

Fiscal Space and the Poverty Reduction Strategy in Benin

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- What is fiscal space?

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- Options chosen to achieve fiscal space for Benin



What is fiscal space?

What is fiscal space?

- Fiscal space is defined as a budget that has a margin for manoeuvre which allows the Government to allocate resources to a specific purpose without compromising either its financial viability or its economic stability.
- For the Government, it is having or creating fiscal space in case it should wish to allocate additional resources to expenditure that is essential in terms of the Growth Strategy for Poverty Reduction.

How does one create fiscal space?

Fiscal space can be created in the following ways:

- by increasing tax revenues;
- by obtaining grants from abroad;
- by reducing non-priority expenditure;
- by borrowing from domestic or foreign lenders or from the banking system (increasing the money supply).

It is important to do this without compromising macroeconomic stability or the viability of the budget, while ensuring that any necessary expenditure can be financed and that debts can be serviced in the short and longer terms.

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Options used to create fiscal space in the context of implementing the GSPR

OPTIONS FOR CREATING FISCAL SPACE

In terms of the framework for implementing the GSPR, the following three options have been used to create fiscal space:

- Accelerating tax reforms,
- Rationalising State expenditure,
- Mobilising additional resources through loans and grants.

Accelerating tax reforms

As part of implementing the GSPR, the Benin Government has committed itself to implementing the following set of reforms with the purpose of improving tax revenues to make additional resources available:

- Customs reforms (modernising the Customs system and implementing a new generation programme to inspect imports);
- implementing development taxation;
- taxing informal activities;
- effectively and comprehensively implementing the use of Unique Tax Reference numbers (UTRs);

Rationalising State expenditure

- The Government of Benin has undertaken to target its expenditure more effectively in order to support growth and reduce poverty.
- With this aim in mind, priority expenditure was identified, i.e. expenditure related to the MDGs.
- A document called the Priority Action Programme lists all priority expenditure in terms of the Growth Strategy for Poverty Reduction.

The contents of the Priority Action Programme (PAP)

- The PAP outlines all priority actions and investments resulting from the strategic GSPR areas.
- It translates the GSPR into priority projects and programmes.
- It is fully aligned with the Public Investment Programme (PIP) and strengthens programme budgets.
- On the one hand, it links the GSPR and programme budgets and on the other hand, it links the GSPR with the annual State budget, which is the main instrument for implementing the strategy.

Mobilising additional foreign resources

- To mobilise the necessary foreign resources, the Government has committed itself, through its new National Development Aid Policy, to improving the co-ordination of various types of support by promoting forms of development aid that adhere to the principles of the Paris Declaration on aid effectiveness.
- This would make foreign resources more effective and would thus enhance the implementation of the GSPR.
- Good coordination and leadership by the Government will also lead to foreign resources being more effective on the one hand and increasing in quantity on the other.

THANK YOU FOR YOUR ATTENTION