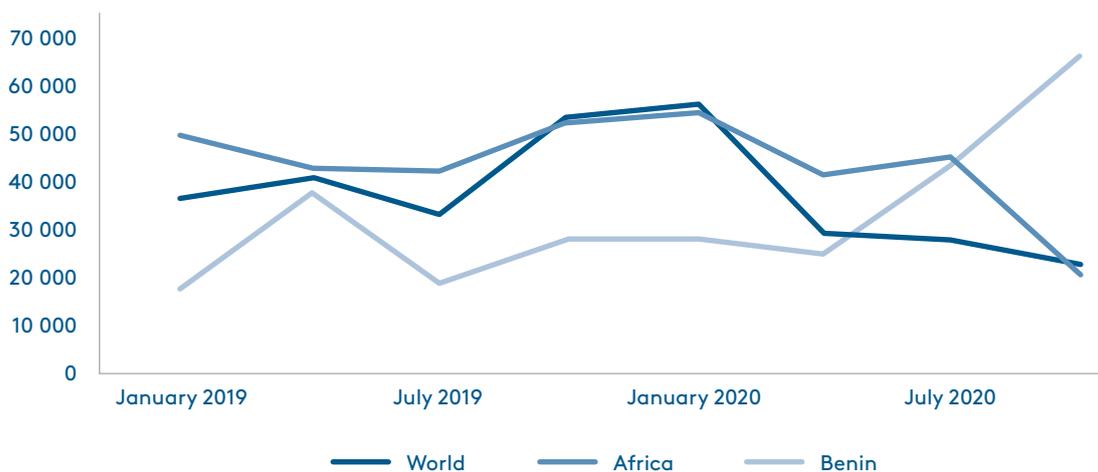
The index has been shown to significantly foreshadow declines in GDP.⁸ As indicated in Figure 6, uncertainty has been falling both globally and in Africa since reaching its maximum in the first quarter of 2020. However, uncertainty in Benin displays a very different pattern with uncertainty increasing dramatically in the second quarter of 2020. The uncertainty likely surrounds Benin’s economic recovery, which will depend crucially on the government’s fiscal and monetary policy.

Figure 5 Production by sector



Source: The Central Bank of West African States, <https://edenpub.bceao.int/rapportPredefini.php>

Figure 6 World Uncertainty Index



Source: Ahir, Bloom and Furceri, World Uncertainty Index, <https://worlduncertaintyindex.com/data/>

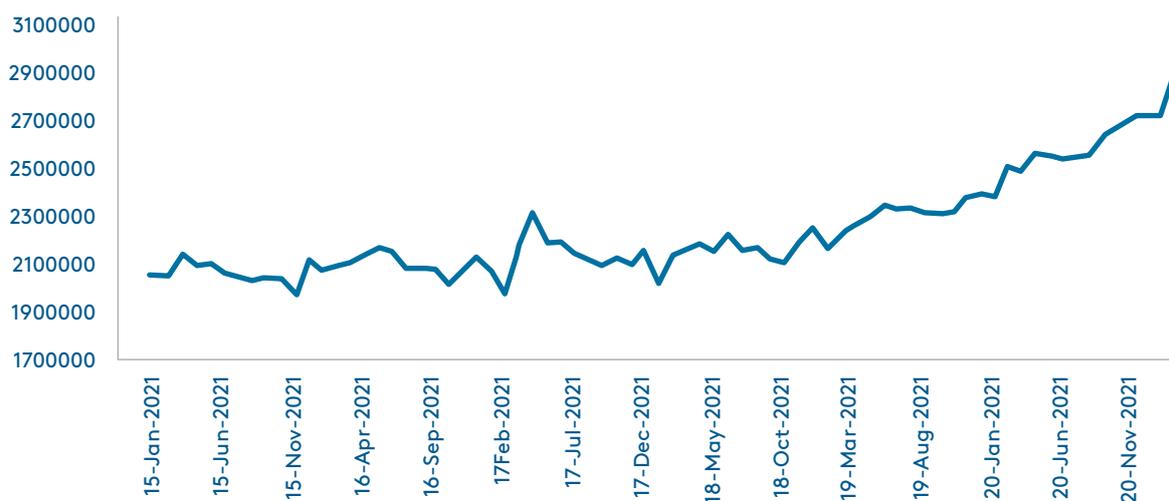
⁸ Hites Ahir, Nicholas Bloom & Davide Furceri, “The world uncertainty index”, October 29, 2018, <http://dx.doi.org/10.2139/ssrn.3275033>.

The drop in global demand can be seen in the large reduction in the growth rate of exports in Table 1. The growth rate of exports decreased from negative 3.5% to negative 24.1%. The growth rate of imports also decreased from negative 8.2% to negative 16.2%. The reduction in exports represents a large contribution to the decline in the growth rate of the GDP.

Money supply and inflation

As described in more detail below, the government and the BCEAO implemented expansionary monetary policy. This policy has resulted in a dramatic expansion of the money supply. Broad money in Benin has increased by 14% from January 2020 to January 2021. Figure 7 plots the evolution of broad money supply in Benin from 2015 to 2021. As seen in the figure, the money supply in Benin is at its highest level by far in the past five years.

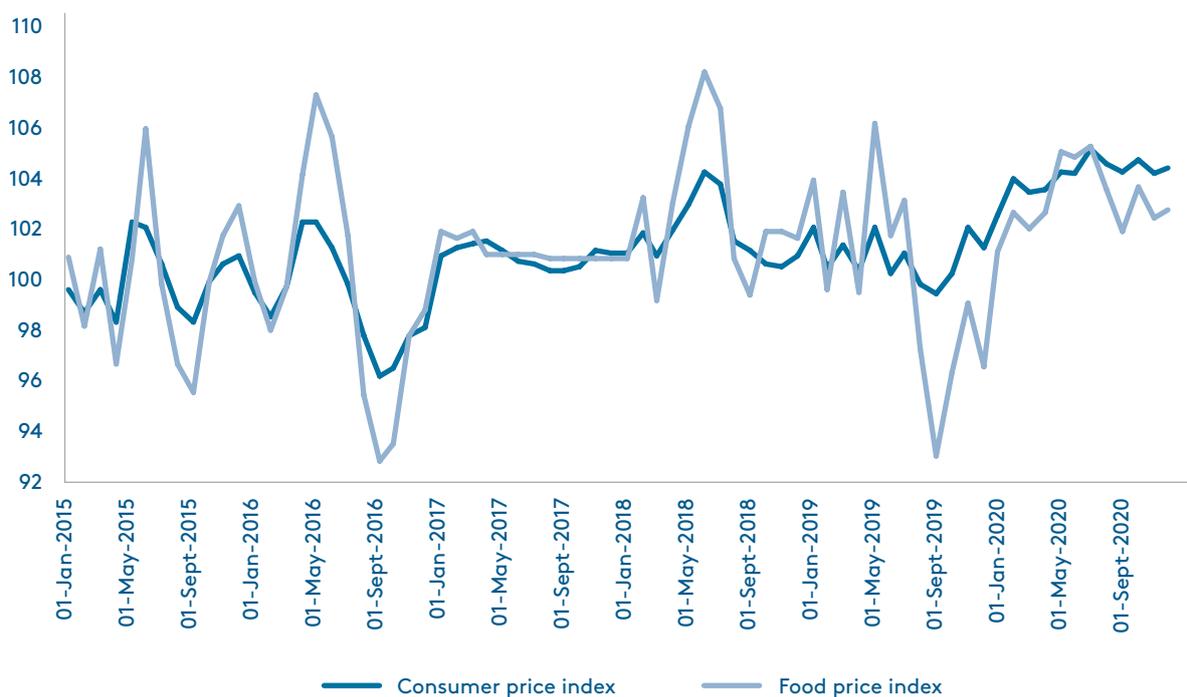
Figure 7 Broad money supply (2015 to 2020)



Source: International Monetary Fund, <https://data.imf.org/?sk=B83F71E8-61E3-4CF1-8CF3-6D7FE04D0930>

The expansion of the money supply has led to high levels of inflation in the first quarter of 2020. Figure 8 plots the consumer price index (CPI) and the food price index from 2015 to 2020. As seen in the figure, the CPI is significantly higher in the months beginning 2020. If wages remain at the same rate, the rising prices will contribute to a decline in household wealth and potentially an increase in poverty. The International Labour Organization estimates that unemployment increased from 2.32% in 2019 to 2.54% to 2020. The newly unemployed will be especially hurt by rising prices. As described in detail below, the fiscal policy implemented by the government will

Figure 8 Consumer price index and food price index (2015 to 2020)



Source: Food and Agricultural Organization, <http://www.fao.org/faostat/en/#data/MK>

alleviate the additional costs incurred by households. These policies include subsidies on energy consumption and cash transfers.

The increase in prices is likely explained by the expansionary monetary policy of the government and the central bank. In short, both institutions implemented policies to increase liquidity and this put upward pressure on prices.

Also seen in Figure 8 is the food price index. The price of food is much more volatile than the CPI. However, there does not appear to be significant food price inflation in the early months of 2020 as per the CPI. This is likely explained by policies targeting the agricultural sector as implemented by the government and the central bank. The policies, which are elaborated on below, are designed to keep farms in operation. This keeps domestic supply stable which contributes to stability in food prices.

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Fiscal policy

The government of Benin has significantly increased spending to alleviate the adverse health and economic consequences of the pandemic. The spending is meant to alleviate poverty and stimulate aggregate demand. The spending issued to households consists of direct cash transfers and subsidies on electricity and water rates for an amount of 5.76 billion FCFA (\$10 million) which applies to all citizens. The government has also made households exempt from the payment of motor vehicle tax for those who have not yet paid it for the year 2020 or its conversion into tax credit for the year 2021 for those who have already paid.

Government spending has also been targeted to keep businesses in operation. In particular, the government has allocated funds to cover 70% of the gross salaries of employees for a period of three months. In addition, the government will cover all electricity bills for three months for hotels and travel agencies up to 4.1 billion FCFA (\$7.5 million). Travel agencies will also have commercial rents paid for the three-month period.

To help alleviate the tax burden, the deadline to file taxes has been extended by two months to June 30 2021.⁹ Moreover, the tax authority has made a priority to process VAT credits. Finally, all private sector donations to the state to aid the response to the COVID-19 pandemic until December 31, 2020 are 100% tax deductible.¹⁰

Benin is committed to transparency in its spending. In a letter of intent submitted to the International Monetary Fund, the government reiterated its commitment to ensure that new spending is properly budgeted and in line with the

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9 Government of Benin, “Clarification of Tax Measures to Support Businesses in the Context of Covid-19 Management”, press release, June 26, 2020, <https://www.gouv.bj/actualite/731/clarification-mesures-fiscales-soutien-entreprises-dans-cadre-gestion-covid-19/>.

10 Government of Benin, “Clarification of tax measures”.

international rules of fiscal credibility and transparency. The details of the procurement contracts are regularly published on the government's website.

Monetary policy

The West African Economic and Monetary Union has taken pre-emptive steps to meet the demand for liquidity in the banking sector and to mitigate the negative impact of the pandemic on the economy. The BCEAO raised the liquidity that is available to banks at its weekly and monthly auctions as of March 23, 2020, allowing average refinancing rates to remain relatively close to the floor of the monetary policy corridor of 2.5%. This was followed by the adoption of a full allotment strategy at a fixed rate of 2.5%, which allows banks to fully satisfy their liquidity needs at a lower rate. To further increase liquidity, the BCEAO announced on March 21, 2020 that it would extend the collateral framework to access central bank refinancing to include bank loans to prequalified 1 700 private companies.¹¹

To ease the requirements of prudential banking legislation on financial institutions, the BCEAO set-up a framework inviting banks to accommodate demands from businesses with COVID-19 related repayment difficulties to postpone for a three-month renewable period without the need to classify such postponed claims as non-performing loans. The BCEAO allows credit institutions to classify sound loans that have been deferred due to the effects of the COVID-19 pandemic in a specific account within the sound loan category, rather than within the delinquency category. The deferred receivables will also be treated as sound in their respective prudential categories. For microfinance institutions, receivables that will be deferred are to be classified in a specific sub-account under the category of loans that are tied up over the deferral period.

For affected enterprises that have not obtained an agreement with their partner banks to defer maturity dates, the BCEAO has set up a monitoring and facilitation mechanism called the 'COVID-19 Mechanism'. The aim of this mechanism is to strengthen the dialogue between the companies and their banking partners and to re-establish, if necessary, a relationship of trust, based on a common approach to finding solutions.¹²

11 KPMG, <https://home.kpmg/xx/en/home/insights/2020/04/benin-government-and-institution-measures-in-response-to-covid.html>.

12 Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO), Espace COVID19, <https://www.bceao.int/fr/Covid-19>.

Government of Benin's monetary response

The government also implemented measures to increase bank and microfinance lending to the agriculture sector and to micro-, small- and medium-sized enterprises (MSME). On June 10, 2020, the Council of Ministers established a 30 billion FCFA (\$55 million) subsidy fund to support a 100 billion FCFA (\$185 million) interest-free line of financing for these sectors via banks and the decentralised financial system.¹³ The fund has the objective to facilitate lending by banks, microfinance institutions and to the agricultural sector.

The banking sector

To promote lending by formal sector banks, the government has committed to guarantee up to 50% of the amount of credit granted to a company by a bank, up to a maximum limit of 500 million FCFA (\$924 000) per MSME. Twenty-five per cent of the guarantee is in the form of a 'cash pledge' with the bank issuing the credit at a rate not exceeding the BCEAO marginal rate – currently 2% per year over the life of the credit. The remaining 25% of the guarantee is in the form of a commitment by signature.

In the event of the company's default, the guarantee will be called upon after all recovery procedures to be carried out by the bank have been exhausted and when the loss has been established as definitive (five years after the credit has been downgraded – following the call of the guarantee under the conditions presented – the state will insure 50% of the net amount not recovered after five years).

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¹³ Government of Benin, “Minutes of the Council of Ministers of 10 June 2020”, <https://sgg.gouv.bj/cm/2020-06-10/>.

Microfinance institutions

In addition to the measures announced on June 10, 2020, the council decided to make available a refinancing line of 10 billion FCFA (\$55 million) to finance micro enterprises. The fund will be administered by the National Microfinance Fund, which will make the resources available to these institutions at a rate of 2%. In turn, the latter will make loans to micro enterprises at rates not exceeding 12% instead of the 20% average usually applied.

In order to ensure the return of the funds injected, a rigorous guarantee and monitoring and evaluation programme will be instituted. Loans granted will be backed by collateral to cover the risk in case of default. Similarly, effective monitoring and evaluation will be carried out to ensure that the resources have actually gone to the intended targets. The monitoring programme will have two objectives. The first is based on a requirement for monthly reporting on the use of credits, and the second is based on the periodic organisation of joint monitoring missions conducted by the National Microfinance Fund and the National Supervisory Agency to verify the use of resources.

Lending to the agricultural sector

The final objective of credit expansion by the government is to ensure that the agricultural sector has access to credit to continue their operations. The funds will be distributed through the National Fund for Agricultural Development (FNDA), which will facilitate access to credit from banks and microfinance institutions. Three initiatives were implemented to facilitate the expansion of credit by banks to the agricultural sector. The first ensures banks and microfinance have access to liquidity specifically for lending to the agricultural sector. This is done by replenishing the 'Interbank Guarantee Fund for Refinancing between Financial Institutions' by an amount of 50 billion FCFA (\$92 million). This fund provides banks with the liquidity to lend to agricultural enterprises at a maximum rate of 12% according to their own procedures and criteria. Banks obtain full refinancing at a rate of 2% from the FNDA as soon as the credit is put in place. The second initiative guarantees up to 50% percent of a loan. The funds to cover this guarantee – 35 billion FCFA (\$64 million) – were deposited at the BCEAO. The final initiative consists of 15 billion FCFA (\$27 million) in subsidised loans at a rate of 2%.

Conclusion and policy recommendations

In this document we outlined the response to the government and the BCEAO to the response to the COVID-19 pandemic. The economic policy response focuses heavily on the expansion of credit. The expansion of credit can play an important role in stimulating the economy by allowing

firms to increase spending and avoid bankruptcy during a period of decreased demand. However, the expansion of credit puts upward pressure on prices that can push vulnerable households into poverty. The expansion of credit in the agricultural sector somewhat avoids the issue of higher prices pushing individuals into poverty because the increased food production works to keep food prices low while the prices of other goods rise. Given that vulnerable households spend more of their income on food, they are less affected by an increase in non-food prices.

The fiscal policy implemented by the government offsets the negative effects of an increase in prices by reducing expenses of households and providing them with more income from direct cash transfers. Greater benefits from fiscal policy could be obtained by better targeting spending towards the most vulnerable households as these households tend to spend more of an increased income thus multiplying by a greater degree the effect of the spending on aggregate demand.

“The expansion of credit can play an important role in stimulating the economy by allowing firms to increase spending and avoid bankruptcy during a period of decreased demand. However, the expansion of credit puts upward pressure on prices that can push vulnerable households into poverty”

Author

Ian Heffernan received his PhD in economics from the University of Calgary, Canada, where he studied and conducted research in political economy, conflict and development economics. Dr Heffernan has a diverse methodological background and has conducted research using applied econometrics, microeconomic theory and laboratory experiments.

Acknowledgement

The African School of Economics, South African Institute of International Affairs, CSEA and our think tank partners acknowledges the support of the International Development Research Centre for this research paper and the CoMPRA project.

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Cover image: Street scene (peeterv via Getty Images)



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