



# Analysis of the business environment in Least Developed Countries

## Benin

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# Benin

Region

West Africa - West African Economic and Monetary Union (WAEMU)

Population

11,485,048

Demographic growth

3.24 %

GDP per capita (2020)

1,291 USD

Human Development Index:

0.545 (158/189)

## Economic overview

*A relatively politically stable country, it is important to note that Benin benefited somewhat from the political and economic crisis in Côte d'Ivoire during the first decade after 2000 to record a solid economic performance in terms of growth, notably due to the increase in activity at the port of Cotonou at the expense of Abidjan.*



A recent working visit by IMF experts in November 2021 noted that the improvement of the business climate in Benin is on the right track, even if it remains slow. Indeed, the structural reforms undertaken by the government are beginning to bear fruit, despite the many efforts still to be made in the fight against informality, human-capital education/training, access to public infrastructure (water, electricity, telephone), the granting of loans to entrepreneurs, the enforcement of contracts and the payment of taxes. The IMF experts also noted a robust economic recovery under way in Benin, driven by, among other things, the normalisation of cargo traffic at the port of Cotonou, one of the country's main drivers of growth. With regard to the COVID-19 response plan, the government is strengthening its vaccination campaign to increase the rate of vaccination, including working closely with local communities and expanding vaccine deployment capacity.

## Challenges faced by the private sector

According to the Integrated Regional Survey on Employment and the Informal Sector (ERI-ESI)

conducted in 2018, there are 1,742,305 informal production units (IPUs). The main challenges to improving the business climate in Benin include:

- **Widespread informality** - The informal economy is widespread and estimated at 95.3 per cent of total employment. This indicates that, despite the increase in growth since the early 2000s, Benin's private sector remains underdeveloped.
- **Manufacturing still underdeveloped** - The manufacturing sector employs only 12.1 per cent of the workforce in Benin, despite the country's heavy reliance on exports.
- **Informality is more prevalent in the growth sectors of the economy** - 31.7 per cent of IPUs are in industry, 39.2 per cent in trade and 29.1 per cent in services.
- **An insufficient employment system in terms of job creation** - 34.5 per cent of young people aged 15-24 are not in any form of education and do not participate in the labour

market. In addition, the average duration of unemployment is 4.8 years at national level. As expected, it is longer for young jobseekers (first-time jobseekers) than for older workers, i.e. 5.2 years and 3.6 years respectively.

- **An informal sector that reinforces poverty**

- By way of reminder, 95.3 per cent of individuals operate in the informal economy compared to 4.7 per cent in the formal economy. The average number of years of education completed by the UPI workforce is estimated at 2.9 years. Young people aged 15-24 and 25-34 are more likely to be in precarious employment, at 39.7 per cent and 18.9 per cent respectively. There is also a strong correlation here between the level of education and average monthly income and how people join the labour market. Actors in the formal economy have a better income, above the minimum wage, than actors in the informal economy, for example. The average monthly income in Benin is FCFA 65,468. The average monthly income varies from FCFA 39,513 for workers in the informal sector with at least 1 year of study to FCFA 82,060 to FCFA 205,100 for workers in the formal sector with at least 9 and 15 years of study respectively.

- **Underdevelopment of human capital due to a weak education system** - Benin ranks 158th out of 189 countries on the Human Development Index at 0.545.

- **A weak private sector due to insufficient awareness among IPU heads of the importance of moving their businesses from the informal to the formal sector** - 57 per cent of IPU heads are unaware of the benefits of formalising their businesses, while 20.8 per cent are reluctant to formalise. As a result, only 4.3 per cent of IPUs pay taxes on their business activities. This rate is even lower than its counterparts in the WAEMU countries. This also explains the fact that only 18.7 per cent of IPUs say they are willing to pay taxes on their activities if there is an improvement in the business climate, particularly in the tax system and administrative and judicial procedures. This reluctance among entrepreneurs to formalise their activities is certainly due to the rigid tax

system in the country. However, the country scores better on the poverty perception index.

- **Significantly high corruption** - 71.8 per cent of the 18-year-old population believes that corruption is significant in the country and thus damages the overall economy. According to Transparency International's 2020 report, Benin ranks 83rd out of 180 countries. This proves the political will of the government to improve the business climate, especially to develop the private sector and attract more national and international investment, like its counterpart in Burkina Faso.

## Private sector policy recommendations

The recommendations apply to the following areas:

### 1. Supporting and strengthening public-private dialogue

Specific objectives include:

- Including public-private dialogue in sectoral development plans and strategies;
- Establishing and maintaining a genuine public-private partnership;
- Developing a roadmap and agenda for public-private dialogue at national level;
- Actually considering the needs of private sector partners in sectoral development strategies;
- Strengthening state institutions, including assessing the legal and regulatory framework for creating and formalising businesses in the formal sector;
- Constantly coming up with reforms to improve the business climate;
- Complying with agreements;
- Bolstering the role of the state as a guarantor of peace, security and good governance;

- Ensuring independent and accountable social partners;
- Capacity building for social partners;
- Establishing a communication plan to reduce communication gaps between the private and public sectors;
- Establishing a unit or commission to work on promoting and popularising the incentives to be given to the private sector in the short, medium and long term.

## **2. Supporting young investors and women, developing entrepreneurship and fighting against informality**

Specific objectives include:

- Promoting an entrepreneurial culture in society as a whole, particularly in technical and vocational training institutions, on audiovisual platforms (TV and radio) and national online social networks, in adult education centres and in universities;
- Creating training and apprenticeship centres for self-employment for out-of-school youth;
- Creating a favourable climate for investment by providing incentives, e.g. access to credit at subsidised interest rates and on flexible repayment terms;
- Establishing a genuine partnership between the state and the banking sector to encourage domestic financing and investment, including the promotion of self-employment among youth and women;
- Focusing policy on formal job creation;
- Establishing a genuine institutional partnership between the state, the private sector and representatives of local authorities to support and promote the creation of income-generating jobs in rural areas and encourage the development of agri-food cooperatives;
- Promoting the decentralisation and efficiency of local government bodies to facilitate municipal authority access to national and regional financial flows to support entrepreneurship among women and young people in rural areas and to better channel the needs of women and young people for the development of their commercial, agro-pastoral and craft activities in rural areas in particular;
- Organising awareness-raising and education campaigns for informal sector entrepreneurs on the benefits of formalisation and developing incentives to encourage the formalisation of businesses;
- Considering the needs of informal sector operators in strategies for combating informality by the central government in order to better encourage their transition from the informal to the formal sector;
- Organising ongoing training and education sessions on creating and formalising businesses in rural and urban areas;
- Promoting access to digital technology for young people and women in rural areas by creating free digital training centres within local authorities;
- Promoting women's access to land in particular and favouring a reorganisation of the land register;
- Eliminating minimum fees for business start-ups and shortening the waiting period for registering and authenticating documents;
- Creating national savings in the various countries to finance income and employment-generating projects, especially for young people and women.

## **3. Cross-border trade**

Specific objectives include:

- Promoting the development of intra-African trade by removing customs barriers;



- Improving national and regional infrastructure, such as developing roads, pedestrian walkways, lighting and utility poles, access to the digital network, and building structures to house markets at borders;
- Modernising and deploying one-stop shops;
- Guaranteeing a secure and stable climate at national level, particularly in terms of customs services to facilitate the free movement of people and goods (rule of law); this would also improve entrepreneurship by women, particularly the creation of income-generating activities (trade) carried out most often by small traders (women) at the borders;
- Guaranteeing follow-up for the supply and distribution of petroleum products;
- Deploying national, regional and international sectoral strategies to ensure exchange rate predictability;
- Implementing sectoral strategies to develop the resilience of the economy, particularly of businesses, to cope with various shocks;
- Reducing export and import delays;
- Setting up and modernising an electronic payment system for port fees at national level;
- Going paperless in customs formalities and extending the opening hours of ports;
- Increasing the size of inter-African markets and diversifying production in order to expand markets and improve the competitiveness of the formal private sector globally;
- Promoting good governance and responsible business conduct and fair competition in markets in order to improve the global competitiveness of the formal private sector;
- Establishing simplified trade arrangements (exemption from customs duties) and simplifying customs clearance formalities for small-scale transactions, usually carried out by small traders, especially women;
- Enhancing regional integration, in particular economic cooperation between the different regional economic communities to remove persistent barriers to intra-regional trade;
- Strengthening the fight against smuggling at borders and ports;
- Establishing and developing regional power pools to reduce electricity connection costs and link markets to resources;
- Establishing mutually beneficial trade agreements to attract more investors; boosting intra-regional trade through digital technology;
- Diversifying the energy market with a focus on promoting solar panels to improve the competitiveness and productivity of businesses and also to reduce the costs of connecting to the power grid;
- Expanding the telecommunications market, especially the digital market, to improve access to the electronic network for businesses and enable them to increase their competitiveness in the global market;
- Establishing effective cyber security and cyber defence strategies at regional level;
- Strengthening the African Continental Free Trade Area (AfCFTA).

#### 4. Fighting informality

Specific objectives include:

- Establishing a national policy to transition informal production units (IPUs) to the formal sector;
- Establishing incentives and deterrents;
- Sharing and exchanging regional experiences;
- Developing a strong and effective institutional legislative framework;
- Annually implementing structural reforms and sectoral strategies aimed at facilitating

the business climate and improving the life of entrepreneurs; in particular in terms of taxation, building permits and business creation;

- Developing guarantee instruments to promote access to credit for young people and women, especially those with economically viable income- and employment-generating projects;
- Reducing costs and delays in obtaining building permits;
- Reducing electricity connection fees;
- Eliminating mandatory minimum fees for business start-ups;
- Eliminating mandatory fees for authenticating documents and shortening the registration period for business start-ups;
- Improving access to credit information, e.g. by extending the coverage of public credit services and by starting to report data from public utilities;
- Developing a national directory of formal sector companies;
- Annually assessing the registration rate of new companies and considering the needs of unregistered companies in order to better channel and adapt sectoral strategies to facilitate their transition to the formal sector;
- Establishing and modernising an electronic system for creating and registering businesses at national level;
- Creating a level playing field for businesses to facilitate their formalisation.

## 5. Developing human capital

Specific objectives include:

- Improving the supply of public services (education, health and social protection);

- Ensuring a match between training/education received and the needs of the labour market in technical and vocational education, general secondary education and universities;
- Promoting development-oriented research in technical and vocational schools, general secondary schools and universities in order to unleash the innovation potential of young people and improve the competitiveness of the private sector globally;
- Priority training for public sector managers;
- Mandatory internships for students to immerse them in the world of business.

## 6. Improving the labour market

Specific objectives include:

- Increasing the number of jobs through access to new investments at national level;
- Promoting the application, via the Ministry of Social Affairs and Labour, of a legal framework for workers/employees on working conditions and a minimum wage;
- Implementing sectoral strategies aimed at facilitating access to health coverage for the population, particularly for workers in the formal sector, which may also encourage informal businesses to formalise;
- Promoting flexible working hours for workers;
- Improving employment frameworks, policies and conditions;
- Improving wages and paying compensation for work stoppages due to the occurrence of happy occasions (e.g. births) and unhappy events (illnesses, accidents, etc.) in workers' lives.

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