

Togo: Request for Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Staff Statement; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Togo

In the context of the request for three-year arrangement under the Poverty Reduction and Growth Facility, the following documents have been released and are included in this package:

- The staff report for the Request for Three-Year Arrangement Under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on December 11, 2007, with the officials of Togo on economic developments and policies. Based on information available at the time of these discussions, the staff report was completed on March 28, 2008. The views expressed in the staff report are those of the staff team and do not necessarily reflect the views of the Executive Board of the IMF.
- A staff statement of April 21, 2008 updating information on recent developments.
- A Press Release summarizing the views of the Executive Board as expressed during its April 21, 2008 discussion of the staff report that completed the review.
- A statement by the Executive Director for Togo.

The documents listed below have been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Togo*
Memorandum of Economic and Financial Policies by the authorities of Togo*
Technical Memorandum of Understanding*
Poverty Reduction Strategy Paper
Joint Staff Advisory Note of the Poverty Reduction Strategy Paper
*Also included in Staff Report

The policy of publication of staff reports and other documents allows for the deletion of market-sensitive information.

Copies of this report are available to the public from

International Monetary Fund • Publication Services
700 19th Street, N.W. • Washington, D.C. 20431
Telephone: (202) 623-7430 • Telefax: (202) 623-7201
E-mail: publications@imf.org • Internet: <http://www.imf.org>

Price: \$18.00 a copy

**International Monetary Fund
Washington, D.C.**

INTERNATIONAL MONETARY FUND

TOGO

Request for Three-Year Arrangement Under the Poverty Reduction and Growth Facility

Prepared by the African Department
(In consultation with other departments)

Approved by Robert Sharer and Adnan Mazarei

March 28, 2008

Background	Togo has made substantial progress on political and economic reforms. The recent parliamentary elections paved the way for resumption of donor support after a decade-long freeze. Performance under the Staff-Monitored Program (October 2006–June 2007) was good, with all quantitative targets comfortably met and significant progress on fiscal governance reforms.
Arrangement	The authorities are requesting a three-year PRGF arrangement with access at 90 percent of quota (SDR 66.06 million), moderately frontloaded, to help Togo meet the exceptionally large financing needs created by exogenous shocks, pent-up needs for investment and social spending, and the high cost of public debt. The PRGF arrangement, the first since the mid-1990s, proceeds in parallel with reengagement by the World Bank and AfDB, which have prepared large arrears clearance operations. The PRGF also paves the way for eventual HIPC/MDRI debt relief, with the decision point tentatively envisaged for late 2008.
Objectives	The PRGF-supported program, anchored in Togo's I-PRSP, aims to revive economic growth and improve living conditions within a stable macroeconomic environment by (i) bringing public debt to a sustainable level through gradual fiscal adjustment and HIPC/MDRI debt relief; (ii) facilitating the resumption of external assistance; (iii) increasing resources for infrastructure, health, and education; (iv) strengthening fiscal governance; (v) restructuring fragile banks; (vi) and reforming the business environment and state-owned enterprises.
Discussions	The mission (November 28–December 11, 2007), conducted jointly with the World Bank and AfDB, met with President Gnassingbé, House Speaker Bonfoh, Prime Minister Mally, Finance Minister Ayassor, the National Director of the BCEAO Gbéasor, other senior officials, and representatives of labor unions, employer associations, NGOs, the donor community, and the media. The staff team comprised Mr. Mumssen (head), Mr. Gijon, Mr. Haacker, Ms. Maziad, and Mr. Rosa (all AFR). Mr. Yao, the Resident representative, and Mr. Sembene (OED) participated in the discussions.

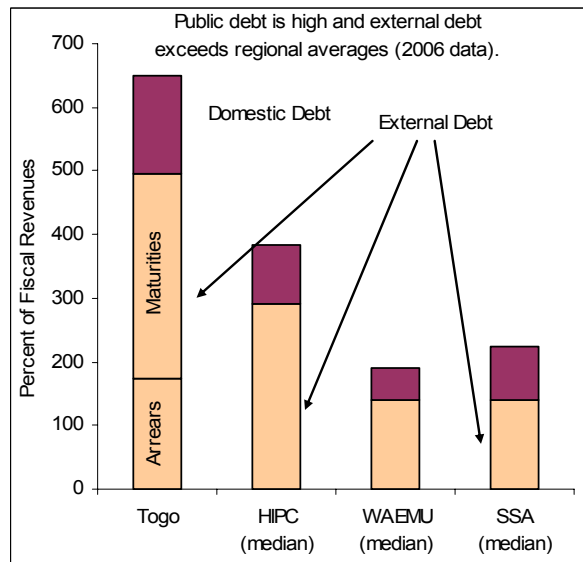
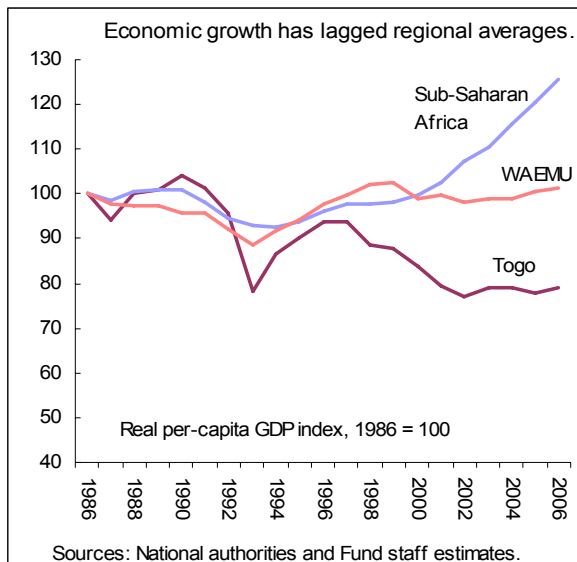
Contents	Page
I. Background.....	3
II. Recent Economic Developments and the SMP Track Record.....	5
III. The Proposed PRGF Arrangement	7
A. Objectives	7
B. The 2008–10 Macroeconomic Framework	7
C. 2008–10 Fiscal Policies.....	9
D. Structural Reforms	10
IV. Program Financing, Design, and Risks	12
A. External Financing	12
B. Program Design.....	14
C. Program Risks and Mitigation	14
V. Staff Appraisal	15
 Box	
Interim Poverty Reduction Strategy Paper	5
 Tables	
1. Selected Economic and Financial Indicators, 2005-10.....	17
2. Balance of Payments, 2005-10	18
3. Central Government Financial Operations, 2006-10.....	19
4. Monetary Survey, 2005-08	21
5. Official External Debt, 2004-06	22
6. External Financing, 2008-10.....	23
7. Proposed Schedule of Disbursement Under PRGF Arrangement, 2008-11	24
8. Indicators of Capacity to Repay the Fund, 2006-15	25
9. Performance Under the Staff-Monitored Program	26
10. Structural Benchmarks Under the Staff-Monitored Program, October 1, 2006-June 30, 2007	27
11. Envisaged Structural Reforms for 2009-10	28
12. Selected Indicators on the Millennium Development Goals, 1990-2005	29
 Appendix	
Letter of Intent	30
Attachment I. Memorandum of Economic and Financial Policies	32
Table 1. Quantitative Performance Criteria and Indicative Targets	41
Table 2. Structural Reforms Through end-2008.....	42
Attachment II. Technical Memorandum of Understanding.....	43

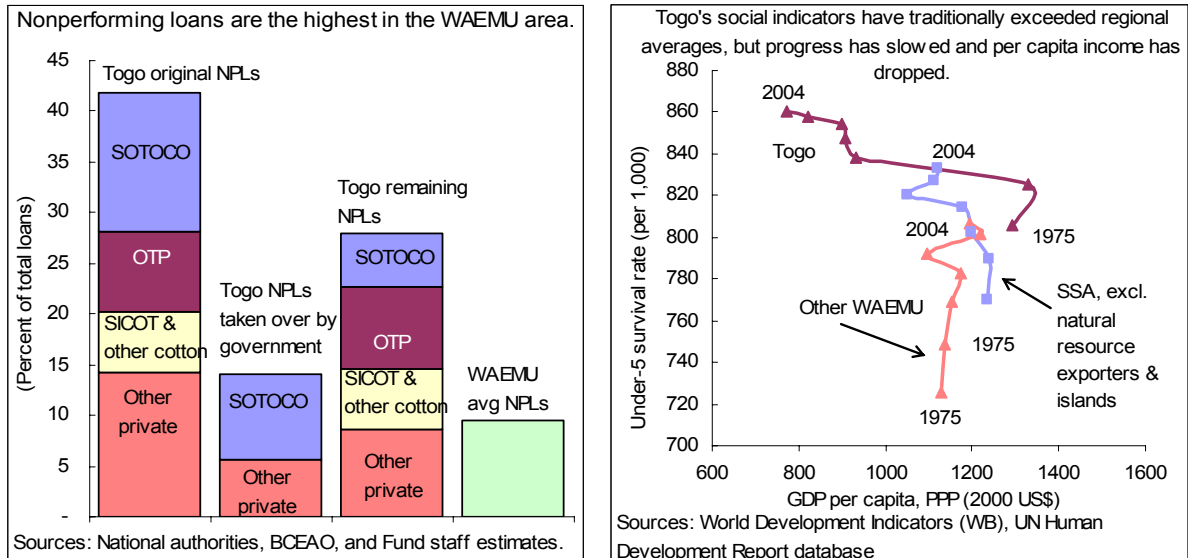
I. BACKGROUND

1. **The recent parliamentary elections marked a milestone in Togo's political reform and paved the way for donor reengagement.** After the death in 2005 of President Eyadéma, who had ruled for 38 years, Togo undertook a national reconciliation and political reform process that culminated in multiparty parliamentary elections on October 14, 2007. The international community considered the elections, which gave the ruling party a majority and produced a new government, to have been free and transparent. The European Union, Togo's largest donor, has subsequently resumed its financial assistance after a 15-year suspension.

2. **The fresh political environment allows the authorities to begin addressing Togo's daunting institutional and economic challenges.** Togo's growth record is among the worst in the region due to:

- **Poor governance and low administrative capacity**, after a long period of intense sociopolitical conflict, mismanagement of public resources, and lack of foreign assistance;
- **Excessive public debt**, with external debt above the HIPC threshold, external arrears, and very large domestic arrears;
- **Fragile banks**, with the highest nonperforming loan ratio in the WAEMU area (reflecting past directed lending) and undercapitalization of several banks;





- **A severe energy crisis:** region-wide shortages led neighboring countries to cut electricity exports to Togo, resulting in frequent power outages;
 - **Loss-making state-owned cotton and phosphate enterprises:** decades of mismanagement have led to large quasi-fiscal deficits, mounting debts, and the near-collapse of these major export sectors;
 - **A poor business environment** by regional standards after decades of underinvestment in transport and energy infrastructure; and
 - **Deteriorated social conditions** because of mismanagement of public resources and the suspension of donor support for health, education, and infrastructure.
3. **To address these problems the authorities have launched an ambitious economic reform program.** Initial reforms, monitored by the SMP, addressed governance problems in public finances, banking, and the cotton sector. Togo's medium-term reform agenda, set out in the I-PRSP (Box 1), centers on strengthening fiscal governance and restoring sound public finances; restructuring state-owned enterprises and banks; improving the business environment; rehabilitating transport and energy infrastructure; and improving education and health.
4. **The authorities see reengagement with development partners—the Fund in particular—as vital to the success of their economic reforms.** President Faure Gnassingbé has committed to cooperating closely with the Fund on economic reforms and, given Togo's weakened institutions, has underlined the need for technical assistance. Togo will also require substantial financial support to close the financing gaps created by excessive public debt and the need to rehabilitate public infrastructure and social services. The PRGF

arrangement would anchor the macroeconomic framework as Togo reengages with the international community after more than a decade and moves toward HIPC and MDRI debt relief.

Box 1: Togo's Interim Poverty Reduction Strategy Paper (I-RPSP)

The I-PRSP, adopted in March 2008, notes that 62 percent of the population lives below the poverty line, with poverty particularly concentrated in rural areas. The long socio-economic crisis, economic stagnation, poor fiscal governance, and suspension of foreign aid have squeezed resources for health, education, and infrastructure. The health system lacks qualified personnel, medical supplies, and infrastructure. Because schools lack teachers and basic infrastructure, enrollment has stagnated. Large segments of the population have no access to safe water, sewage, electricity, transportation, or telecommunications.

The I-PRSP sets out an ambitious three-year program to revive economic growth and improve basic living conditions based on (i) better political and economic governance, especially in the fiscal area; (ii) economic recovery and sustainable development, with actions to improve the business environment; reform state-owned enterprises; restructure fragile banks; rehabilitate energy, transport, and other infrastructure; and develop agriculture; and (iii) development of social sectors, mainly by improving access to and the quality of education and health services.

The macroeconomic framework projects average annual real GDP growth of almost 4 percent for 2008–10. It aims for a gradual primary fiscal adjustment through increased revenue collection, more resources for priority projects, and more external assistance. Nevertheless, total resources would still not be sufficient to reach the Millennium Development Goals (Table 12).

II. RECENT ECONOMIC DEVELOPMENTS AND THE SMP TRACK RECORD

5. **A nascent economic recovery has been slowed by frequent power outages.** After an upturn in 2006, real GDP growth moderated to about 2 percent in 2007 because severe region-wide electricity shortages (Togo imports most of its electricity) and localized flooding partly offset positive factors such as favorable weather conditions for agriculture, growing regional trade, and a modest rebound in the cotton sector. The current account deficit increased slightly, to an estimated 6½ percent of GDP, as higher remittances offset a widening trade gap.

Togo and Regional Counterparts: Selected Economic Indicators, 2005–07

	Togo				WAEMU	SSA /1
	2005	2006	2007	2005-07	2005-07	2005-07
	Actual		Est.	Avg.	Avg.	Avg.
	(Percent change, unless otherwise indicated)					
Real GDP	1.3	4.1	2.1	2.5	3.4	5.0
Consumer price index (annual average)	6.8	2.2	1.0	3.3	3.3	7.5
Broad money (M2)	1.4	22.1	16.4	13.3	10.0	18.1
Central government	(Percent of GDP, unless otherwise indicated)					
Revenue	15.7	16.9	17.0	16.5	17.2	19.6
Grants	1.2	1.4	1.7	1.4	6.0	6.0
Expenditure	20.4	22.1	20.6	21.0	22.8	25.9
Overall fiscal balance	-3.5	-3.8	-1.9	-3.1	0.5	-0.3
External sector						
Current account balance	-5.3	-6.0	-6.4	-5.9	-4.7	-4.0
Exports (goods and services)	40.3	42.3	42.0	41.6	31.4	30.2
Imports (goods and services)	57.2	61.8	62.6	60.5	37.2	41.1
External government debt	90.3	83.9	80.9	85.0	41.7	34.0

Sources: Togolese authorities; and Fund staff estimates and projections.

/1: SSA Sub-Saharan Africa excluding South Africa, Nigeria, Zimbabwe, and oil producing countries

6. **Remittances and trade-related capital inflows have driven money and credit surges.** Broad money grew 16½ percent in 2007, fuelling rapid credit growth (mainly to finance imports). Annual inflation, though only about 1 percent in December 2007, has risen in recent months due to rising world food prices. The adverse impact on external competitiveness of the appreciation of the CFA franc against the U.S. dollar in 2007 was mitigated by an improvement in Togo's terms of trade as world phosphate prices rose sharply.

7. **Togo's performance under the SMP was good: all end-June quantitative targets were met comfortably (Table 9); fiscal performance was in line with the 2007 budget.** Tax and customs administration reforms boosted revenues in 2006 and 2007. Despite pre-election pressures and new spending to address the energy crisis, expenditures were kept below the program, reflecting improved fiscal discipline and delays in capital spending. As a result, the primary fiscal position for 2007 was broadly balanced, compared to the 2006 primary deficit of 1 percent of GDP. This allowed a sharp reduction in domestic arrears, including to civil servants and cotton farmers. The 2007 budget was partly financed by a CFAF 20 billion regional bond issue in July 2007 (10-year maturity, 3-year grace period, 6 percent coupon), which was part of a WAEMU initiative to finance infrastructure.

8. **Governance-related reforms have been satisfactory (Table 10).** Administrative reforms initiated since mid-2006 by the new tax and customs directors have helped broaden the tax base and recover tax arrears. Better fiscal management kept spending within budget in 2006 and 2007. Audits of SOTOCO and repayment of its arrears to cotton farmers have paved the way for broader sector reform. The authorities have initiated a strategy to

strengthen several fragile banks in line with IMF technical assistance recommendations; Togo's largest bank, state-owned BTCI, was placed under new management and oversight in February 2008, based on terms of reference agreed with the regional Banking Commission.

III. THE PROPOSED PRGF ARRANGEMENT

A. Objectives

9. **The proposed PRGF arrangement would help Togo to revive economic growth and improve living conditions within a stable macroeconomic environment.** Sustained high growth that leads to better basic living conditions and reduced poverty will require complex reforms; the three-year program, anchored in the I-RPSP, will be a step in this direction, with its focus on:

- **Bringing public debt to a sustainable level** through (i) gradual **fiscal adjustment** to achieve a moderate but sustainable primary fiscal surplus by 2010 and gradually reduce domestic public debt and arrears; and (ii) comprehensive external HIPC and MDRI debt relief;
- **Reengaging with Togo's development partners** to support a significant increase in financial and technical assistance for priority projects and reforms;
- **Increasing resources for health, education, and infrastructure** (especially energy and transport) by reallocating domestic spending and using the expected increase in external assistance effectively;
- **Strengthening fiscal governance** to raise revenue and make spending more efficient and transparent;
- **Restructuring fragile state-owned banks** to reduce risks to macroeconomic stability and allow the private financial sector to develop; and
- **Initiating growth-oriented structural reforms** to improve the business environment and reform public enterprises, especially in the cotton and phosphate sectors.

B. The 2008–10 Macroeconomic Framework

10. **Growth is projected to pick up as donors reengage and confidence returns (Table 1).** The I-PRSP's medium-term framework envisages real GDP growth of almost 4 percent, in line with the reform scenario discussed during the last Article IV consultation. The initial recovery is expected to be driven by donor-financed public investment, improved business confidence, growing regional trade, and a rebound in cotton and phosphate production. Over the medium term, growth should be sustained by higher foreign direct

investment (FDI), improved financial intermediation, and upgrades to public infrastructure, especially electricity, which would alleviate bottlenecks that previously stymied private sector growth.

Togo: Selected Economic and Financial Indicators, 2005–10

	2005	2006	2007	2008	2009	2010
			Est.	Program ¹		
	(Percent of GDP, unless otherwise indicated)					
Real GDP (percent change)	1.3	4.1	2.1	3.0	4.0	4.0
Consumer prices (annual average, percent change)	6.8	2.2	1.0	4.1	3.8	3.5
Broad money (M2, percent change)	1.4	22.1	16.4	10.0	...	...
Total revenue and grants	16.9	18.3	18.7	19.5	21.2	22.1
Revenue	15.7	16.9	17.0	17.2	17.5	17.8
Total expenditure and net lending	20.4	22.1	20.6	21.9	22.9	23.4
Domestic primary expenditure	16.2	17.9	16.8	17.2	16.9	16.7
Overall balance (payment order basis)	-3.5	-3.8	-1.9	-2.4	-1.7	-1.3
Primary balance	-0.5	-1.1	0.2	0.0	0.6	1.1
Change in domestic arrears	1.9	-0.4	-0.8	0.0	-0.4	-0.7
Current account balance	-5.3	-6.0	-6.4	-7.9	-6.7	-6.4
Exports of Goods and Services	40.3	42.3	42.0	44.4	45.3	46.2
Imports of Goods and Services	57.2	61.8	62.6	68.0	69.4	70.2
External public debt	90.3	83.9	80.9	64.2	60.8	36.3

Sources: Togolese authorities; and Fund staff estimates and projections.

¹ Assumes external debt/arrears relief in 2008–2010, broadly in line with potential HIPC/MDRI debt relief.

11. **Inflation is expected to be contained, anchored in the WAEMU currency union and fiscal prudence.** Nonetheless, inflation could rise in case of unfavorable weather conditions or higher world prices for food and fuel. Moreover, the national authorities and the BCEAO will need to scrutinize the causes of recent money and credit growth in Togo; an increase in reserve requirements may become necessary if the monetary expansion starts to fuel high inflation or imprudent lending practices.

12. **External conditions are likely to remain challenging.** Togo's current account deficit is not expected to decline much during the program: Imports are likely to grow rapidly as foreign aid is absorbed, FDI increases, and oil and food prices rise further. Exports are also expected to pick up as the cotton and phosphate sectors rebound. Despite recent appreciation, Togo's real exchange rate is unlikely to be significantly overvalued, given Togo's relatively low wages, but sustained export growth will require reforms to improve competitiveness (see Country Report 07/217.¹ Togo's international reserves are expected to remain at about three months of imports, but the balance of payments will stay vulnerable to

¹ The April 2007 WAEMU Article IV consultation concluded that the union-level real exchange rate was broadly in line with fundamentals. Since then, there has been some appreciation. An updated assessment will be discussed at the WAEMU Article IV Board meeting planned for May 2008.

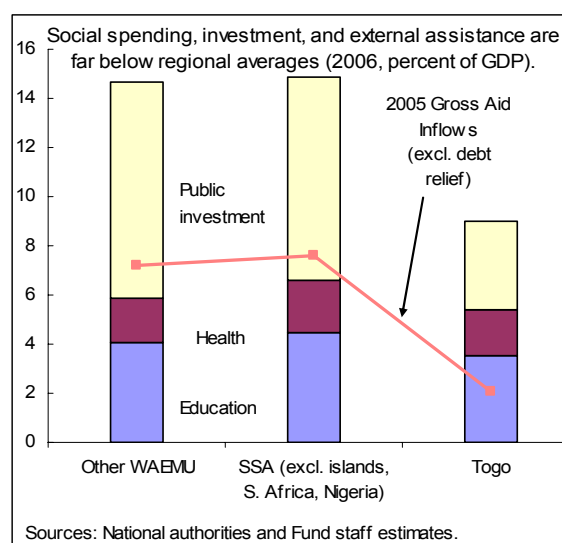
terms of trade shocks (in particular, from oil prices), further euro appreciation, and confidence shocks that could lower remittances or capital outflows from the banking sector.

C. 2008–10 Fiscal Policies

13. **The authorities' medium-term fiscal program aims for a moderate but sustainable primary fiscal surplus (Table 3).** A domestic primary surplus of about 1 percent of GDP by 2010, combined with HIPC/MDRI debt relief and foreign aid in line with regional averages, would result in a generally sustainable fiscal and debt position that avoids renewed arrears. The authorities plan to achieve the required fiscal adjustment by gradually raising revenues to about 17¾ percent of GDP by 2010 (compared to 17 percent in 2007) while holding domestic spending broadly constant. The envisaged increase in foreign financing would allow additional spending in priority areas.

14. **The program accommodates a significant increase in infrastructure and social spending, supported by the resumption of donor support and HIPC/MDRI debt relief.**

With project support expected to rise to about 6 percent of GDP, spending on education, health, and investment could reach about 15 percent of GDP by 2010 (against 9¼ percent of GDP in 2006), though that is still far short of the resources needed to achieve the MDGs. The wage bill, though projected to rise modestly after a decade-long salary freeze, should be less than 35 percent of revenues (consistent with WAEMU convergence criteria). The program includes annual spending of 1–1½ percent of GDP on restructuring state-owned enterprises.



15. **The approved 2008 budget targets a balanced primary fiscal position.** Revenues are projected at 17¾ percent of GDP, supported by continued improvements in administration, including the full-year effect of the recent computerization of customs. Domestic expenditures are kept at about 17¾ percent of GDP, as expenditures are reallocated from transfers to SOTOCO (for repaying arrears to farmers) and the 2007 elections toward health, education, the energy sector, and restructuring of state-owned banks and enterprises. The authorities have also strengthened mechanisms for auditing recipients of transfers and subsidies to limit inefficient spending. The budget provides for a modest increase in the wage bill, resulting from the conversion of auxiliary teachers into civil servants and the recent increase in the retirement age for civil servants in senior positions and in health and education rises from 55 to 60 years. Additional spending of about 3¼ percent of GDP is to be financed through external project support. Exceptional financing and debt relief will be

required to clear external arrears and finance the budget as Togo resumes external debt service to multilateral creditors and starts to reduce its domestic liabilities (Section IV.A).

D. Structural Reforms

16. **The authorities' structural reform agenda is geared toward higher economic growth and macroeconomic stability within a sustainable fiscal framework.** The reform calendar is sequenced to reflect Togo's capacity constraints after the long political crisis and donor disengagement. The initial goal is to sustain fiscal governance reforms, safeguard against banking risks, and prepare reform strategies for the cotton, phosphate, transport, and energy sectors. Technical assistance and close coordination among development partners will be critical for building institutional capacity, especially in the areas of revenue administration and tax policy (where the Fund will take the lead), expenditure management, public debt and treasury management, bank restructuring, economic statistics (where the Fund and the World Bank will share responsibility), and public enterprise reform (where the World Bank will take the lead). The authorities have created a steering committee to coordinate the reform program and technical assistance needs. The detailed reform agenda, which involves also other donors, is discussed in the MEFP, ¶¶ 16–33.

Fiscal Governance

17. **The PRGF arrangement places fiscal governance at the center of the structural reform agenda.** The authorities' medium-term reform program includes steps to

- strengthen revenue administration to achieve the program's revenue objective by making full use of the new customs software, computerizing tax administration, moving to risk-based audits, tightening control of the Export Processing Zone, updating the customs code, and streamlining tax exemptions;
- better monitor budget execution by implementing a new monthly monitoring template (designed with IMF technical assistance) and ultimately moving to an integrated software system;
- strengthen expenditure management by curtailing payment orders without budget line identification, expediting spending procedures by introducing risk-based controls, and adopting a new procurement code;
- improve public debt and treasury management by adopting a strategy for clearing domestic arrears, building public debt management capacity, unifying treasury management, strengthening cash management, and introducing regular Treasury bill auctions;
- tighten internal controls by setting up a General Inspectorate of Finance under the responsibility of the Minister of Finance to conduct ex-post inspections of agencies

that manage public resources and by activating the Court of Public Accounts to audit budget implementation; and

- improve budget preparation by unifying the current and capital budgets, improving accounting, and moving to multiyear budgets.

Financial Sector

18. **Bank restructuring will be critical for safeguarding macroeconomic stability.** A key priority is to strengthen Togo's largest bank, state-owned BTCI. The bank's new management and oversight structure (a prior action for the PRGF arrangement) should help improve its operations and financial position. The authorities plan to recapitalize BTCI and improve its liquidity, including by issuing government securities and addressing nonperforming loans to state-owned companies, in close coordination with the BCEAO and the WAMU Banking Commission, with the ultimate goal of attracting a strategic investor. They also expect to privatize UTB, a state-owned bank that has already been strengthened, and review options for other banks.

19. **The authorities also intend to improve banking supervision and develop the securities market.** Improved supervision, led by the BCEAO and the Banking Commission, will be particularly important for monitoring undercapitalized banks and the risks emanating from rapid credit growth. The authorities also intend to introduce short-term Treasury bills and review options for reforming the pension system. The recommendations of the recent regional FSAP will be discussed in future program reviews.

Public Enterprises and the Business Environment

20. **Public enterprise reform is a long-term challenge.** As recommended in the recent financial and strategic audits of the cotton sector, the authorities have taken steps to strengthen governance and decided to transform state-owned SOTOCO into a new company partly owned by cotton producers. This should prepare the sector for further reforms aimed at improving financial controls, pricing, and productivity. In the phosphate sector, a new legal entity has been created that will receive financing from the Islamic Development Bank to upgrade equipment; the authorities are also preparing to audit the sector in coordination with the World Bank to review options for sector reform, including for attracting a strategic investor. In the energy sector, the authorities are rehabilitating generation capacity and have contracted the privately financed construction of generators that can be linked to the new West Africa gas pipeline. The authorities also intend to review the finances of and adopt a performance contract with the local electricity distribution company, in consultation with the World Bank. The World Bank is also helping the authorities to review options for investment and reforms in telecommunications, roads, and the port.

21. **Improving Togo's business environment will be crucial for raising external competitiveness and attracting investment.** The fiscal program will accommodate upgrades of public infrastructure to alleviate constraints on the private sector (especially transport and energy). Making revenue administration more efficient and avoiding new arrears to suppliers should help restore business confidence. Additional reforms to develop the private sector include the adoption of a new investment code, a reduction in the relatively high corporate tax rate, steps to facilitate business registration, and judicial reform.

IV. PROGRAM FINANCING, DESIGN, AND RISKS

A. External Financing

22. **Total external program financing needs for 2008–10 are projected at about \$2.1 billion, 75 percent of GDP (Table 6).** About two-thirds of this relates to arrears clearance in 2008 (see details below) and HIPC/MDRI completion point relief in 2010, which will help bring external debt to a sustainable level.² Project support is estimated at about 5 percent of GDP a year, broadly in line with the regional average. Given Togo's heavy debt, most of this assistance would come in the form of grants and the rest as concessional loans. This leaves an annual financing gap of about 3 percent of GDP as Togo starts restructuring state-owned banks and enterprises, addresses the energy crisis, resumes external debt service, and begins reducing its substantial domestic debt, including arrears to suppliers and long-term bonds. The gap is expected to be closed by concessional debt rescheduling (1 percent of GDP a year) and budget support (2 percent of GDP a year), including BCEAO credit unlocked by PRGF disbursements.

23. **Togo has reached understandings on arrears clearance with the World Bank, the African Development Bank (AfDB), and the European Investment Bank (EIB).** It has signed a Memorandum of Understanding with the World Bank on clearing about \$150 million in arrears through an exceptional IDA grant, envisaged for May 2008. The AfDB plans to help Togo clear its arrears (about \$20 million) around the same time through a grant under the new fragile states facility. The EU has allocated about \$30 million to clear Togo's arrears to the EIB through two grants, in 2008 and 2009. FIDA has proposed an arrears rescheduling. The authorities have requested renegotiation of debt and arrears by

² With strong performance, Togo could reach the HIPC decision point by the time of the first PRGF review and the HIPC completion before the end of the arrangement. While technical work on the HIPC debt sustainability analysis is still ongoing, preliminary end-2007 data indicate that Togo will likely meet the HIPC Initiative indebtedness criterion under the fiscal window. Upfront grant-based clearance of Togo's large arrears to the World Bank, AfDB, and EIB is projected to deliver much of the expected HIPC debt relief, so Togo is unlikely to benefit from significant interim debt flow relief between the decision point and completion point. MDRI is expected to reduce debt to well below the HIPC threshold, mainly reflecting cancellation of debt to the World Bank. See also Country Report 07/217 for a Fund-Bank debt sustainability analysis.

other multilateral creditors as part of the HIPC Initiative. The Paris Club has provided financing assurances, and the authorities are expected to request a rescheduling of bilateral debt on concessional terms.

24. **PRGF access is proposed at 90 percent of quota (SDR 66.06 million).** The comparatively high level of access³ reflects several factors:

- External financing needs are very large because of (i) recent exogenous shocks, especially the energy crisis and higher world oil prices, that have widened the budget and balance of payments gaps; (ii) more than a decade of donor disengagement that has created pent-up demand for infrastructure investment and social spending; (iii) the high cost of restructuring state-owned enterprises and clearing past arrears to suppliers; and (iv) the need to service Togo's public debt and lower it to a sustainable level. Accordingly, Togo's development partners are expected to provide very substantial financing (including through arrears clearance and debt relief).⁴ The Fund's contribution of about 3¼ percent of GDP over three years would be about 4 percent of the total.
- The program envisages a significant domestic fiscal adjustment to reduce the financing gap while making room for priority spending identified in the I-PRSP. Spending outside the social and infrastructure areas is to be cut by about 2 percent of GDP, and revenues are to increase by 1 percent of GDP during 2007–10. Domestic financing cannot play a significant role, given the lack of a Treasury bill market, the BCEAO's ceiling on bond issuance, limited government deposits, and the need to service Togo's large domestic debt.
- Risks to Fund resources are low because of (i) the BCEAO's international reserve position of 5¼ months of imports⁵; (ii) Togo's positive SMP track record; (iii) the strength of the program, with the prospect that debt will be sustainable by 2010; and (iv) the fact that Togo's debt to the Fund has been fully repaid so that outstanding

³ Though the proposed access is currently the norm for first-time PRGF users, Togo has already had two ESAF arrangements (approved in 1989 and 1994). The norm for third-time users of concessional arrangements is 55 percent of quota. The policy allows for flexibility around the norms, which are intended simply to provide general guidance for access decisions.

⁴ The World Bank, AfDB, and EU are projected to provide upfront financing of about 7 percent of GDP for arrears clearance, and about 9 percent of GDP for project and budget support in 2008–10. Paris Club creditors are projected to reschedule Togo's arrears (24 percent of GDP) and 2008–10 debt service (3 percent of GDP).

⁵ A safeguards assessment was conducted at the regional (BCEAO) level in 2005.

Fund credit would be less than in a country with consecutive PRGF arrangements and access at the norm.

25. **It is proposed that disbursements be moderately frontloaded (Table 7), given Togo's good fiscal performance since mid-2006 and large financing needs in 2008.** The energy crisis and the restructuring of state-owned banks and enterprises will have significant costs, and external debt service will increase significantly as Togo resumes full debt service to multilateral creditors. To help fill the gap, the program envisages a large drawdown of government deposits at the central bank (1 percent of GDP) and postpones repayment of supplier arrears until 2009. IMF disbursements will unlock BCEAO credit of about 1¼ percent of GDP in 2008.

B. Program Design

26. **Semiannual quantitative performance criteria are limited to core indicators, including the primary fiscal balance and domestic financing, with adjustors to smooth expenditure in case of aid volatility (MEFP, Table 1).** A symmetric (and capped) adjustor on net domestic financing would allow offsetting deviations from projected program financing. Sustained large deviations from projected external assistance would be addressed during program reviews. There is a zero ceiling on the central government contracting or guaranteeing new nonconcessional debt and the standard continuous performance criterion on nonaccumulation of external arrears. Indicative targets have been established for revenue, domestic arrears, and spending on investment and social sectors.

27. **Structural conditionality focuses on macro-critical measures to strengthen fiscal governance, mitigate macroeconomic risks from banks, and set the conditions for private investment and state-owned enterprise reform.** Table 2 of the MEFP shows the structural conditionality for 2008, including two completed prior actions (on the 2008 budget and BTCL), and seven structural measures for the rest of 2008, two of which are performance criteria. Structural conditionality for 2009-10 will be based on the MEFP, ¶¶ 16–33 (see Table 11 for a summary).

C. Program Risks and Mitigation

28. **The authorities have demonstrated significant reform commitment over the past two years, but Togo faces significant political and economic risks:**

- **Political and social tensions** could intensify in the current difficult economic environment with tight budget constraints. This could weaken investor confidence, slow economic reforms, and delay reengagement with donors. To mitigate these risks, the authorities and the mission have discussed the program with a broad spectrum of stakeholders, including parliament, trade unions, and civil society.

- **Capacity constraints** resulting from decades of political conflict and donor disengagement severely limit the authorities' ability to implement reforms. Reengagement of donors, including with technical assistance, will be vital.
- **Fragile banks** jeopardize macroeconomic stability, with possible spillovers to the region. After recent crucial governance changes, continued work to strengthen the banking sector will be critical. Close monitoring of liquidity and credit growth will be necessary to prevent imprudent lending practices.
- **Exogenous shocks** could stymie the nascent economic recovery, including: (i) further appreciation of the euro against the U.S. dollar; (ii) deterioration in the terms of trade, especially a further rise in world oil prices; (iii) a worsening energy crisis spilling over to the budget and disrupting economic growth; and (iv) bad weather affecting agriculture. To mitigate these risks, it will be important for Togo to improve its competitiveness by restoring infrastructure and to strengthen governance. Fiscal policy will need to respond flexibly to shocks.

V. STAFF APPRAISAL

29. **Togo has made notable progress since mid-2006 in strengthening public finances and initiating structural reforms.** Important fiscal governance reforms have boosted tax revenues and helped improve expenditure control, resulting in a near-balanced primary position and reversing the accumulation of domestic arrears. The 2008 budget consolidates these gains and increases resources for growth-critical sectors. Reforms in the vital cotton, phosphate, and energy sectors have begun, and the governance of Togo's largest bank has been strengthened. The improved political environment has boosted confidence and opened the door for donors to resume their financial assistance.

30. **The authorities' economic reform program set out in the I-PRSP should revive economic growth and improve social conditions.** Given Togo's past problems, the emphasis on political and fiscal governance is welcome. The I-PRSP also appropriately identifies the need to improve the business environment and advance structural reforms in the cotton, phosphates, energy, transport, and financial sectors. The I-PRSP envisages a major boost in spending on health and education while keeping the fiscal envelope realistic.

31. **A coordinated effort to reengage with donors and multilateral agencies will be vital to program success.** Because of the long sociopolitical crisis and the freeze in external assistance, institutional capacity has eroded, and there is pent-up demand for spending on health, education, and infrastructure. Togo is one of the few HIPC-eligible countries that has not yet reached the decision point. Arrears clearance, debt relief, program and project financing, and technical assistance will be critical so that the country can implement reforms to revive economic growth and improve social conditions.

32. **The PRGF-supported program can help Togo consolidate macroeconomic stability, achieve fiscal and debt sustainability, and pave the way for HIPC/MDRI debt relief.** The program supports the authorities' medium-term fiscal framework, which aims for fiscal and debt sustainability and a sharp increase in resources for priority sectors. The PRGF arrangement will also facilitate a coordinated boost in external assistance by donors and other creditors and move Togo toward debt relief. On structural reforms, the intent is to consolidate fiscal governance reforms and reinforce Togo's fragile financial sector. Reform of state-owned enterprises and enhancement of the business environment, monitored mainly by the World Bank, will help to revive economic growth.

33. **Risks to the program, though significant, are manageable.** The risks of political tensions, weak implementation capacity, exogenous shocks, and fragile banks can be mitigated by sound policies and effective reforms, coordinated closely with Togo's main development partners, which will build domestic and international confidence. On balance, given Togo's positive track record on the SMP, the strength of the authorities' program, and the prospect of reviving economic growth and achieving fiscal and debt sustainability, Togo warrants support with a three-year PRGF arrangement.

Table 1. Togo: Selected Economic and Financial Indicators, 2005–10

	2005	2006	2007	2008	2009	2010
	Actual		Estim.	Program ¹		
(Percent change, unless otherwise indicated)						
National income, prices, and exchange rates						
Real GDP	1.3	4.1	2.1	3.0	4.0	4.0
Real GDP per capita	-1.3	1.5	-0.4	0.5	1.4	1.4
GDP deflator	7.6	0.2	0.9	1.6	2.0	2.0
Consumer price index (annual average)	6.8	2.2	1.0	4.1	3.8	3.5
GDP (CFAF billions)	1,112.0	1,159.9	1,194.9	1,250.5	1,326.5	1,407.2
Exchange rate CFAF/US\$ (annual average)	526.9	522.4	478.5	...	...	...
Real effective exchange rate (annual average)	2.5	-1.4	0.5	...	...	...
Terms of trade (deterioration -)	-3.6	-1.7	4.9	...	...	...
Monetary survey						
Net foreign assets ²	-2.8	19.2	4.9	0.0	...	...
Credit to government ²	-1.2	-0.7	-0.8	4.8	...	...
Credit to the nongovernment sector ²	6.6	0.4	10.6	7.8	...	...
Broad money (M2)	1.4	22.1	16.4	10.0	...	...
Velocity (GDP/ end-of-period M2)	3.5	3.0	2.6	2.5	...	...
(Percent of GDP, unless otherwise indicated)						
Investment and savings						
Gross domestic investment	11.8	13.0	12.3	15.7	18.3	20.2
Government	2.8	3.6	2.2	4.8	6.3	7.1
Nongovernment	9.1	9.4	10.1	10.9	12.1	13.1
Gross national savings	6.6	7.0	5.9	7.8	11.6	13.8
Government	-0.7	-0.2	0.3	0.0	0.9	1.5
Nongovernment	7.2	7.2	5.6	7.8	10.7	12.3
Government budget						
Total revenue and grants	16.9	18.3	18.7	19.5	21.2	22.1
Revenue	15.7	16.9	17.0	17.2	17.5	17.8
Total expenditure and net lending	20.4	22.1	20.6	21.9	22.9	23.4
Domestic primary expenditure	16.2	17.9	16.8	17.2	16.9	16.7
Overall balance (payment order basis)	-3.5	-3.8	-1.9	-2.4	-1.7	-1.3
Primary balance ³	-0.5	-1.1	0.2	0.0	0.6	1.1
Change in domestic arrears	1.9	-0.4	-0.8	0.0	-0.4	-0.7
External sector						
Current account balance	-5.3	-6.0	-6.4	-7.9	-6.7	-6.4
Exports (goods and services)	40.3	42.3	42.0	44.4	45.3	46.2
Imports (goods and services)	57.2	61.8	62.6	68.0	69.4	70.2
External public debt	90.3	83.9	80.9	64.2	60.8	36.3
Of which: arrears	28.6	29.5	32.2	0.0	0.0	0.0
External public debt service (percent of exports)	10.6	9.2	9.1	6.7	5.3	4.9
Gross international reserves (months of imports)	2.0	3.1	3.5	3.2	3.1	3.1

Sources: Togolese authorities; and Fund staff estimates and projections.

¹ Reflects PRGF objectives. Assumes external debt and arrears rescheduling/relief in 2008-2010, broadly in line with potential debt relief under the HIPC initiative and MDRI.

² Percent of broad money at the beginning of the period.

³ Revenue minus expenditure, excluding grants, interest, and foreign-financed expenditure.

Table 2. Togo: Balance of Payments, 2005–10

	2005	2006	2007	2008	2009	2010
			Estim.	Program ¹		
	(Billions of CFA francs)					
Current account balance	-58.9	-69.6	-76.4	-98.2	-89.2	-90.1
Trade balance	-182.8	-221.3	-239.2	-293.3	-322.0	-342.8
Exports	314.2	339.8	336.5	373.3	400.8	434.0
Domestic exports	269.7	284.1	289.9	311.9	328.6	359.6
<i>Of which</i> : Cotton	33.9	15.6	10.2	16.4	19.1	19.8
Phosphates	18.1	20.6	18.0	32.0	40.5	43.4
Cement & clinker	52.8	58.5	60.5	63.5	66.7	70.0
Reexports	44.5	55.7	46.6	61.4	72.2	74.4
Imports, f.o.b.	-497.0	-561.1	-575.8	-666.6	-722.9	-776.8
<i>Of which</i> : Petroleum products	-182.6	-213.6	-222.0	-279.3	-288.9	-297.5
Imports for reexports	-35.6	-47.0	-39.6	-49.2	-63.5	-65.4
Services (net)	-5.0	-5.2	-6.4	-1.8	3.5	5.8
Credit	134.2	150.7	165.8	182.4	200.6	216.7
Debit	-139.2	-156.0	-172.2	-184.2	-197.1	-210.9
Income (net)	-9.4	-13.2	-20.8	-14.6	-8.1	-7.7
<i>Of which</i> : interest on external debt	-22.3	-21.8	-22.8	-14.6	-8.1	-7.7
Current transfers (net)	138.3	170.2	190.0	211.5	237.4	254.6
Private	125.2	154.2	169.6	182.5	188.3	194.1
Public	13.1	16.0	20.4	29.0	49.1	60.5
Capital and financial account	-3.8	89.5	72.6	49.1	67.1	69.2
Direct investment	24.2	39.8	30.1	41.3	53.1	63.3
Portfolio investment, incl. bond	12.7	33.7	3.2	-8.2	0.0	0.0
Other investment	-40.7	16.0	39.3	16.1	14.1	5.9
General government	-9.5	-10.1	-17.9	-10.7	-5.8	-1.8
Disbursements	9.9	9.5	2.0	12.0	18.0	22.5
Amortization	-19.4	-19.6	-19.9	-22.7	-23.8	-24.3
Banks, net foreign assets ³	-13.5	-2.2	15.5	0.0	0.0	0.0
Other capital, errors, and omissions	-17.7	28.3	41.6	26.8	19.9	7.7
Overall balance	-62.7	19.9	-3.8	-49.1	-22.1	-20.8
Financing	62.7	-19.9	3.8	24.4	-1.7	-2.6
Central bank net foreign assets ³	22.3	-59.4	-34.8	0.0	-15.2	-16.2
<i>Of which</i> : Use of Fund resources	-6.0	-3.6	-3.2	-0.7	0.0	0.0
Arrears, net change	40.4	39.5	38.6	13.5	0.0	0.0
Flow rescheduling	0.0	0.0	0.0	10.9	13.5	13.6
Clearance of debt/arrears	0.0	0.0	0.0	-384.0	0.0	-303.9
Debt/arrears cancellation	0.0	0.0	0.0	208.3	0.0	303.9
Debt and arrears rescheduling	0.0	0.0	0.0	175.8	0.0	0.0
Unidentified financing ⁵	0.0	0.0	0.0	24.7	23.8	23.4
Memorandum items:	(Percent of GDP, unless otherwise indicated)					
Current account balance	-5.3	-6.0	-6.4	-7.9	-6.7	-6.4
Exports of goods and services	40.3	42.3	42.0	44.4	45.3	46.2
Imports of goods and services	57.2	61.8	62.6	68.0	69.4	70.2
Gross int. reserves (months of imports)	2.0	3.1	3.5	3.2	3.1	3.1

Sources: Togolese authorities; and Fund staff estimates and projections.

¹ Based on structural reforms, fiscal adjustment, and higher donor support. Assumes external debt and arrears rescheduling/relief in 2008–10, broadly in line with potential HIPC/MDRI debt relief.

² Including late interest on arrears through 2007 and early 2008.

³ Negative sign indicates increase.

⁴ To be covered by PRGF and other disbursements.

Table 3. Togo: Central Government Financial Operations, 2006–10

	2006	2007		2008		2009	2010
	Actual	H1	Est.	H1-Prog.	Prog. ¹	Prog. ¹	
	(Billion of CFA francs)						
Revenue and grants	211.9	107.2	223.7	112.1	243.6	281.2	311.6
Total revenue	195.9	102.1	203.3	103.6	214.6	232.1	251.1
Tax revenue	179.1	98.3	195.9	99.5	203.5	225.6	247.0
Tax administration (DGI)	86.8	47.5	89.7	44.6	91.0	105.7	115.7
Customs administration (DGD)	92.3	50.8	106.2	54.9	112.5	119.9	131.3
Nontax revenue	16.8	3.8	7.4	4.1	11.0	6.6	4.1
Grants	16.0	5.1	20.4	8.5	29.0	49.1	60.5
Expenditures and net lending	255.9	110.4	246.7	134.4	273.9	303.3	329.9
<i>Domestic primary expenditures</i>	<i>208.2</i>	<i>91.1</i>	<i>200.8</i>	<i>108.1</i>	<i>214.5</i>	<i>224.2</i>	<i>235.0</i>
Current expenditures	214.3	106.4	220.7	112.5	214.0	220.3	230.0
Domestic primary current expenditures	184.7	87.1	184.8	98.1	190.6	197.7	206.9
Wages and salaries	59.3	27.8	64.3	32.6	72.2	78.0	85.4
Goods and services	66.7	22.0	52.9	25.2	54.4	59.7	64.0
Transfers and subsidies	44.0	37.1	59.6	31.5	46.0	44.0	42.5
Other/unclassified	14.8	0.2	4.1	0.5	1.0	0.0	0.0
Bank and SOE restructuring	0.0	0.0	3.9	8.3	17.0	16.0	15.0
Foreign-financed current expenditures	7.3	5.1	10.2	1.3	5.0	10.6	11.3
Interest	22.2	14.2	25.7	13.1	18.4	12.1	11.9
Domestic debt	0.5	2.7	2.9	2.8	3.8	4.0	4.2
External debt ²	21.8	11.5	22.8	10.3	14.6	8.1	7.7
Public investment	41.6	3.9	26.1	21.9	59.9	83.0	99.9
Domestically financed	23.5	3.9	16.0	10.0	23.9	26.5	28.1
Externally financed	18.2	0.0	10.1	11.9	36.0	56.5	71.8
Domestic primary balance	-12.3	11.1	2.5	-4.5	0.0	8.0	16.1
Overall balance, payment order basis	-44.1	-3.1	-23.1	-22.3	-30.3	-22.1	-18.3
Change in arrears and treasury float	16.0	6.2	10.9	8.7	8.7	-5.3	-9.9
Change in domestic arrears and treasury float	-5.2	-4.3	-9.8	0.0	0.0	-5.3	-9.9
Arrears on external interest	21.2	10.4	20.7	8.7	8.7	0.0	0.0
Overall balance, cash basis	-28.1	3.1	-12.2	-13.6	-21.6	-27.4	-28.2
Financing	35.7	2.9	14.8	4.0	-3.1	3.7	4.8
Domestic financing (net)	27.4	3.3	14.8	1.9	-7.5	-4.0	-7.0
Banking system	-20.3	-11.2	5.8	13.5	5.2	-1.9	-4.9
Nonbank financing	47.7	14.4	9.0	-11.6	-12.7	-2.1	-2.1
External financing (net)	8.3	-0.4	0.0	2.1	4.5	7.6	11.8
Drawings	9.5	0.0	2.0	4.7	12.0	18.0	22.5
Amortization due	-19.6	-9.9	-19.9	-10.8	-22.7	-23.8	-24.3
Arrears on amortization	18.4	9.6	17.9	4.8	4.8	0.0	0.0
Contingency for debt service	0.0	0.0	0.0	-0.5	-0.5	0.0	0.0
Debt flow relief (interest and amortization)	...	...	...	3.9	10.9	13.5	13.6
Clearance of debt and arrears stock	...	0.0	...	-384.0	-384.0	0.0	-303.9
Debt/arrears stock rescheduling	0.0	0.0	0.0	175.8	175.8	0.0	0.0
Debt/arrears stock cancellation	0.0	0.0	0.0	208.3	208.3	0.0	303.9
Residual/gap ³	-7.6	-6.0	-2.6	9.6	24.7	23.8	23.4

(cont.)

Table 3. Togo: Central Government Financial Operations, 2006–10

	2006	2007		2008		2009	2010
	Actual	H1	Est.	H1-Prog.	Prog. ¹	Prog. ¹	
	(Percent of GDP)						
Revenue and grants	18.3	9.0	18.7	9.0	19.5	21.2	22.1
Total revenue	16.9	8.5	17.0	8.3	17.2	17.5	17.8
Tax revenue	15.4	8.2	16.4	8.0	16.3	17.0	17.6
Nontax revenue	1.4	0.3	0.6	0.3	0.9	0.5	0.3
Grants	1.4	0.4	1.7	0.7	2.3	3.7	4.3
Expenditures and net lending	22.1	9.2	20.6	10.7	21.9	22.9	23.4
Domestic primary expenditures	17.9	7.6	16.8	8.6	17.2	16.9	16.7
Current expenditures	18.5	8.9	18.5	9.0	17.1	16.6	16.3
Domestic primary current expenditures	15.9	7.3	15.5	7.8	15.2	14.9	14.7
Wages and salaries	5.1	2.3	5.4	2.6	5.8	5.9	6.1
Goods and services	5.7	0.3	4.4	2.0	4.4	4.5	4.5
Subsidies and transfers	3.8	3.1	5.0	2.5	3.7	3.3	3.0
Other/unclassified	1.3	0.0	0.3	0.0	0.1	0.0	0.0
Contingency for bank and SOE restructuring	0.0	0.4	0.3	0.7	1.4	1.2	1.1
Foreign-financed current expenditures	0.6	1.2	0.9	0.1	0.4	0.8	0.8
Interest	1.9	0.2	2.1	1.0	1.5	0.9	0.8
Domestic debt	0.0	1.0	0.2	0.2	0.3	0.3	0.3
External debt ²	1.9	0.3	1.9	0.8	1.2	0.6	0.5
Public investment	3.6	0.3	2.2	1.7	4.8	6.3	7.1
Domestically financed	2.0	0.3	1.3	0.8	1.9	2.0	2.0
Externally financed	1.6	0.0	0.8	1.0	2.9	4.3	5.1
Domestic primary balance	-1.1	0.9	0.2	-0.4	0.0	0.6	1.1
Overall balance, payment order basis	-3.8	-0.3	-1.9	-1.8	-2.4	-1.7	-1.3
Change in domestic arrears and treasury float	-0.4	-0.4	-0.8	0.0	0.0	-0.4	-0.7
Arrears on external interest	1.8	0.9	1.7	0.7	0.7	0.0	0.0
Overall balance, cash basis	-2.4	0.3	-1.0	-1.1	-1.7	-2.1	-2.0
Financing	3.1	0.2	1.2	0.3	-0.2	0.3	0.3
Domestic financing (net)	2.4	0.3	1.2	0.2	-0.6	-0.3	-0.5
Banking system	-1.7	-0.9	0.5	1.1	0.4	-0.1	-0.4
Nonbank financing	4.1	1.2	0.8	-0.9	-1.0	-0.2	-0.1
External financing (net)	0.7	0.0	0.0	0.2	0.4	0.6	0.8
Drawings	0.8	0.0	0.2	0.4	1.0	1.4	1.6
Amortization due	-1.7	-0.8	-1.7	-0.9	-1.8	-1.8	-1.7
Arrears on amortization	1.6	0.8	1.5	0.4	0.4	0.0	0.0
Contingency for debt service	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Debt flow relief (interest and amortization)	...	...	...	0.3	0.9	1.0	1.0
Clearance of debt and arrears stock	...	0.0	...	-30.7	-30.7	0.0	-21.6
Debt/arrears stock rescheduling	0.0	0.0	0.0	14.1	14.1	0.0	0.0
Debt/arrears stock cancellation	0.0	0.0	0.0	16.7	16.7	0.0	21.6
Residual/gap ³	-0.7	-0.5	-0.2	0.8	2.0	1.8	1.7
Memorandum items							
Social spending ⁴	6.2	...	6.5	...	8.9	10.5	12.5
Of which : foreign financed	0.8	...	1.1	...	3.4	4.2	5.6
Of which : capital spending	0.7	...	0.6	...	2.4	3.3	4.7
Investment and social spending ⁴	9.3	...	8.7	...	12.7	13.6	15.1
Of which : foreign financed	2.3	...	2.2	...	5.5	5.7	6.5
Nominal GDP (CFAF billions)	1,160	1,195	1,195	1,250	1,250	1,327	1,407

Sources: Togolese authorities; and Fund staff estimates and projections.

^{1/} Assumes external debt and arrears rescheduling/relief in 2008–10, broadly in line with potential debt relief under the HIPC initiative and MDRI.

^{2/} Including late interest on arrears through 2007 and early 2008.

^{3/} For 2008–10, the financing gap is to be closed through PRGF disbursements, IDA grants, and other financing.

^{4/} Includes health and education (including salaries), and pension transfers.

Table 4. Togo: Monetary Survey, 2005–08

	2005	2006		2007		2008	
	Dec.	June	Dec.	June	Dec. Estim.	June Program ¹	Dec.
(Billions of CFA francs)							
Net foreign assets	145.1	203.2	206.7	230.9	226.0	226.0	226.0
BCEAO	91.9	153.2	151.3	178.8	186.1	186.1	186.1
Assets	108.2	180.5	185.0	215.6	216.2	219.5	224.2
Liabilities	16.3	27.2	33.7	36.8	30.1	33.4	38.1
Commercial banks	53.2	50.0	55.4	52.2	39.9	39.9	39.9
Assets	92.1	90.2	91.3	100.7	86.0	69.9	86.0
Liabilities	38.9	40.2	35.9	48.5	46.1	46.1	46.1
Net domestic assets	176.6	143.2	186.1	204.7	231.3	280.7	277.0
Credit to the government (net)	12.0	10.4	9.8	-1.7	6.8	36.2	28.7
BCEAO	7.1	-21.9	-13.6	-14.8	-17.9	10.2	3.1
Commercial banks	5.0	32.3	23.4	13.1	24.7	26.1	25.7
Credit to the rest of the economy	195.1	165.4	196.2	214.5	237.8	269.5	273.5
Other items (net)	-30.5	-32.6	-19.9	-8.1	-13.2	-25.0	-25.2
Money supply (M2)	321.7	346.4	392.8	435.6	457.3	506.6	503.0
Currency in circulation	63.2	70.1	100.1	107.8	115.4	126.2	126.9
Bank deposits	258.5	276.3	292.7	327.8	341.9	380.4	376.1
(Annual change, percent of beginning-of-period broad money)							
Net foreign assets	-2.8	18.1	19.2	6.2	4.9	0.0	0.0
BCEAO	-7.0	19.1	18.5	7.0	8.8	0.0	0.0
Commercial banks	4.3	-1.0	0.7	-0.8	-4.0	0.0	0.0
Net domestic assets	4.2	-10.4	2.9	4.7	11.5	10.8	10.0
Credit to the government (net)	-1.2	-0.5	-0.7	-2.9	-0.8	6.4	4.8
Credit to the rest of the economy	6.6	-9.2	0.4	4.7	10.6	6.9	7.8
Other items (net)	-1.2	-0.7	3.3	3.0	1.7	-2.6	-2.6
Money supply (M2)	1.4	7.7	22.1	10.9	16.4	10.8	10.0
Currency in circulation	-3.2	2.1	11.5	2.0	3.9	2.4	2.5
Bank deposits	4.6	5.5	10.6	8.9	12.5	8.4	7.5
Memorandum items							
Velocity (GDP/ end-of-period M2)	3.5	...	3.0	...	2.6	...	2.5

Sources: Central Bank of West African States, and Fund staff estimates and projections.

¹ Based on PRGF objectives.

Table 5. Togo: Official External Debt, 2004–06

	2004		2005		2006 (Prel.)	
	Total	Of which: arrears ¹	Total	Of which: arrears ¹	Total	Of which: arrears ¹
(Millions of U.S. dollars)						
Total	1,933.3	563.2	1,815.8	575.2	2,011.0	688.6
Multilateral	1,092.1	107.9	1,025.0	124.5	1,089.0	163.0
World Bank	733.2	60.6	696.2	75.0	733.6	101.2
AfDB	134.3	10.6	122.5	12.0	132.7	15.7
Other	224.6	36.7	206.3	37.5	222.7	46.1
Bilateral	841.2	455.4	790.8	450.7	922.0	525.6
Paris Club	773.7	442.0	730.1	443.8	818.8	525.6
Non-Paris Club	67.5	13.4	60.7	6.9	103.3	0.0
(Billions of CFA Francs)						
Total	945.6	275.5	1,004.3	318.1	973.3	341.8
Multilateral	534.2	52.8	567.0	68.8	540.6	80.9
World Bank	358.6	29.7	385.1	41.5	364.1	50.2
AfDB	65.7	5.2	67.7	6.6	65.9	7.8
Other	109.8	17.9	114.1	20.7	110.6	22.9
Bilateral	411.4	222.7	437.4	249.3	432.7	260.9
Paris Club	378.4	216.2	403.8	245.5	406.4	260.9
Non-Paris Club	33.0	6.5	33.6	3.8	26.3	0.0
(Percent of GDP)						
Total	92.7	27.0	90.3	28.6	83.9	29.5
Multilateral	52.4	5.2	51.0	6.2	46.6	7.0
World Bank	35.1	2.9	34.6	3.7	31.4	4.3
AfDB	6.4	0.5	6.1	0.6	5.7	0.7
Other	10.8	1.8	10.3	1.9	9.5	2.0
Bilateral	40.3	21.8	39.3	22.4	37.3	22.5
Paris Club	37.1	21.2	36.3	22.1	35.0	22.5
Non-Paris Club	3.2	0.6	3.0	0.3	2.3	0.0
<i>Memorandum items</i>						
Nominal GDP (CFAF billions)		1020.3		1112.0		1159.9
Exchange rate CFAF/USD (end of year)		489.1		553.1		496.4

Sources: Togolese authorities, and Fund staff estimates.

¹ Includes imputation for interest on arrears.

Table 6. Togo: External Financing, 2008-10

	2008	2009	2010	2008-10
	(Percent of GDP)			
Total external financing needs	36.8	7.9	30.1	74.8
Stock operations: External debt/arrears reduction	30.7	0.0	21.6	52.3
Arrears clearance	30.7	0.0	0.0	30.7
HIPC Completion Point debt reduction	0.0	0.0	21.6	21.6
Balance of payments flow financing needs	6.1	7.9	8.5	22.5
Current account deficit (excl. interest & grants)	9.0	9.8	10.2	29.0
External debt service (incl. regional bond)	2.6	2.4	2.3	7.3
Net capital flows (- = inflow)	-5.5	-4.4	-3.9	-13.7
<i>Memorandum item: Fiscal gap</i>	6.1	7.9	8.5	22.5
Domestic primary deficit (- = surplus)	0.0	-0.6	-1.1	-1.7
Donor-financed projects	3.3	5.1	5.9	14.2
Net domestic debt service ¹	0.9	1.0	1.5	3.4
External debt service	1.9	2.4	2.3	6.6
Total external financing sources	36.8	7.9	30.1	74.8
Stock operations	30.7	0.0	21.6	52.3
Arrears clearance	30.7	0.0	0.0	30.7
Paris Club	23.5	0.0	0.0	23.5
Bilateral, non-Paris Club	0.1	0.0	0.0	0.1
Multilateral ²	7.1	0.0	0.0	7.1
AfDB	0.8	0.0	0.0	0.8
EIB	1.2	0.0	0.0	1.2
IDA	5.0	0.0	0.0	5.0
Other	0.0	0.0	0.0	0.0
HIPC completion point stock relief	0.0	0.0	21.6	21.6
Flow financing	6.1	7.9	8.5	22.5
Project grants & loans	3.3	5.1	5.9	14.2
Program support	2.0	1.8	1.7	5.4
IMF (90 % of quota with frontloading)	1.3	1.0	0.9	3.1
Other (incl. IDA)	0.7	0.8	0.8	2.3
Debt flow relief ³	0.9	1.0	1.0	2.9
Paris Club	0.7	0.9	0.8	2.4
Bilateral, non-Paris Club	0.2	0.1	0.1	0.4
Multilateral	0.0	0.0	0.0	0.0

Sources: Togolese authorities; and Fund staff estimates and projections.

¹ Including domestic interest, arrears clearance, and amortization of regional bonds and NPLs.

² Including financing from third parties.

³ Assumes for illustrative purposes a Paris Club rescheduling on Naples terms with capitalization of moratorium interest; HIPC Decision Point interim relief in late 2008.

Table 7: Togo: Proposed Schedule of Disbursement Under PRGF arrangement, 2008-11

Amount	Date	Condition for Disbursement ¹
SDR 13,260,000	April 23, 2008	Executive Board approval of the three-year arrangement under the PRGF
SDR 8,800,000	October 31, 2008	Observance of performance criteria for June 2008 and completion of the first review under the PRGF arrangement
SDR 8,800,000	April 30, 2009	Observance of performance criteria for December 2008 and completion of the second review under the PRGF arrangement
SDR 8,800,000	October 31, 2009	Observance of performance criteria for June 2009 and completion of the third review under the PRGF arrangement
SDR 8,800,000	April 30, 2010	Observance of performance criteria for December 2009 and completion of the fourth review under the PRGF arrangement
SDR 8,800,000	October 31, 2010	Observance of performance criteria for June 2010 and completion of the fifth review under the PRGF arrangement
SDR 8,800,000	April 30, 2011	Observance of performance criteria for December 2010 and completion of the sixth review under the PRGF arrangement

¹ Other than the generally applicable conditions for the Poverty Reduction and Growth Facility (PRGF)

Table 8. Togo: Indicators of Capacity to Repay the Fund, 2006-15 1/

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015
	Projections									
Fund obligations based on existing credit										
(in millions of SDRs)										
Principal	4.3	4.3	1.1	-	-	-	-	-	-	-
Charges and interest	0.4	0.5	0.3	0.3	0.3	0.3	0.3	0.3	0.3	0.3
Fund obligations based on existing and prospective credit										
(in millions of SDRs)										
Principal	4.3	4.3	1.1	-	-	-	-	1.3	5.3	8.8
Charges and interest	0.4	0.5	0.4	0.5	0.5	0.6	0.6	0.6	0.6	0.6
Total obligations based on existing and prospective credit										
In millions of SDRs										
In billions of CFAF	3.7	3.5	1.0	0.3	0.4	0.4	0.4	1.4	4.1	6.6
In percent of government revenue	1.9	1.7	0.5	0.1	0.2	0.2	0.2	0.4	1.3	1.9
In percent of exports of goods and services	0.7	0.7	0.2	0.1	0.1	0.1	0.1	0.2	0.5	0.7
In percent of debt service 2/	8.9	8.2	2.8	1.0	1.2	1.2	1.2	3.1	8.7	13.3
In percent of GDP	0.3	0.3	0.1	0.0	0.0	0.0	0.0	0.1	0.2	0.3
In percent of quota	6.5	6.5	2.0	0.6	0.7	0.8	0.9	2.7	8.0	12.8
Outstanding Fund credit 2/										
In millions of SDRs										
In billions of CFAF	4.2	0.8	15.6	28.1	40.4	46.5	46.3	45.4	41.7	35.5
In percent of government revenue	2.1	0.4	7.3	12.1	16.1	17.1	16.1	14.8	12.9	10.3
In percent of exports of goods and services	0.9	0.2	2.8	4.7	6.2	6.6	6.1	5.5	4.7	3.8
In percent of debt service 2/	10.1	1.9	41.9	87.9	126.5	132.9	130.2	103.3	87.2	71.8
In percent of GDP	0.4	0.1	1.2	2.1	2.9	3.1	2.9	2.7	2.3	1.9
In percent of quota	7.4	1.5	30.0	54.0	78.0	90.0	90.0	88.2	81.0	69.0
Net use of Fund credit (millions of SDRs)										
Disbursements	(4.3)	(4.3)	21.0	17.6	17.6	8.8	-	(1.3)	(5.3)	(8.8)
Repayments and Repurchases	-	-	22.1	17.6	17.6	8.8	-	-	-	-
Repayments and Repurchases	4.3	4.3	1.1	-	-	-	-	1.3	5.3	8.8
Memorandum items:										
Nominal GDP (in billions of CFAF)	1,160	1,195	1,250	1,327	1,407	1,493	1,583	1,680	1,782	1,890
Exports of goods and services (in billions of CFAF)	491	502	556	601	651	704	761	822	888	942
Government revenue (in billions of CFAF)	196	203	215	232	251	272	288	306	324	344
Debt service (in billions of CFAF) 2/	41	43	37	32	32	35	36	44	48	49
CFAF/SDR (period average)	769	732	709	708	706	704	701	701	701	701

Sources: IMF staff estimates and projections.

1/ Assumes access of 90 percent of quota for the prospective PRGF arrangement (SDR 66.06 million).

2/ Total debt service includes IMF repurchases and repayments.

Table 9. Togo: Performance Under the Staff-Monitored Program
October 1, 2006—June 30, 2007

	Dec. 2006		Mar. 2007		June 2007	
	SMP target	Outturn	SMP target	Outturn	SMP target	Outturn
	(Billions of CFA francs; cumulative changes from Dec. 31, 2005)					
Domestic primary fiscal balance (floor)	-19.3	-12.3	-21.8	11.3	-26.3	-1.2
Total revenue (floor)	185.9	195.9	230.9	246.1	280.9	298.0
Arrears on external debt to official creditors (ceiling) ¹	30.0	27.8	35.4	32.7	45.8	41.8
Domestic payments arrears, changes in stock (ceiling)	0.0	-5.2	0.0	-4.2	0.0	-9.4
Net domestic financing (ceiling)	27.9	27.4	31.3	15.2	37.6	30.7
Central government contracting or guaranteeing of nonconcessional external debt (ceiling)	0.0	0.0	0.0	0.0	0.0	0.0

Sources: Togolese authorities; and Fund staff estimates and projections.

¹ Excludes estimated late interest on stock of arrears.

Table 10. Togo: Structural Benchmarks Under the Staff-Monitored Program
October 1, 2006—June 30, 2007

Category	Structural benchmarks	Date	Status
Budget reform and transparency	• Submit to IMF staff the preliminary audit report of domestic government debt and arrears, and review the findings.	Feb. 2007	Done.
	• Close expenditure commitments for 2006 budget by end-November 2006 and finish issuance of payment authorizations by end-December 2006.	Dec. 2006	Done.
Expenditure management	• Provide monthly data on expenditure based on exceptional payment orders and limit those without prior budgetary line indication for the period Jan.-June 2007 at 6 percent of total expenditure.	June 2007	Done.
Revenue administration	• Issue decree on tax administration that sets up an external tax audit service and an internal audit unit.	Feb. 2007	Done.
	• Make advanced computer software (SYDONIA++) operational in customs administration.	April 2007	Done (October).
Banking sector	• Establish a mechanism for the Minister of Finance to monitor liquidity of state-owned BTCI and UTB on a daily basis.	Continuous from Dec. 2006	Done.
	• Design a comprehensive time-bound restructuring plan for BTCI and UTB in coordination with Fund banking experts, the World Bank, and the regional banking commission.	June 2007	Understandings reached in March '07 on a bank restructuring strategy based on WAEMU Banking Commission and MCM recommendations. Committee to prepare restructuring set up in June '07.
Public enterprise reforms	• Complete financial audit of SOTOCO by February 2007 and the strategic audits by April 2007.	April 2007	Done. Financial audit report finalized in July. Strategic audit report submitted in August.
	• Launch financial and strategic audit of phosphate sector.	June 2007	Underway. Financial audit is part of the liquidation process of the old phosphate company. A more comprehensive financial and strategic audit is being prepared, to be financed by a World Bank LICUS grant.

Table 11. Togo: Envisaged Structural Reforms for 2009-10 1/

Fiscal governance	<ul style="list-style-type: none"> • Elaborate a timebound PFM action plan, based on the recommendations of the June 2006 PEMFAR report and the July 2007 IMF PFM TA report.* • Introduce pluriannual budgeting with budgetary data in line with GFS methodology. • Audit bank accounts of the public sector. Centralize and consolidate treasury management. • Streamline and expedite expenditure procedures, with simplified risk-based controls. • Start servicing domestic arrears to suppliers based on a published arrears clearance strategy. • Start inspections by the General Inspectorate of Finance. Issue an Annual Report for 2009. • Activate the Court of Public Accounts.* • Implement streamlined risk-based tax audits. • Computerize tax administration. • Update the tax code to streamline exemptions. • Update the customs code. • Strengthen control of the Export Processing Zone by (i) activating the Sydonia++ segment recording goods and services in and out from the Zone; and (ii) updating the law regulating the Zone to provide the audit unit of the customs administration the authority to perform onsite inspections. • Strengthen cash management by introducing monthly forecasts of revenue and spending. • Integrate monitoring and management of external and domestic public debt. • Initiate regular reporting on debt management operations and projections. • Elaborate a new procurement code in line with international standards.* • Implement the computerization of budget execution.* • Introduce a double accounting system at all level of revenue collection agents/units.
Financial sector	<ul style="list-style-type: none"> • BTCl and UTB: Bring accounting and risk management in line with WAEMU prudential regulations.* • BTCl: Adopt a decision on mechanism for long-term restructuring, with the ultimate aim of transferring the bank to private management.* • UTB: Start privatization process in a transparent framework.* • Prepare a financial sector strategy.* • Commence regular Treasury bill auctions. • Examine reform options for the pension system.**
Public enterprise reforms	<ul style="list-style-type: none"> • Phosphate sector: Complete the audit of the phosphate sector and initiate restructuring.** • Energy: Initiate sector restructuring in collaboration with the World Bank and regional partners, focusing on enhancing generation capacity and managing demand.** • Transport: Audit and reform the operation of the state road fund (FER).** • Port: Audit and strengthen the Port of Lomé.** • Agriculture: Prepare and initiate an agricultural reform strategy that will help export crops recover.** • Cotton sector: Restructure SOTOCO, based on agreed strategy.**
Business environment	<ul style="list-style-type: none"> • Prepare and start implementing a strategy on removing bottlenecks to the business environment.** • Adopt a new investment code that streamlines procedures.* • Implement legal and regulatory changes to streamline procedures for business registration.**

* Shared responsibility with the World Bank and/or other development partners.

** The World Bank or other development partners will be the lead agencies.

1/Based on MEFP, paragraphs 16-33.

Table 12. Togo: Selected indicators on the Millennium Development Goals 1990-2005

	1990	1995	2000	2005
Goal 1: Eradicate extreme poverty and hunger	(2015 target: halve 1990 \$1 a day poverty and malnutrition rates)			
Income share held by lowest 20%	..	..	..	..
Malnutrition prevalence, weight for age (% of children under 5)	24.6	19.0	25.1	..
Poverty gap at \$1 a day (PPP) (%)	..	..	..	..
Poverty headcount ratio at \$1 a day (PPP) (% of population)	..	..	..	..
Poverty headcount ratio at national poverty line (% of population)	32.3	..	..	..
Prevalence of undernourishment (% of population)	33	25	..	24
Goal 2: Achieve universal primary education	(2015 target: net enrollment to 100)			
Literacy rate, youth total (% of people ages 15-24)	63	..	..	74
Persistence to grade 5, total (% of cohort)	48	..	74	75
Primary completion rate, total (% of relevant age group)	35	39	61	65
School enrollment, primary (% net)	64	..	77	78
Goal 3: Promote gender equality and empower women	(2015 target: education ratio 100)			
Proportion of seats held by women in national parliament (%)	5	1	5	7
Ratio of girls to boys in primary and secondary education (%)	58	..	68	72
Ratio of young literate females to males (% ages 15-24)	60	..	..	76
Share of women employed in the nonagricultural sector (% of total nonagricultural employment)	41.0	..	..	..
Goal 4: Reduce child mortality	(2015 target: reduce 1990 under 5 mortality by two-thirds)			
Immunization, measles (% of children ages 12-23 months)	73	53	58	70
Mortality rate, infant (per 1,000 live births)	88	83	80	78
Mortality rate, under-5 (per 1,000)	152	146	142	139
Goal 5: Improve maternal health	(2015 target: reduce 1990 maternal mortality by three-fourths)			
Births attended by skilled health staff (% of total)	31	..	49	61
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	570	..
Goal 6: Combat HIV/AIDS, malaria, and other diseases	(2015 target: halt, and begin to reverse AIDS, etc.)			
Contraceptive prevalence (% of women ages 15-49)	34	..	26	..
Incidence of tuberculosis (per 100,000 people)	336	348	360	373
Prevalence of HIV, female (% ages 15-24)	..	..	..	2.2
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	3.2
Tuberculosis cases detected under DOTS (%)	..	13	12	18
Goal 7: Ensure environmental sustainability	(2015 target: various)			
CO2 emissions (metric tons per capita)	0.2	0.2	0.3	0.4
Forest area (% of land area)	13	..	9	7
GDP per unit of energy use (constant 2000 PPP \$ per kg of oil equivalent)	4.3	3.8	3.7	3.1
Improved sanitation facilities (% of population with access)	37	..	..	35
Improved water source (% of population with access)	50	..	..	52
Nationally protected areas (% of total land area)	..	..	..	11.9
Goal 8: Develop a global partnership for development	(2015 target: various)			
Aid per capita (current US\$)	65	42	13	14
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	11.5	5.5	5.4	2.5
Fixed line and mobile phone subscribers (per 1,000 people)	3	5	17	82
Internet users (per 1,000 people)	0	0	19	49
Personal computers (per 1,000 people)	..	3	19	30
Total debt service (% of exports of goods, services and income)	11.9	6.0	6.3	2.2
Unemployment, youth female (% of female labor force ages 15-24)	..	..	..	..
Unemployment, youth male (% of male labor force ages 15-24)	..	..	..	..
Unemployment, youth total (% of total labor force ages 15-24)	..	..	..	..
Other				
Fertility rate, total (births per woman)	6.4	6.0	5.5	5.0
GNI per capita, Atlas method (current US\$)	380	280	270	350
GNI, Atlas method (current US\$) (billions)	1.5	1.3	1.5	2.2
Gross capital formation (% of GDP)	26.6	16.1	17.8	17.6
Life expectancy at birth, total (years)	57	56	55	55
Literacy rate, adult total (% of people ages 15 and above)	44	..	..	53
Population, total (millions)	4.0	4.5	5.4	6.1
Trade (% of GDP)	78.8	69.8	81.5	80.3

Source: World Development Indicators database, March 2008

APPENDIX—LETTER OF INTENT

Lomé, Republic of Togo
March 28, 2008

Mr. Dominique Strauss-Kahn
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. Strauss-Kahn:

Over the past two years, we have embarked on profound political and economic reforms to help Togo overcome its long-lasting socio-political crisis, reengage with the international community, shore up public finances, and lay the foundations for long-term economic growth. The parliamentary elections held on October 14, 2007, saw the participation of all parties in the political process, and drew record numbers of voters. With this milestone behind us, we are determined to reengage fully with our development partners, and with their support, revive Togo's economy to improve the lives of our people.

We have already implemented important economic reforms in the context of the recent Staff-Monitored Program. We have worked to stabilize the economy, restore fiscal discipline, raise transparency of economic management, and initiate deeper reforms to revive economic growth and improve living standards. We are determined to see these efforts through, in collaboration with the IMF and our other partners, and bring about a much hoped-for economic renewal in Togo.

To do this, we have prepared, in consultation with civil society, a medium-term economic reform program, as specified in our Interim Poverty Reduction Strategy Paper (I-PRSP). The program contains measures to strengthen governance and public financial management, improve the investment climate, restructure ailing banks and state-owned enterprises, and rebuild health and education services. We are counting on our development partners to help us address our dire infrastructure and social service needs. In this regard, it will be critical to rebuild Togo's institutional capacity through intensified technical assistance, enhance financial support for vital development projects, and relieve Togo's heavy external debt burden.

To support our strategy, Togo requests a three-year arrangement under the Fund's Poverty Reduction and Growth Facility (PRGF) in an amount of SDR 66.06 million (equivalent to 90 percent of quota). We request that the first disbursement, in an amount equivalent to

SDR 13.26 million, be made available after the approval of the PRGF arrangement by the Executive Board of the IMF. The Fund's assistance under the PRGF arrangement would help us pursue sound economic policies and reforms to maintain macroeconomic stability and revive growth. It would also pave the way for comprehensive debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and MDRI. Our goal would be to reach the HIPC completion point before the PRGF-supported program ends. This assistance is critical if we are to make room for vital growth- and poverty-related projects within a sustainable budget framework.

The enclosed Memorandum on Economic and Financial Policies (MEFP) describes our economic program for 2008–10. The program would be reviewed in October 2008 and April 2009, based on the performance criteria and structural benchmarks shown in Tables 1 and 2. To that end, Togo would provide the Fund with all data required to monitor the program on a timely basis, in line with IMF policy and the attached Technical Memorandum of Understanding.

The government considers the policies and actions in the MEFP sufficient to achieve the program objectives, and stands ready to take other steps as needed. Togo will continue to consult closely with the IMF staff on the adoption of such steps, and in advance of any revisions to the policies contained in the MEFP. To keep the public informed, the government will publish this letter of intent and the attached MEFP and will regularly report on its progress under the program.

We are confident that the policies in our economic program, supported by our development partners and the IMF in particular, will help Togo sustain its economic development and improve the livelihoods of its people.

Sincerely yours,

/s/

Adj. Otèth AYASSOR
Minister of Economy and Finance

REPUBLIC OF TOGO

MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

Lomé, March 28, 2008

I. BACKGROUND

1. As Togo finally emerges from its long socio-political crisis, the time has come to focus on reviving our economy and lifting our people out of poverty. While living standards and social conditions were relatively high in the 1970s, the economy experienced volatility in the 1980s and has deteriorated thereafter as a result of socio-political conflict, economic and financial mismanagement, overindebtedness, and external shocks.
2. Over the past two years, we have started addressing Togo's economic challenges by strengthening public financial management and making public enterprises more transparent. Among other measures, we have replaced the top managers of the tax and customs administrations, closed bank accounts used for offbudget operations, limited the use of exceptional spending procedures, audited the state-owned cotton company and the government's domestic debt, and cleared arrears to cotton farmers. As a result, we have been able to boost fiscal revenues, control expenditures, reduce the fiscal deficit, and reduce domestic arrears. We have worked closely with Fund staff, and met all quantitative targets and almost completed all structural benchmarks under the recent Staff-Monitored Program (October 2006 – June 2007).
3. Much remains to be done to address the legacy of Togo's long socio-political and economic crisis. Excessive public debt and lax fiscal discipline have led to large arrears, undermining the confidence of suppliers and creditors. Poor management of state-owned enterprises has caused mounting losses, in particular in the cotton and phosphate sectors. As a result, several banks are burdened by high nonperforming loans, and some are highly undercapitalized. The business environment is constrained by decades of underinvestment in infrastructure (notably transport and energy) and poor governance. Institutional capacity has declined during long socio-political crisis and donor disengagement. Education and health services have deteriorated as a result of poor expenditure management and the decade-long freeze in foreign aid. More recently, Togo's economy has been hit by a severe energy crisis, high world oil prices, rapid euro appreciation, and flooding in certain parts of the country.

II. PROGRAM OBJECTIVES

4. We have specified a comprehensive economic reform program in our Interim Poverty Reduction Strategy Paper (I-PRSP), prepared in collaboration with civil society and our development partners. Besides outlining Togo's economic challenges, the I-PRSP describes the multifaceted dimensions of poverty. About 62 percent of the population fall below the poverty line. The health system lacks qualified personnel, medical supplies, and infrastructure and is ill-equipped to cope with the high level of infant and maternal mortality and infant malnutrition. Teacher shortages and overburdened school infrastructure are

eroding the quality of education. Lack of public investment has reduced access to basic social services and constrained economic opportunities.

5. The main objective of our program is to revive economic growth and raise living standards across the country. This will require measures to maintain macroeconomic stability; resolve Togo's high debt; channel resources toward health, education, and infrastructure; and advance growth-oriented structural reforms. To achieve this, the I-PRSP sets out a comprehensive reform agenda along three strategic axes:

- *Political and economic governance:* A central objective is to strengthen public financial management, which would help us to channel fiscal spending into priority areas, use foreign aid more effectively, and restore private sector confidence. To bring debt to a sustainable level and create room for much-needed spending on health, education, and infrastructure, the strategy envisages gradual fiscal adjustment, resumption of concessional donor support, and comprehensive debt relief under the Heavily Indebted Poor Countries (HIPC) Initiative and the Multilateral Debt Relief Initiative (MDRI). Steps to improve political governance include measures to build strong civil society, reform public administration, strengthen the judicial system, and fight corruption.
- *Economic revival and sustainable development:* Restructuring loss-making state-owned enterprises (especially in cotton and phosphate) and ailing state-owned banks will be critical for achieving higher economic growth. To promote private sector activity, the strategy sets forth measures to stabilize the electricity supply and improve Togo's transport infrastructure through investment and sectoral reforms. To improve the overall business environment, we plan to facilitate business and property registration and streamline tax and regulatory procedures. Additional reforms include steps to foster regional integration, reform agriculture, improve natural resource management, and protect the environment.
- *Social sectors and human development:* To develop Togo's human capital, the strategy focuses on enhancing access to education and health services, rehabilitating school and health infrastructure, improving the quality of education, increasing food security among the poor, building greater access to water and sanitation, and promoting gender equality, employment, social protection.

III. MACROECONOMIC PROGRAM

6. Our program targets real GDP growth of at least 3¾ percent a year in 2008–10. Donor-financed investment projects, improved business confidence, and stronger cotton and phosphate production would drive the initial recovery. Higher foreign direct investment, growing regional trade, improved financial intermediation, and upgrades to public infrastructure, especially electricity and transport, would sustain growth in the medium term.

7. Inflation should remain well contained, anchored in the WAEMU currency union and supported by prudent fiscal policies. Monetary policy, exchange rate policy, and banking supervision will continue to be conducted at the regional level. The monetary authorities will

closely monitor money and credit growth in Togo. If the monetary expansion fuels inflation or imprudent lending practices, the monetary authorities will take appropriate measures, including a possible increase in reserve requirements.

8. We expect exports to recover gradually as we restructure state-owned enterprises and improve the business climate. Nonetheless, the current account deficit is unlikely to decline in the near term, as higher external assistance and private investment are likely to boost imports. We expect Togo's gross international reserves to remain at around three months of imports.

9. We believe our macroeconomic objectives are realistic and are based on conservative assumptions. GDP growth could thus turn out higher than anticipated, though factors outside our control pose a downside risk to our outlook. Togo still depends heavily on electricity imports, resulting in frequent energy shortages, and its external competitiveness remains vulnerable to the risk of higher oil prices, lower cotton or phosphate prices, and further euro appreciation. Finally, given Togo's role as a hub for regional trade and its financial linkages across the WAEMU, shocks in neighboring countries could hurt our economic prospects. We will therefore remain vigilant and prudent in conducting our fiscal, economic, and financial sector policies to mitigate the potential fallout from such shocks.

IV. FISCAL POLICY

10. A guiding principle for fiscal policy will be to keep domestic spending within the domestic resource envelope. Specifically, we plan to raise revenue collection to 17¾ percent of GDP by 2010, and target a primary domestic fiscal surplus of about 1 percent of GDP. This will allow us to service domestic debt and gradually unwind the large stock of domestic arrears to restore confidence among domestic suppliers. To achieve the primary surplus objective and safeguard priority spending, we have identified contingency spending cuts in case revenue or financing falls short.

11. Another central fiscal policy objective is to support higher economic growth and improve social services. To this end, the program scales up spending on health, education, and vital public infrastructure (notably energy and transport). The increase will be financed by reallocating domestic expenditures and, as donors resume their assistance, raising foreign-financed project spending to at least 6 percent of GDP a year. After a decade-long salary freeze, the public wage bill will increase moderately, largely in health and education, but will remain within a realistic budgetary framework in line with the threshold set by the WAEMU convergence criteria. Budgets for 2008–10 will make room for restructuring ailing state-owned banks and enterprises.

12. Another critical program objective is to bring public debt to a sustainable level. Besides domestic fiscal adjustment and measures to reduce domestic debt and arrears, Togo will need financial assistance from donors on concessional terms, mostly in the form of grants, and comprehensive debt relief under the HIPC Initiative and MDRI. This assistance will help us reach a sustainable fiscal position and make room for critical growth-oriented and social spending.

V. EXTERNAL FINANCING NEEDS

13. While the program envisages a sizable domestic fiscal adjustment, Togo's excessive debt burden and its pent-up demand for health services, education, and infrastructure can only be resolved with the support of our creditors and development partners. Moreover, the recent energy crisis and flooding in the north have widened the financing gaps in the budget and the balance of payments. Domestic financing can play only a limited role in reducing the budget gap, given the BCEAO's ceiling on issuing rediscountable bonds, limited government deposits, and the need to service the government's domestic debt and arrears.

14. We have therefore requested support from our development partners in four areas. First, Togo needs enhanced technical assistance to rebuild its institutional capacity. Second, we have requested assistance to finance vital projects in education, health, and infrastructure. Given Togo's heavy debt burden, most of this assistance should come in the form of grants, and the remainder as concessional loans. Third, we have approached our official creditors to reschedule and reduce Togo's debt and arrears, including under the HIPC Initiative and MDRI. We hope to reach the HIPC decision point after six months, and the HIPC completion point before the end of the program period. Finally, we have requested program financing from the IMF and others to help Togo close its projected balance of payments and budget gaps. As shown in the I-PRSP, the anticipated external assistance would help us regain debt sustainability and make significant progress toward higher economic growth and lower poverty, but would still fall short of the resources needed to meet the Millennium Development Goals.

15. As an immediate priority, we have stepped up our efforts to reach understandings on arrears clearance with all multilateral and bilateral creditors.

- We have signed a Memorandum of Understanding with the World Bank that specifies actions we will take through March 2008, and requested clearance of Togo's arrears to the Bank through an exceptional IDA allocation soon thereafter. We have also requested new program financing to cover future debt service.
- We have reached understandings with the African Development Bank (AfDB) that Togo's arrears will be cleared under its forthcoming facility for fragile states. We expect donor support to help us cover our contribution.
- The EU has agreed to clear Togo's arrears to the European Investment Bank through grants under the ninth and tenth EDFs.
- FIDA has proposed to reschedule most of our arrears, with a three-year moratorium period without debt service.
- We have contacted all other multilateral creditors to negotiate mechanisms for arrears clearance and rescheduling of debt service, including with BADEA, OPEC, IsDB, BIDD, BOAD, FSA, and Fegece.

- We are seeking generous treatment from Paris Club creditors to clear Togo's arrears and reschedule debt service during the program period.
- We will request renegotiation of our debt and arrears with all other bilateral creditors on terms comparable to the Paris Club's.

VI. STRUCTURAL REFORMS

16. To achieve our growth and social objectives, we plan to implement a comprehensive structural reform agenda, as specified in the I-PRSP. Priority reforms monitored under the PRGF arrangement would center on three broad areas: fiscal governance reforms, financial sector development, and reforms of state-owned enterprises and the business environment. The reform calendar is ambitious but takes into account the severe capacity constraints resulting from Togo's long political conflict and donor disengagement. We will focus initially on improving public expenditure management, initiating bank restructuring, and preparing reform strategies in key sectors, including cotton, phosphate, and energy (Table 2). In the second phase, we intend to implement the sectoral reform strategies and improve the business environment as we continue to strengthen public financial management and the banking sector. Technical assistance and close coordination with development partners will be critical as we work to build institutional capacity. We have increased the retirement age for certain civil servants from 55 to 60 years to prevent the anticipated wave of retirement of skilled personnel.

A. Fiscal Governance

17. A central element of our reform strategy is to strengthen governance in the fiscal area to ensure fiscal sustainability and effective use of public resources in support of economic growth and poverty reduction. We will build on gains made under the SMP in the areas of revenue administration, public expenditure management, budget monitoring and accounting, internal controls, and cash and debt management. To guide our fiscal structural reform efforts, we will draft a public financial management action plan based on the recent IMF technical assistance recommendations and the 2006 Public Expenditure Management and Financial Accountability Review. The plan will indicate where additional technical assistance and external project financing will be needed. To support our fiscal reform agenda, we intend set up an integrated information technology system for public finance.

Revenue administration

18. To secure the envisaged increase in revenue collection, we will continue to strengthen revenue administration. Our recent reforms have already boosted revenues substantially, as we strengthened the tax and customs administrations, closed bank accounts used for offbudget spending, collected tax arrears, and reorganized the tax department, including by setting up units for internal audit and tax inspections. We have completed installation of an advanced computer software system (*Sydonia ++*) in the main customs offices and have started using the system. We have also recently introduced an internal audit unit in customs.

19. In 2009-10, we plan to (i) strengthen human resources through training and recruitment of qualified personnel; (ii) computerize the tax administration; (iii) move toward more selective, risk-based ex-ante and ex-post tax audits; (iv) strengthen control of the Export Processing Zone by activating the Sydonia++ segment recording goods and services in and out from the Zone and updating the law regulating the Zone to provide the audit unit of the tax and customs administrations the authority to perform inspections; (v) update the tax code to streamline tax exemptions; (vi) update the customs code; and (vii) introduce a computerized, double accounting system at all levels of revenue administration.

Public expenditure management

20. Strengthening public expenditure management will be a high priority, to ensure that we meet our budget objectives. We have already sharply curtailed exceptional payments authorizations without ex-ante budget line identification (*ordres de paiement sans telegramme lettre*), and will use such procedures only for unforeseen emergencies. We have closed expenditure commitments (*engagements*) at end-November and payment authorizations (*ordonnancements*) by end-December in both the 2006 and 2007 budget cycle. We will ensure that suspense accounts (*comptes des consignations*) are used only in exceptional cases, and that subsidies are committed based on quarterly allocations for the recipients.

21. Our medium-term goal is to restore regular and predictable expenditure procedures. We will do this by streamlining and expediting procedures, using simplified risk-based controls. We will also work with the World Bank to adopt a new procurement code in line with WAEMU standards. We will audit the civil service pension fund (CRT) and conduct a census of civil servants.

Budget preparation, monitoring, and accounting

22. A central program objective is to improve the monitoring of budget execution in order to help policymakers make informed decisions. We have already set up a monitoring committee that compiles monthly data. We will soon introduce a new framework for monitoring budget execution, using a template designed by a recent IMF technical assistance mission. This will allow us to review monthly data (commitments, authorizations, and payments by budget category, including data on priority sectors) within 15 days after the end of each month, compare the outturn to program targets, and take corrective action if necessary. Our medium-term objective is to introduce an integrated software system that allows us to monitor budget execution in real time.

23. To improve prioritization of spending allocations, we have unified budget preparation for current and capital expenditures under the Director of Budget in the Ministry of Economy and Finance. Our medium-term objective is to move to multi-year budgets with budgetary classifications in line with the IMF's Government Finance Statistics methodology (GFSM 2001).

Internal audits and controls

24. Effective and credible internal controls will be vital for improving the management of public resources and reassuring our development partners that their financial assistance is used effectively. As a first step, we have set aside resources in the 2008 budget to set up and staff a General Inspectorate of Finance under the direct responsibility of the Minister of Finance. In line with other WAEMU countries, this Inspectorate will conduct selective ex-post inspections of agencies that manage public resources in order to ensure that revenue and spending occurs within the legal framework for budget execution.

25. The General Inspectorate of Finance will prepare a yearly work program and report its inspections and recommendations to the Minister of Finance. It will also disseminate an annual report. After a trial phase, the Inspectorate will start full operations in 2009. We will also conduct a comprehensive audit of all banking system deposits and liabilities of public agencies. Another important objective is to activate the Court of Public Accounts in time for the review of the execution of the 2009 budget. Subsequently, we will submit to parliament laws on budget execution (*lois de reglement*).

Public debt and treasury management

26. Improving our debt management capacity will be critical for avoiding any new arrears and participating in the HIPC Initiative. We have recently strengthened the Directorate of Public Debt to ensure that data management and payments procedures are adequate as we resume regular debt service to all creditors. Specifically, we have compiled an improved dataset on public external debt, trained staff, and clarified payments procedures. We also intend to enforce the WAEMU Directive (*Reglement*) that only the Minister of Finance has the authority to contract or guarantee external debt. We will not contract or guarantee any nonconcessional external debt, as defined in the TMU, throughout the program period.

27. To restore supplier confidence, we will adopt and publish a strategy for clearing domestic arrears. The strategy will cover all overdue claims by private suppliers that have been verified by the 2007 KPMG audit and its subsequent update, and have been validated by the government. These arrears will be converted into tradable government securities, with payments starting in 2009. The strategy will also set out principles for dealing with other arrears.

28. In 2009-10, we will (i) centralize and unify treasury management under the sole responsibility of the treasurer, (ii) conduct a reconciliation of all banking system accounts of government and autonomous public agencies; (iii) strengthen cash management by

introducing monthly forecasts of revenue and spending; (iv) prepare and commence regular Treasury bill auctions (see below); (v) integrate monitoring and management of external and domestic public debt; and (vi) initiate regular reporting of debt management operations and projections.

B. Financial sector

29. Restructuring ailing state-owned banks will be critical to macroeconomic stability and effective financial intermediation. Under the SMP, we have strengthened monitoring of several banks and initiated bank restructuring based on the recommendations of the WAMU Banking Commission and the March 2007 IMF technical assistance mission with World Bank participation. We have recently changed management and oversight of BTCI based on terms of references prepared in consultation with the WAMU Banking Commission. In the near term, our priority is to recapitalize BTCI and UTB, including issuing government securities and addressing nonperforming loans to state-owned enterprises in the cotton and phosphate sectors. We also intend to restore UTB's board of directors and identify a strategic investor.

30. To improve treasury cash management and create more tradable financial instruments, we will prepare an action plan for introducing T-bill auctions in Togo. We will consult with the BCEAO on its assessment of monetary developments and possible measures it may take to mitigate risks resulting from rapid credit growth, including adjustments to reserve requirements (see paragraph 7).

31. In 2009-10, we plan to (i) continue strengthening BTCI and UTB by aligning their accounting and risk management with WAEMU prudential regulations; (ii) adopt an action plan for the long-term restructuring of BTCI, with the long-term goal of turning the bank over to private management; (iii) start the privatization process for UTB in a transparent framework; (iv) prepare a financial sector strategy, taking into account the findings of a future FSAP with the IMF and World Bank; (v) strengthen supervision of microfinance institutions; (vi) examine reform options for the pension system; and (vii) commence regular T-bill auctions in a predictable and transparent framework.

C. Public Enterprises and Business Environment

32. Reforming the state-owned enterprises and improving the business environment will be critical for strengthening Togo's external competitiveness and generating private sector growth. Under the SMP, we completed financial and strategic audits of the state-owned cotton company, SOTOCO; replaced the financial director; and repaid all arrears to cotton farmers. As recommended by the audit, we will transform SOTOCO into a new company partly owned by cotton producers. We will now work with the World Bank to define a medium-term sector reform program, including further reforms aimed at improving financial controls, pricing, and productivity. In the phosphate sector, we have formed a new legal entity and received external financing to upgrade equipment. We will conduct an audit of the sector, based on terms of references agreed with the World Bank, to define long-term reform options. We are committed to press ahead with energy sector reforms. We have already started repairing existing capacity and contracted the privately-financed construction of new

generators linked to the Nigeria-Ghana gas pipeline. We have introduced a new institutional and regulatory structure for CEET, and will prepare a review of its finances and operations. To strengthen Togo's business environment and shorten regulatory procedures, we have set up a one-stop window for enterprises (CFE).

33. In 2009-10, we will focus increasingly on improving the overall business environment, based on a strategy we intend to develop in the next year. Specifically, we intend to adopt a new investment code that facilitates foreign direct investment yet ensures a level playing field for all enterprises. We will also institute legal and regulatory changes that make it easier to register businesses and properties. Alongside ongoing efforts to enlarge the tax base, we intend to reduce Togo's relatively high corporate tax rate as part of a package of tax policy measures that should be broadly revenue neutral. To follow through on sectoral reform strategies, we intend to (i) complete the phosphate audit, implement its recommendations, and attract a strong strategic investor; (ii) complete the restructuring of SOTOCO; (iii) initiate the financial and technical rehabilitation of the energy sector in close collaboration with the World Bank and our regional partners; (iv) audit and reform the operation of the state road fund (FER); (v) audit and strengthen the Port of Lomé, and (vi) prepare and initiate an agricultural reform strategy that will help export crops recover.

VII. PROGRAM MONITORING

34. The PRGF-supported program will be monitored based on the agreed quantitative targets (Table 1), a set of structural performance criteria and benchmarks (Table 2), and semiannual program reviews. The quantitative targets for end-June 2008 and end-December 2008 are performance criteria and those for end-March 2008, and end-September 2008 are indicative targets. The first review is scheduled for October 2008 and the second for April 2009. Reporting requirements, performance criteria, and program benchmarks are contained in the attached Technical Memorandum of Understanding.

35. To strengthen our own program monitoring capacity, we have set up an inter-ministerial steering committee charged with supervising the economic reform program. The committee will issue monthly progress reports, liaise with domestic agencies and development partners, and keep track of technical assistance needs.

Table 1. Togo: Quantitative Performance Criteria and Indicative Targets
December 31, 2007—December 31, 2008

	2007	2008			
	Est.	March Prog.	June Prog.	Sept. Prog.	Dec. Prog.
(Billions of CFA francs; cumulative changes from end of preceding calendar year)					
Performance criteria (for end-June and end-December 2008, indicative targets otherwise)					
Domestic primary fiscal balance (floor)	2.5	9.7	-4.5	-3.7	0.0
Nonaccumulation of external arrears ¹	20.7	...	...	...	...
Net domestic financing (ceiling) ²	14.8	-6.7	1.9	-1.1	-7.5
Central government contracting or guaranteeing of nonconcessional external debt (ceiling) ¹	...	0.0	0.0	0.0	0.0
Indicative Targets					
Total revenue (floor)	203.3	51.1	103.6	158.4	214.6
Domestic payments arrears, changes in stock (ceiling)	-9.8	0.0	0.0	0.0	0.0
Domestically financed social and capital spending (floor)	...	24.5	48.9	73.4	97.8
Projected program financing		0.0	9.6	16.2	24.7

¹ Continuous performance criterion.

² Excluding BCEAO credit to government linked to IMF financing. The ceiling on net domestic financing will be adjusted to offset deviations from projected external program financing, subject to a cap of CFAF 5 billion.

Table 2. Togo: Structural Reforms Through end-2008

Measures	Date	Macroeconomic Rationale
Fiscal governance		
Submit 2008 budget law to parliament in line with understandings with the mission.	Prior action (done: December 2007).	To provide the basis for a transparent and consistent fiscal policy that aims for a balanced primary position, avoidance of new arrears, and higher growth-oriented and social spending.
Implement a new framework for monthly monitoring of budget execution, and report data for April-June 2008 based on a new template.	Benchmark August 2008	To provide policymakers with a tool for making timely and informed spending decisions as they seek to achieve the budget objectives and mitigate the risk of fiscal slippages.
Create a General Inspectorate of Finance under the responsibility of the Minister of Finance.	Performance criterion August 2008	To strengthen fiscal governance by introducing oversight, control, and transparency for all units handling public resources.
Adopt a strategy and time table for clearing domestic arrears.	Performance criterion December 2008	To restore supplier confidence, facilitate the return to regular spending procedures, and allow a gradual reduction in the government's large stock of domestic arrears.
Financial sector		
Change management and oversight of BTCI based on terms of reference prepared in consultation with the WAMU Banking Commission.	Prior action (done: February 2008).	To prevent further erosion of BTCI's capital and liquidity, to restore confidence in Togo's largest bank, and in the financial sector more broadly.
Initiate restructuring of BTCI, including by raising its capital through issuance of government securities.	Benchmark December 2008	To support the financial rehabilitation of Togo's largest bank, prepare it for privatization, and set the conditions for sound financial sector development.
Adopt an action plan for introducing regular Treasury bill auctions in 2009.	Benchmark December 2008	To develop the domestic securities market, promote financial sector development, improve treasury management, and avoid new budgetary arrears.
Public enterprises		
Initiate an audit of the phosphate sector, based on the competitive selection of an audit company, in consultation with the World Bank.	Benchmark August 2008	To prepare the restructuring of Togo's traditionally largest export sector (currently operating at only one third of capacity), including by providing options for attracting a strategic investor.
Prepare a review of the finances of the national electricity company (CEET), in consultation with the World Bank.	Benchmark December 2008	To provide the information necessary for preparing energy sector reforms and deciding on 2009 budget allocations, as rising oil prices and regionwide electricity shortages have dampened economic growth and led to increasing demands for budget support to the energy sector.

ATTACHMENT II: TECHNICAL MEMORANDUM OF UNDERSTANDING

March 28, 2008

1. This Technical Memorandum of Understanding (TMU) defines the quantitative and structural benchmarks and performance criteria a three-year arrangement under the Poverty Reduction and Growth Facility covering the period January 1, 2008 to December 31, 2010. Table 1 of the Memorandum of Economic and Financial Policies (MEFP) dated March 28, 2008 shows quantitative performance criteria and benchmarks for end-March 2008, end-June 2008, end-September 2008 and end-December 2008 based on cumulative changes from January 1, 2008. Table 2 shows structural performance criteria and benchmarks for 2008. This TMU also sets out the data reporting requirements for program-monitoring purposes.

I. DEFINITION OF TERMS

2. For the purpose of this technical memorandum, the following definitions of “debt” and “government” will be used:

(a) As specified in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by the Executive Board of the IMF on August 24, 2000, **debt** will be understood to mean a current, that is, not contingent, liability created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows: (i) loans, that is, advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans, and buyers’ credits) and temporary exchanges of assets that are equivalent to fully collateralized loans, under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements); (ii) suppliers’ credits, that is, contracts where the supplier permits the obligor to defer payments until some time after the date on which the goods are delivered or services are provided; and (iii) leases, that is, arrangements under which property is provided that the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of the guideline, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement, excluding those payments that cover the operation, repair, or maintenance of the property. Under the definition of debt set out above, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation

that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

(b) **Government** refers to the central government of the Republic of Togo; it does not include any political subdivision, the central bank, or any government-owned entity with a separate legal personality.

II. QUANTITATIVE PERFORMANCE CRITERIA AND INDICATIVE TARGETS

A. Domestic Primary Balance

Definition

3. The **domestic primary fiscal balance** is defined as the difference between (i) the government's fiscal revenue and (ii) total fiscal expenditure, net of interest and current and capital expenditure financed by donors. The balance in the periods from end-December 2007 to end-March 2008 (indicative target), end-June 2008 (performance criteria), end-September 2008 (indicative target) and end-December, 2008 (performance criteria) respectively, should be equal to or higher than the amounts shown in Table 1 of the MEFP. The source of the data is the fiscal reporting table (TOFE) prepared monthly by the Economic Directorate of the Ministry of Finance. The data provided by the Economic Directorate will be considered authoritative in the context of the program.

Reporting deadlines

4. The detailed data on the **domestic primary fiscal balance** will be reported monthly within eight weeks of the end of the month.

B. Net Domestic Financing

Definition

5. **Net domestic financing of the government** is defined as the sum of (i) **net banking sector credit to the government** and (ii) **net nonbank domestic financing of the government**. Net domestic financing in the periods from end-December 2007 to end-March 2008 (indicative target), end-June 2008 (performance criteria), end-September 2008 (indicative target) and end-December, 2008 (performance criteria) respectively, should be equal to or lower than the amounts shown in Table 1 of the MEFP. The ceiling on net domestic financing will be adjusted to offset deviations from projected external program financing as shown in Table 1 of the MEFP, subject to a cap of CFAF 5 billion.

6. **Net banking sector credit to the government** is equal to the balance of claims and debts of the government vis-à-vis national banking institutions. Claims of the government include balances of the Togolese Treasury, deposits of the Treasury with the central bank, deposits of the Treasury with commercial banks (excluding deposits of other public entities

such as accounts for foreign financed projects and accounts of the CNSS), escrow accounts, and deposits of the CRT with the central bank or commercial banks. Government debt to the banking system includes central bank financing (excluding BCEAO credit to government linked to IMF financing), commercial bank lending (including all government securities in CFA francs held by commercial banks), and deposits held with the CCP.

7. **Net nonbank domestic financing** includes: (i) the change in the stock of government securities in CFA francs (including those issued on the WAEMU regional financial market) not held by Togolese commercial banks, calculated on the basis of initial subscription; (ii) the change in the deposit accounts of Treasury correspondents; (iii) the change in miscellaneous deposit accounts (including suspense accounts – *comptes de consignations*) at the Treasury and accounts for fines and penalties pending distribution; (iv) the amortization of other domestic government debt (including bank claims on the economy assumed by the government and past arrears converted into securities) to nonbanks (including nonresidents). The assumption or securitization by the government of debt and arrears is excluded from the definition of net domestic financing, while the amortization by the government of such debt is included.

8. Net bank credit to the government and the amount of Treasury bill and bond holdings are calculated by the BCEAO. Net nonbank financing of the government is calculated by the Togolese Treasury. Their figures will be considered authoritative in the context of the program. The data are reported in the TOFE prepared monthly by the Economic Directorate of the Ministry of Finance.

Reporting deadlines

9. The data on net domestic financing of the government will be reported monthly within eight weeks of the end of the month.

C. Government Revenue

Definition

10. Total fiscal revenue includes tax and nontax revenue and excludes foreign grants, revenue by autonomous agencies and privatizations receipts. The data are calculated by the revenue collection agencies (*régies financières*) and are reported in the TOFE prepared monthly by the Economic Directorate of the Ministry of Finance. Revenue is defined on a cash basis.

11. The collection of revenue in the periods from end-December 2007 to end-March 2008 (indicative target), end-June 2008 (performance criteria), end-September 2008 (indicative target) and end-December, 2008 (performance criteria) respectively, should be equal to or higher than the amounts shown in Table 1 of the MEFP. The floor on revenue will be an indicative target throughout the program period.

Reporting deadlines

12. These data will be reported monthly to the IMF within four weeks of the end of the month.

D. Domestic Payments Arrears

Definition

13. **Domestic payments arrears** includes (i) the Treasury float (payment authorizations (*ordonnancements*) issued to the Treasury but not yet settled); (ii) utility invoices for which the payment order has not yet been issued; (iii) arrears on wages and pensions for which the payment authorization has not yet been issued; and (iv) any arrears on domestic government debt, including bonds issued in CFA franc on the WAEMU regional market. The net accumulation of domestic payments arrears for the periods from end-December 2007 to end-March 2008 (indicative target), end-June 2008 (performance criteria), end-September 2008 (indicative target) and end-December, 2008 (performance criteria) respectively, should be equal to or lower than the amounts shown in Table 1 of the MEFP. The source of the data on domestic payments arrears is the Treasury for the Treasury float and the Economic Directorate for other arrears. Data on the change in arrears will be reported in the TOFE prepared monthly by the Economic Directorate of the Ministry of Finance. The ceiling on net accumulation of domestic payments arrears is an indicative target throughout the program period.

Reporting deadlines

14. The data on the stock, accumulation (including changes in Treasury balances outstanding), and repayment of domestic payments arrears will be reported monthly within eight weeks of the end of the month.

15. The details on any government external loan will be reported monthly within six weeks of the end of the month. This rule will also apply to guarantees granted by the government.

E. Arrears on External Government Debt

Definition

16. The government will not accumulate any arrears on external debt (continuous performance criterion). External government debt refers to central government debt to external creditors included in the database of the Directorate of Public Debt under the Ministry of Finance. Excluded from the criterion are any arrears where debt is under dispute or renegotiation. Excluded from the criterion are all arrears covered under domestic payments arrears (Section II.D). The data source will be the Directorate of Public Debt.

Reporting deadlines

17. Data on the stock, accumulation, and repayment of external payments arrears will be reported monthly within six weeks of the end of the month.

F. Central government contracting or guaranteeing of nonconcessional external debt

Definition

18. The government undertakes not to contract or issue a financial guarantee for any external debt with an initial term of one year or more that has a grant element of less than 35 percent (continuous performance criterion). Nonconcessional debt is by definition all debt with a grant element of less than 35 percent. The concessionality of loans with a maturity of at least 15 years will be calculated using a discount rate based on the average of the OECD's published commercial interest reference rates (CIRR); for loans with a maturity of less than 15 years, the average CIRR over six months is used.

19. This performance criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted by the Executive Board of the IMF on August 24, 2000, but also to any obligation contracted or guaranteed for which no value has been received. However, this performance criterion does not apply to reschedulings in the form of new debt, or to Treasury bills or bonds in CFA francs issued on the WAEMU regional financial market.

Reporting deadlines

20. The details on any government external loan will be reported monthly within six weeks of the end of the month. This rule will also apply to guarantees granted by the government.

G. Social spending

Definition

21. Domestically financed social spending is calculated, for each category of the current account (wages, goods and services, transfers and subsidies, other) as (1) expenditure executed by the Minister of Health (under "health"); (2) expenditure executed by the Minister of Education and National Research and, the National Institute for Professional Education, and the Minister of Advanced Education and Research (under education), and (3) expenditure executed by the (4) the Minister of Environment and Forestry and the Minister of Agriculture ("other social spending", and limited to subsidies and transfers). Domestically financed social spending is classified according to the above categories (health, education, other social spending) based on a classification of each projects presented in the 2008 budget into health, education, other social spending.

22. Total domestically financed social spending, for the periods from end-December 2007 to end-March 2008 (indicative target), end-June 2008 (performance criteria), end-September 2008 (indicative target) and end-December, 2008 (performance criteria) respectively, should be equal to or higher than the amounts shown in Table 1 of the MEFP. The data provided by the Economic Directorate will be considered authoritative in the context of the program. The floor on domestically financed social spending is an indicative target throughout the program period.

Reporting deadlines

23. The data on domestically financed social spending will be reported monthly within eight weeks of the end of the month.

III. STRUCTURAL BENCHMARKS

24. This section elaborates on the structural benchmarks shown in Table 2 of the MEFP.

- a. *Implement a new framework for monthly monitoring of budget execution, and report data for April-June 2008 based on a new template (Benchmark August 2008).* The reporting template, based on the template of IMF technical assistance mission in December 2007, will allow the review of monthly data (commitments, authorizations, and payments by budget category, including data on priority sectors) within three weeks after the end of each month, and compare the outturn to program targets, and take corrective action if necessary. While not required for the purpose of this benchmark, the IMF technical assistance has advised that spending should be broken down into wages (of which health and education), goods and services (of which health and education), transfers and subsidies (of which health and education), restructuring expenditure (of which banks, energy, cotton phosphate, and others, each separately), foreign financed current expenditure (of which health and education, each separately), interest on domestic and external debt, domestically financed investment (of which spending financed through the road maintenance fund, the cofinancing of foreign financed project, investment in the energy sector, and other domestically financed investment spending, each category separately), and foreign financed investment spending. It is also recommended that the template show external and domestic debt amortization payments, the grants received during each reference month, the loans disbursed by foreign creditors, the change in the level of deposits held by the Treasury at the BCEAO, and the change in the level of deposits held by the Treasury, local administrations, and the autonomous agencies with domestic commercial banks.
- b. *Create a General Inspectorate of Finance under the responsibility of the Minister of Finance. (Performance criterion August 2008).* In line with other WAEMU countries, this unit (*Inspection Générale des Finances*) should conduct selective ex-post inspections of agencies that manage public resources in order to ensure that revenue and spending occurs within the legal framework for budget execution. The inspection unit should prepare a yearly work program and report its inspections and recommendations to the

Minister of Finance. It should also disseminate an annual report. After a trial phase, the unit should start full operations in 2009.

- c. *Adopt a strategy and time table for clearing domestic arrears. (Performance criterion December 2008).* The strategy should cover all overdue claims by private suppliers that have been verified by the 2007 KPMG audit and subsequent updates, and have been validated by the government. The strategy should provide that most of these arrears will be converted into tradable government securities, with payments starting in 2009. The strategy should also set out principles for dealing with other domestic arrears. While not covered under this performance criterion, it is expected that the strategy should be published and that payments (in cash and through securities) should begin in 2009.
- d. *Initiate restructuring of BTCL, including by raising its capital through the issuance of government securities. (Benchmark December 2008).* The restructuring includes an increase in BTCL's capital through issuance of new government securities and the treatment of nonperforming assets (through removal from the balance sheet and/or through provisioning). Most of the government securities would have a maturity of five years or more, and short-term securities should be tradable. In addition to securities, the government could also provide other assets and short-term liquidity support. While not required for the purpose of this benchmark, one option for implementing the recapitalization is to exchange the new government securities against BTCL's holdings of nonperforming loans to the state-owned (and possibly private) enterprises, including in the cotton and phosphate sectors, and to combine the recapitalization with a write-down of the capital of existing shareholders to zero, as set out by the 2007 IMF technical assistance mission.
- e. *Adopt an action plan for introducing regular Treasury bill auctions in 2009. (Benchmark December 2008).* The plan should be developed in consultation with the IMF, the World Bank and the BCEAO. It should allow initiation of regular Treasury bill auctions by 2009.
- f. *Phosphate sector: Initiate an audit of the phosphate sector, based on the competitive selection of an audit company, in consultation with the World Bank (Benchmark August 2008).* The benchmark includes the preparation of terms of references agreed with the World Bank; the publication of a call for expression of interest; a request for proposals from shortlisted companies, and the selection of an audit firm based on received proposals. The signing of the contract and the subsequent audit are not covered under the benchmark, but it is envisaged that the work would begin in the second half of 2008.
- g. *Energy: Prepare a review of the finances of the national electricity company (CEET), in consultation with the World Bank. (Benchmark December 2008).* The benchmark covers the preparation of a draft report that provides estimates of CEET's financial assets and liabilities, including vis-à-vis the government and information to project the financial gap of CEET for 2009. While not required for the purpose of this benchmark, this information should include (i) financial assets and liabilities of CEET to the government and others; (ii) revenues and expenditures; (iii) import, production, transmission, distribution, and consumption quantities for different categories of suppliers and consumers; and (iv)

tariffs and collection rates for different categories of consumers; and (v) unit costs for different categories of suppliers and producers.

IV. ADDITIONAL INFORMATION FOR PROGRAM MONITORING

A. Real Sector

25. The government will report to Fund staff:
- a. the monthly disaggregated consumer price indices, within four weeks of the end of each month;
 - b. the provisional GDP estimates by sector and expenditure in both real and nominal terms, within four months of the end of the year, and a revised estimate within ten months of the end of the year;
 - c. bi-annual data on the cotton sector (in June and December of each year) showing seed cotton production, cotton fiber production, cultivated area, producer prices, average cotton fiber price, SOTOCO's profit or loss for the current campaign and the estimates for the next one;
 - d. monthly data on the phosphate sector to be provided in August for January –June and in February for January-December of the previous year showing total tonnage extracted and total sales in CFAF and USD;
 - e. monthly data on the activity of the Port of Lomé (i.e. tonnage and value in CFAF) to be provided in August for January –June and in February for January-December of the previous year showing the level of activity;
 - f. monthly data on the activity of the air transportation sector (i.e. tonnage, value in CFAF and number of passengers) to be provided in August for January –June and in February for January-December of the previous year;
 - g. monthly data on the cement and clinker sector to be provided in August for January – June and in February for January-December of the previous year showing the total production and exports in tonnage and CFA francs;
 - h. monthly data on the energy sector to be provided in August for January –June and in February for January-December of the previous year showing the production of electricity, imports of electricity, sale prices (low and medium tension) by KWh for the CEB and the CEET, average production cost by KWh, invoiced energy by the CEET in CFAF and KWh, number of subscribers by category (industrial and non-industrial).

B. Government Finance

26. The government will report to Fund staff:
- a. tax and nontax revenue collected by the General Directorate of Taxes: (1) assessments and collections (*émissions et recouvrements*) of tax revenues; (2) assessments and collections of nontax revenues; (3) a breakdown of collections of taxes and levies in

- previous years (*recouvrements sur exercices antérieurs des impôts et taxes*); and (4) a detailed table of payments and offsetting transactions (*apurements et compensations*); these data will be reported on a monthly basis within four weeks of the end of the month;
- b. the statement of direct and indirect taxes assessed and collected by the Customs Administration; these data will be reported on a monthly basis within four weeks of the end of the reference month;
 - c. monthly data on execution of the general budget/statement of commitments (*engagements*) and payment authorizations (*ordonnancements*): current expenditure on goods and services (*dépenses de matériels*) of ministries and units; these data will be reported on a monthly basis within four weeks of the end of the month;
 - d. monthly data on the statement of personnel commitments (*engagements*) and payment authorizations (*ordonnancements*); these data will be reported on a monthly basis within four weeks of the end of the month;
 - e. monthly data on payment orders (*ordres de paiements*) on a transaction by transaction basis, with or without an express payment order sent to the directorate of finance (*télégramme lettre*) issued by the Treasury, broken down by category of expenditure, within four weeks of the end of the reference month;
 - f. monthly data on the general balance of the Treasury accounts (*balance générale des comptes du Trésor*); these data will be reported on a monthly basis within eight weeks of the end of the month;
 - g. detailed monthly data on the deposits of the Treasury with the BCEAO and with commercial banks (form P-10) and on the deposits of the public sector with commercial banks (form D-11); these data will be reported on a monthly basis within four weeks of the end of the month;
 - h. a detailed monthly template (*tableau de bord de suivi de l'exécution budgétaire*) on the monitoring of budget execution, including a summary on major line items, with information on spending allocations, commitments, authorizations, and payments; these data will be reported on a monthly basis within two weeks of the end of the month;
 - i. detailed monthly data on revenue and expenditure, and on domestic and external financing, including payments of domestic and external arrears (TOFE); these data will be reported monthly within eight weeks of the end of the month;
 - j. monthly statement of Treasury payments, cumulative summary statements of monthly payments, and monthly statements of Treasury outstanding balances (*restes à payer*) (*settlement section –section règlement*); these data will be reported on a monthly basis within four weeks of the end of the reference month;
 - k. detailed monthly statement of the deposit accounts of Treasury correspondents (*dépôts des correspondants au Trésor*);
 - l. detailed monthly data on a transactions by transactions on the spending financed through the use of suspense account (*comptes des consignations*), with a breakdown into credit and debits (consignations/deconsignation) for each of the following accounts of the Balance Generale du Tresor: 466 120 (*produits a verser a des tiers*), 466 133 (*consignations judiciaires*); 466 134 (*saisies et cessions volontaires*), 466 135 (*cautions aux elections*), 466 291 (*Provisions/commande a executer*), 474 11 (*Credits des Ambassades*), and 474 31 (*Credit des Prefectures*); these data will be reported monthly within eight weeks of the end of the month.

C. Public Investment Program

27. The government will report to Fund staff:
- a) monthly data on the implementation of the Public Investment Program (PIP), including a breakdown of the sources of domestic and external financing (by donor and distinguishing grants and loans); these data will be reported on a monthly basis within eight weeks of the end of the quarter.

D. Public Debt

28. The government will report to Fund staff:
- a. monthly data on disbursements from external sources for budgetary support and projects; these data will be reported on a monthly basis within eight weeks of the end of the quarter;
 - b. monthly data on external debt service (amounts due and payments made, by creditor and by currency); these data will be reported within four weeks of the end of the reference month;
 - c. monthly data on the stock of public debt and domestic and external payments arrears; these data will be reported within four weeks of the end of the reference month.
 - d. monthly data on the public debt service payable during the duration of the program.

E. Money and Banking

29. Each month the authorities will report to IMF staff, within eight weeks of the end of each month:
- a. comprehensive survey of monetary institutions, central bank survey, survey of depositary corporations, and net government position vis-à-vis the banking system. The survey of depositary corporations should include (i) a line showing the monthly stock of Togolese government bonds and treasury bills held on the balance sheet of commercial banks; (ii) a line showing claims on the government resulting from the assumption of nonperforming loans held on the balance sheet of commercial banks (iii) a breakdown of net claims on the public sector into net claims on central government, deposits held for externally financed projects, net claims on CNSS and net claims on autonomous agencies;
 - b. average lending and borrowing rates of the banking sector.
30. The authorities will send to IMF staff, within four weeks of the end of each month:
- a. a table on the change in the required and constituted reserves of the BTCI, UTB and BIA held with the BCEAO, on the basis of daily data;
 - b. the monthly balance sheet (report form DEC 2000) of the BTCI, UTB, and BIA;

- c. the yearly additional provisioning required by the WAMU banking commission (report form DEC 2060) for the BTCI, UTB, and BIA. Any changes in the report should be communicated within 4 weeks;
- d. monthly change in deposits of the BTCI and UTB, by customer type (private and public).

31. The authorities will send to IMF staff, within four weeks of the end of each month a table on the monthly change in deposits, credits, non performing loans and the level of effective provisioning and the provisioning requested by the Banking Commission for the overall banking sector by type of bank (i.e. private and public banks).

F. Balance of Payments

32. The government will report to Fund staff:

- a. partial and preliminary annual balance of payments data, within six months of the end of the year in question, a revised preliminary annual balance of payments data within ten months of the end of the year in question, and a final annual balance of payments data within 15 months of the end of the year in question;
- b. any revision to the balance of payments data (including services, private transfers, official transfers, capital transactions) as soon as they are revised;

33. The government will report to Fund staff within eight weeks of the end of each month, monthly data on:

- a. private transfers, including assessments of rapid funds transfer activities.
- b. exports and imports of goods, prepared by the directorate general of customs;
- c. exports and imports of goods, prepared by BCEAO if data are different from those provided by the directorate general of customs.

G. Structural Reforms and Other Data

34. The government will report to Fund staff:

- a. any study or official report on the economy of Togo, including state-owned enterprises, within two weeks of its publication;
- b. any decision, order, law, decree, ordinance, or circular with economic or financial implications, as soon as it is published or, at the very latest, once it takes effect.

INTERNATIONAL MONETARY FUND

TOGO

**Request for Three-Year Arrangement Under the Poverty Reduction and Growth
Facility—Informational Annex**

Prepared by the African Department

March 28, 2008

Contents	Page
Appendix I—Relations with the Fund	2
Appendix II—Relations with the World Bank	7
Appendix III—Statistical Issues	10

APPENDIX I—RELATIONS WITH THE FUND

(As of February 29, 2008)

I. Membership Status: Joined August 1, 1962; Article VIII

II. General Resources Account:	SDR million	Percent of quota
Quota	73.40	100.00
Fund holdings of currency	73.07	99.55
Reserve position in the Fund	0.33	0.45

III. SDR Department:	SDR million	Percent of allocation
Net cumulative allocation	10.98	100.00
Holdings	0.09	0.80

IV. Outstanding Purchases and Loans: None

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
PRGF	09/16/94	06/29/98	65.16	54.30
PRGF	05/31/89	05/19/93	46.08	38.40
Structural Adjustment Facility (SAF)	03/16/88	05/30/89	26.88	7.68

VI. Projected Payments to the Fund¹

(SDR million; based on existing use of resources and present holdings of SDRs)

	2008	2009	<u>Forthcoming</u> 2010	2011	2012
Principal	0.00	0.00	0.00	0.00	0.00
Charges/interest	0.25	0.33	0.33	0.33	0.33
Total	0.25	0.33	0.33	0.33	0.33

¹When a member has overdue financial obligations outstanding for more than three months, the amount of such arrears will be shown in this section.

II. Exchange Arrangement

Togo is a member of the West African Economic and Monetary Union (WAEMU) and has no separate legal tender. The exchange system, common to all WAEMU countries, is free of restrictions on the making of payments and transfers for current international transactions. The union's common currency, the CFA franc, is pegged to the euro at a rate of CFAF 655.957 = EUR 1, consistent with the official conversions rate of the French franc to the euro and the previous fixed rate of the CFA franc to the French franc of CFAF 100= F 1. On April 28, 2006, the rate of the CFA franc in terms of SDR was CFAF 769.68 = SDR 1.0. Effective January 1, 2007, the exchange arrangement of the WAEMU countries has been reclassified to the category of conventional pegged arrangement from the category of exchange arrangement with no separate legal tender. The new classification is based on the behavior of the common currency, whereas the previous classification was based on the lack of a separate legal tender. The new classification thus only reflects a definitional change, and is not based on a judgment that there has been a substantive change in the exchange regime or other policies of the currency union or its members

VIII. Safeguards Assessments

The Central Bank of West African States (BCEAO) is the common central bank of the countries of the West African Economic and Monetary Union, which includes Togo. The most recent safeguards assessment of the BCEAO was completed on November 4, 2005. The assessment indicated progress has been made in strengthening the bank's safeguards framework since the 2002 assessment and identified some areas where further steps would help solidify it.

The BCEAO now publishes a full set of audited financial statements and improvements have been made to move financial reporting closer to International Financial Reporting Standards (IFRS). Furthermore, an internal audit charter has been put in place, mechanisms for improving risk management have been established, and follow-up on internal and external audit recommendations has been strengthened.

The results of continuous safeguards monitoring indicate that while certain vulnerabilities remain in internal control systems and legal structure, there has been some progress in other areas, including through: (i) improving the external audit process by adopting a multi-year audit program; (ii) establishing an audit committee; (iii) expanding disclosures on financial positions of WAEMU countries with the Fund in the notes to the annual financial statements; and (iv) further strengthening of the effectiveness of the internal audit function.

IX. Article IV Consultation

Togo is on the standard 12-month Article IV consultation cycle. The Executive Board completed the 2007 Article IV consultation on June 8, 2007.⁵⁶

X. Technical Assistance

A. AFRITAC West

Customs Administration

Dates	Objectives
November 2005	Support the modernization and simplification of customs regulations (implementation of simplified Kyoto Convention).
January-February 2006	Organization of services to ensure value control and creation of an independent data base at the Customs Administration
July 2006	Modernization of the Customs Administration.
November 2006	Regional workshop on ethics in fiscal and customs administration.
September-October 2007	Launching Sydonia++
March-April 2008	Assessment of control methods at Customs offices; optimization custom controls; and reinforcement of controls after customs clearance.

Tax Administration:

Dates	Objectives
October 2005	Follow-up progress in strengthening tax administration.
May-June 2006	Assessment of tax administration reforms; modernization of tax administration.
November 2006	Regional workshop on ethics in tax and customs administration.
April 2007	Help DGG to increase tax base and improve control services.
June-July 2007	Support the elaboration of a research strategy and fiscal control.
January 2008	Assessment of 2007 reports of Directorate General of Taxation ; assist in 2008 fiscal control reports ; improve reimbursement of VAT credits.

Public Expenditure Management:

Dates	Objectives
September 2005	Assessment of needs to strengthen budgetary and accounting management.
October-November 2006	Audit of government accounts in commercial banks, closure of accounts outside Treasury, centralization of government expenditures; and assessment of budget preparation, control, execution, and treasury management.
September-October 2007	Support of public accounting management at the Directorate General of Treasury and Public Accounting.

Debt Management and Financial Markets:

Dates	Objectives
July-August 2006	Analysis of the information flows in debt management
December 2006	Support the optimization of computerized tools for debt administration at the Directorate of Public Debt (DPD)
May-June 2007	Analyze contracts with principal donors; improve software applications for debt management at DPD.
November 2007	Verify data base; help prepare analysis of debt sustainability.

Macroeconomic Statistics

Dates	Objectives
September 2005	Improve public finance statistics reports and publication of data.
November-December 2005	Regional workshop on the 2001 public finance manual.
March 2006	Prepare IMF questionnaire tables based on the 2001 manual of public finance.
August 2006	Help prepare a response to IMF questionnaire on public finance.
September 2007	Regional workshop on 2001 public finance manual.
October 2007	Support the services in charge of the preparation of the tables of the government's financial operations (TOFE in French)

Real Sector Statistics

Dates	Objectives
December 2007	Assist Directorate General of Statistics and National Accounts in the implementation of the 1993 National Accounting System (SCN 93 in French).

Microfinance Supervision:

Dates	Objectives
December 2005	Regulations for microfinance focused on the strengthening of microfinance cells.
May 2006	Support implementation of the systems to analyze authorization requests.
January 2007	Support inspection missions in microfinance institutions.
April 2007	Regional workshop on exchange of information.
November 2007	Support and monitor unit on money control.
January-February 2008	Support and monitor unit on inspection methods.

B. Headquarters

Department	Type of Assistance	Time of Delivery	Purpose
FAD	Staff	December 2007	Tax administration
MFD	Staff	March 2006	Financial Sector
FAD	Staff	January 2006	Revenue Administration
TGS	Staff	June 2001	Computerization of treasury
FAD	Staff	July 2000	Public expenditure management
FAD	Resident advisor	1997	Tax administration
FAD	Resident advisor	July 1996	Customs administration
FAD	Staff	February 1995	Tax reform
FAD	Staff	September 1994	Public expenditure management
FAD	Staff	February 1992	Tax reform
FAD	Staff	November 1991	Budgetary reform

XI. Resident Representative

In September 2005, Mr. Koffi Yao became resident representative for Benin and Togo.

APPENDIX II—RELATIONS WITH THE WORLD BANK

(Updated March 28, 2008)¹

A. Partnership in Togo's development strategy

1. Over the last decade and a half, Togo has been trapped in a cycle of political instability, economic decline, rising poverty, and donor disengagement. Togo has been in non-accrual status with the International Development Association (IDA) since May 2002, with arrears of US\$135 million as of mid-December 2007. During the current non-accrual period, the Bank has continued to conduct analytical and advisory activities (AAA) on key aspects of socioeconomic development. Together with other partners, the Bank also supported the Government's efforts to prepare its I-PRSP and development strategies in such sectors as health, education, agriculture and rural development, and HIV/AIDS.

2. Since the Board discussion of the Country Re-engagement Note on December 14, 2004, political developments have been broadly positive. Successful implementation of initial political and economic reforms since 2005-06, including good performance under an IMF Staff Monitored Program, have laid the foundation for strengthening donor assistance to support a process toward clearance of Togo's arrears to IDA and other major creditors and thereby a full resumption of the Bank's operations in the country. Other donors are also seeking to increase their activities, in support of Togo's recently completed its I-PRSP, adopted by the Government on March 7, 2008.

B. World Bank Group strategy

3. The Bank's Interim Strategy Note (ISN), for discussion by the Board in May 2008, sets out the Bank Group's plan to help Togo recover from a long period of instability and suspension of aid and begin laying the foundations for sustained, shared growth over the medium term. This will be achieved through support for the normalization of relations with the World Bank Group through the clearance of arrears, and assistance to address critical social needs on the ground. The ISN aims to set realistic expectations with regard to the progress and achievements that can be realized over the next 25 months (during FY08-FY10), with support under three main pillars in line with the I-PRSP priorities: (i) improve governance and transparency; (ii) promote the return to private sector-led growth; and (iii) provide for urgent social needs. The ISN, which builds a Development Policy Needs Review (DPNR) prepared and discussed with the Government in early 2008, envisions the use of annual development policy lending, priority investment projects and trust fund resources as well as analytical and advisory activities.

4. Under pillar 1 (Improve Governance and Transparency), particular focus will be on supporting the Government's own reform program to improve governance, transparency and efficiency in public expenditure management as well as advance structural reforms aimed at

¹ This note is updated on an annual basis by World Bank staff, or as warranted by developments in the Bank's program.

strengthening governance and transparency in the key sectors of the economy (phosphates, energy, cotton and financial sector). This approach would lead over time to strengthened fiscal sustainability, enhanced transparency of State institutions and processes, improved economic governance and increased economic growth.

5. Under Pillar 2 (Promote the Return to Private Sector-led Growth), private-sector development will be critical to ensuring that Togo returns to a path of recovery and economic growth. In past decades, Togo demonstrated its capacity to be a vibrant private sector hub of West Africa. In this regard, the Bank will support the government in identifying the challenges and obstacles to, and the potential entry points for, private sector investment as a catalyst for growth in Togo.

6. Under Pillar 3 (Provide for urgent social needs), the strategy will focus on increasing the supply of, and improving access to, basic social services for the most vulnerable groups, thereby helping the Government deliver visible results to the population. This will be achieved by addressing urgent infrastructure rehabilitation needs in the poorest areas of the capital city, Lomé, and in expanding the community-driven development approach implemented through LICUS TF grants since 2004. Activities envisaged under this pillar will help rebuild minimal effectiveness of local basic services delivery systems and improve access to economic opportunities.

7. The three pillars will be supported through: (i) assistance for the clearance of Togo's arrears to IDA, which is required to restore normal relations between the country and the World Bank Group; (ii) LICUS TF grants, investment and development policy operations to provide financial and technical support for the Government's reform program under the three pillars; and (iii) analytical and advisory activities to inform the policy dialogue and Government's reform agenda. These will be complemented by ongoing World Bank regional activities in the areas of transport and transit facilitation, energy and mining.

8. Prior to the re-engagement, the principle means for the Bank to provide support to Togo has been through grants under the Low Income Country Under Stress (LICUS) Initiative. Since 2005, six grants have been provided totaling US\$5.11 million. The first and second phases of a community-driven Emergency Program for Poverty Reduction (EPPR) for a combined amount of US\$2.8 million, focused on two of Togo's five regions with the aim of helping to halt the decline into extreme poverty and the deterioration of social indicators. The first phase, approved in July 2005 and closed on June 30, 2007, was fully disbursed (US\$1.1 million) and had particularly satisfactory results in terms of completed sub-projects, capacity building and improved access to priority services. The second phase, approved in July 2007, is under implementation. A third phase (US\$1.4 million) approved in November 2007, will extend the EPPR to all of Togo's five regions.

9. Three additional LICUS projects were also approved in November 2007, part of a comprehensive yet selective strategy aiming to (a) reform and revive the key sectors as well as create an environment for private sector-led growth (focusing on the sectors of phosphate, cotton, coffee, cocoa, energy, and the Lomé port as well as on public procurement reforms); (b) preserve human capital (by minimizing the threat posed by Avian Influenza); and (c) achieve quick visible results on the ground (through an urban poverty infrastructure grant). These activities are critical

for laying the ground for the Bank's re-engagement with Togo following the country's clearance of arrears, expected to take place in 2008.

10. On the analytical side, the Bank conducted a Public Expenditure Management and Financial Review (PEMFAR) and a Financial Sector Review (FSR) in the last quarter of 2005. It also completed an Urban and Per-Urban Development and Policy Note in June 2006. The Bank is working closely with the IMF on a regional Financial Sector Assessment, following which a Togo Financial Sector Assessment may also be undertaken. In addition, the Bank has supported the Government in strengthening its poverty diagnosis, information systems, and statistical capacities. A Core Welfare Indicator Questionnaire survey was carried out in 2006 to provide for up-to-date and more reliable statistics. With a view toward possible provision of interim HIPC debt relief to Togo, the Bank is providing support to strengthen the country's debt management capacity.

C. IMF-World Bank collaboration

11. In the course of the re-engagement process, the IMF and World Bank staffs have established a collaborative relationship in supporting the Government's macroeconomic and structural reforms, in line with the guidelines for enhanced Bank-Fund collaboration. This includes participation of Bank staff in the Fund's program review missions, and IMF staff participation in Bank internal review meetings on key operations or studies. The IMF takes the lead in discussions on macroeconomic stabilization and the World Bank on social and structural areas, with close collaboration on a few structural areas that have a critical impact on macroeconomic stability (notably financial sector reforms). The Fund's dialogue and conditionality are consistent with the structural programs agreed with the Bank, and the Bank's policy framework with Togo is elaborated consistent with the Governments' macroeconomic framework agreed with the Fund.

Contact person: Ms. Antonella Bassani, Acting Country Director (202 473-1468), and Ms. Christina A. Wood, Sr. Economist (202 473-5829).

APPENDIX III—TOGO—STATISTICAL ISSUES

1. Data provision is broadly adequate for surveillance, but weaknesses in the quality and timeliness of data hamper staff's analysis. National accounts and balance of payments statistics are compiled based on very limited information, with only few surveys and scarce data on primary agriculture and private sector services. Moreover, government finance statistics are derived from a weak accounting system, and monetary data are reported by the BCEAO with a two-month lag.
2. The country has participated in the General Data Dissemination System (GDSS) since November 2001. Metadata on the national statistical system, including plans for improvement posted to the Fund's Dissemination Standard Bulletin Board, were last updated in December 2004.

National accounts and consumer price index (CPI)

3. Activity in the informal and service sectors is likely underestimated due to the lack of reliable data sources. A full set of national accounts is currently compiled by extrapolating the results of the last comprehensive exercise in 1993. In late 2002, the country embarked on implementing the *1993 SNA* and the first series of NA for 2000 were prepared and work on the 2001 NA was initiated. The program has been suspended since 2005 and the NA for 2001 have not been finalized. The National Statistics Office is willing to resume the implementation of the *1993 SNA* and it is expecting technical and financial support from AFRISTAT and the West African Economic and Monetary Union Commission. AFRITAC West is also providing TA to help resume the preparation of the NA. The last AFRITAC West mission of December 2007 helped initiating an intensive training in the *1993 SNA* concepts and methods, as well as training in the application of the ERETES software for the newly-recruited statisticians.

External sector statistics

4. Balance of payments statistics and international investment position data are compiled based on bank reports, a survey of enterprises, and customs data. Informal trade, trade in services, and remittances are underestimated. Statistics are compiled with a six-month delay and are revised twice a year. A STA technical assistance mission in balance of payments statistics is scheduled to visit Lomé in early FY 2009.

Government accounts and public debt data

5. Government finance statistics are derived from a weak accounting system. The monthly TOFE (Table of Central Government Financial Operations) is based on a mixture of administrative and accounting data and is sent to AFR with a two-month lag. Current budget nomenclature does not permit the economic and functional classification of expenditure. There are inconsistencies in domestic arrears records held by different units of the Ministry of Finance and the stock of domestic debt is in the process of being audited. The Government Finance Statistics Advisor of AFRITAC West conducted a one-week mission in October

2007 to develop an action plan to address, among other things, the above-mentioned weaknesses in the source data. Comprehensive external debt data and projections on a loan by loan basis are compiled regularly. Only budgetary central government data are reported for publication in the *Government Finances Statistics Yearbook (GFSY)*, government finance high frequency data are not reported for publication in the IFS.

Monetary statistics

Monthly data for Togo, along with data for other members of the West African Monetary Union are regularly disseminated by the Central Bank of the West African Monetary Union (BCEAO) with a lag of about two months. Data on lending and borrowing rates, charged by domestic banks, are not compiled. In August 2006, as part of the authorities' efforts to implement the methodology in the *Monetary and Financial Statistics Manual*, the BCEAO reported to STA monetary data for June 2006 for all member countries (including Togo) using Standardized Report Forms (1SR-central bank, 2SR-other depository corporations, and 5SR-monetary aggregates). In response to STA's comments, the BCEAO recently provided a revised 1SR and indicated that 2SR was being revised.

Togo: Table of Common Indicators Required for Surveillance (As of March 12, 2008)					
Economic Variable	Date of latest observation	Date received	Frequency of Data ²	Frequency of Reporting ²	Frequency of publication ⁶
Exchange Rates	February 2008	March 2008	M	Q	Not published
International Reserve Assets and Reserve Liabilities of the Monetary Authorities	June 2007	September 2007	M	Q	Not published
Reserve/Base Money	October 2007	February 2008	M	Q	Not published
Broad Money	October 2007	February 2008	M	Q	Not published
Central Bank Balance Sheet	October 2007	February 2008	M	Q	Not published
Consolidated Balance Sheet of the Banking System	October 2007	February 2008	M	SA	Not published
Interest Rates ²	January 2008	February 2008	M	Q	Not published
Consumer Price Index	October 2007	December 2007	M	SA	Not published
Revenue, Expenditure, Balance and Composition of Financing – General Government ¹	June 2007	October 2007	M	M	Not published
Revenue, Expenditure, Balance and Composition of Financing– Central Government	June 2007	October 2007	M	M	Not published
Stocks of Central Government and Central Government-Guaranteed Debt ⁵	June 2007	October 2007	M	M	Not published
External Current Account Balance	2006	March 2007	A	OM	Not published
Exports and Imports of Goods and Services	Dec 2006	March 2007	M	OM	Not published
GDP/GNP	2006	March 2007	A	OM	Not published
Gross External Debt	June 2007	October 2007	A	OM	Not published

¹ The general government consists of the central government (budgetary funds, extra-budgetary funds, semi-autonomous government agencies and institutions, and social security funds) and state and local governments.

² Monthly (M), Quarterly (Q), Semi Annually (SA), Annually (A), on mission (OM).

**Statement by the IMF Staff Representative
April 21, 2008**

1. This statement summarizes information that has become available since the staff report on Togo was circulated to the Executive Board on March 31, 2008. The new information does not change the thrust of the staff appraisal.

2. As in other countries, food and oil prices have risen rapidly in Togo over the past few months, pushing annual consumer price inflation to 4 percent in February 2008, from near zero in October 2007, driven mainly by a 17 percent increase in food prices over the past five months. The Togolese authorities are concerned about the economic and social impact of these pressures. They have initiated a social dialogue on the price shocks and cleared old wage arrears to assist (mostly urban) civil servants. The authorities also intend to help the rural population by supporting subsistence agriculture. An upcoming IMF staff mission will discuss the economic implications of the recent price shocks and possible policy responses.

3. The Togolese government has completed all prior actions and signed the minutes of negotiation for the arrears clearance operation with the World Bank (about \$153 million), financed in full by an exceptional IDA allocation, planned for end-May 2008. The operation will also include \$17.6 million as budget support out of the regular IDA allocation. The authorities have also signed a protocol with the AfDB on an arrears clearance operation financed under its new Fragile States Facility, with a 1 percent contribution by Togo (about \$0.2 million) for which the authorities are seeking a grant from donors.



Press Release No. 08/90
FOR IMMEDIATE RELEASE
April 21, 2008

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Approves US\$108.4 Million Poverty Reduction and Growth Facility Arrangement for Togo

The Executive Board of the International Monetary Fund (IMF) approved today a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF) for Togo in an amount equivalent to SDR 66.06 million (about US\$108.4 million) to support the government's economic program for 2008–10. An initial disbursement of SDR 13.26 million (about US\$21.8 million) will become available immediately.

At the conclusion of the Executive Board's discussion on Togo's request for a PRGF arrangement, Mr. Takatoshi Kato, Deputy Managing Director and Acting Chair, stated:

“Togo has made significant progress since 2006 in advancing economic and political reforms. With the support of an IMF Staff-Monitored Program (SMP), the authorities have implemented important fiscal governance reforms that have boosted tax revenues and strengthened expenditure control. This has much improved the fiscal position and has reversed the accumulation of domestic arrears. Structural reforms in the banking, cotton, phosphate, and energy sectors have begun. The good performance under the SMP and the 2007 parliamentary elections have paved the way for major donors to resume their financial support for Togo after more than a decade of interruption.

“The authorities' medium-term economic program, supported by the new PRGF arrangement, will help maintain the reform momentum. The program, anchored in Togo's Interim Poverty Reduction Strategy Paper, is designed to preserve macroeconomic stability while reviving economic growth and reducing poverty.

“A central objective is to bring Togo's excessive public debt to a sustainable level through gradual fiscal adjustment and debt relief. The program also envisages considerably higher spending on infrastructure, health, and education to promote economic growth and improve basic living conditions for the Togolese people. Prudent economic policies and close coordination with regional partners and donors will be critical for addressing external shocks

like the recent surges in food and oil prices. The Fund stands ready to work with the Togo authorities on an appropriate policy response.

“The program’s short-term priority for structural reform is to consolidate fiscal governance reforms and strengthen the financial sector. Reforms of state-owned enterprises in the cotton and phosphate sectors, measures to address energy supply problems, investment in transport infrastructure, and improvement of the business environment will help to revive and sustain economic growth over the medium term.

“A coordinated effort to reengage with donors and creditors will be vital to the success of the program. A significant increase in concessional financing will be necessary for the growth-oriented investment and social expenditures envisaged in the program. Stepped-up technical assistance will be critical for rebuilding institutional capacity, which was eroded by the long sociopolitical crisis and the interruption in donor support.

“The PRGF arrangement will help Togo regain debt sustainability by regularizing relations with its creditors and moving toward comprehensive debt relief under the Heavily Indebted Poor Countries Initiative (HIPC) and the Multilateral Debt Relief Initiative. Good performance under the PRGF-supported program could bring the country to the HIPC decision point in the near future,” Mr. Kato said.

The PRGF is the IMF's concessional facility for low-income countries. It is intended that PRGF-supported programs are based on country-owned poverty and reduction strategies adopted in a participatory process involving civil society and development partners and articulated in a Poverty Reduction Strategy paper (PRSP). This is intended to ensure that PRGF-supported programs are consistent with a comprehensive framework for macroeconomic, structural, and social policies to foster growth and reduce poverty. PRGF loans carry an annual interest rate of 0.5 percent and are repayable over 10 years with a 5½-year grace period on principal payments.

Recent Economic Developments

Togo has made significant progress in economic and political reforms over the past two years, paving the way for resumption of donor support after more than a decade of interruption. Performance under a recent Staff-Monitored Program (SMP) was good, with all quantitative targets comfortably met and significant progress in addressing governance issues in public finances.

After an upturn in 2006, real GDP growth moderated to about 2 percent in 2007 partly due to a severe region-wide energy crisis. The current account deficit increased to an estimated 6½ percent of GDP. The fiscal position improved substantially in 2007 as reforms in tax and customs administration boosted revenues and better fiscal discipline kept spending broadly in line with the budget, allowing a net reduction in domestic arrears.

Program summary

The main objectives of the PRGF-supported program are to help Togo revive economic growth and improve living conditions within a stable macroeconomic environment. The program will focus on (i) bringing Togo's excessive public debt to a sustainable level through fiscal adjustment and comprehensive debt relief under the HIPC and MDR Initiatives, (ii) facilitating the reengagement with Togo's development partners, (iii) increasing resources for health, education, and infrastructures, (iv) strengthening fiscal governance, (v) restructuring state-owned banks, and (vi) initiating growth-oriented structural reforms to improve the business environment and reform state-owned enterprises.

Economic growth is projected to increase to 3 percent in 2008. This initial recovery phase is expected to be driven by donor-financed public investment, improved business confidence, growing regional trade, and a rebound in cotton and phosphate production. Real GDP growth is projected to reach an average of 4 percent over the medium term, supported by higher foreign direct investment, financial sector deepening, and an improved energy and transport infrastructure.

The authorities' medium-term fiscal program aims for a moderate but sustainable primary fiscal surplus. The program will accommodate a significant increase in infrastructure and social spending, supported by the resumption of donor support. Revenues are projected at 17¼ percent of GDP for 2008, supported by continued improvements in administration.

Key structural reforms under the program are geared toward supporting higher economic growth and macroeconomic stability within a sustainable fiscal framework. Following the long period without donor support, institutional capacity building will be a central element, especially in the areas of revenue administration and tax policy, expenditure management, public debt and treasury management, bank restructuring, economic statistics, and public enterprise reform.

**Statement by Laurean W. Rutayisire, Executive Director
and Kossi Assimaidou, Alternate Executive Director for Togo
April 21, 2008**

On behalf of our Togolese authorities, we thank Management for the fruitful discussion held with President Faure Gnassingbé last November, and for the Fund support to Togo. Our authorities also appreciate the constructive dialogue held again recently with Management in the context of the 2008 Spring Meetings. We also thank Staff for their dedicated and relentless efforts in providing my authorities with pertinent advice and technical assistance throughout the past two years.

In recent years, our Togolese authorities have made important achievements in building governance institutions and advancing democracy. Following a global political agreement in 2006 involving all major political parties and the formation of a national unity government, free and fair legislative elections were organized in 2007 by an independent national electoral commission, which resulted in the appointment of a new government. The profound political and economic reforms Togo has embarked on have helped the country reengage with the international community—including the European Union, the country's largest donor—and lay the ground for stronger economic growth and poverty reduction.

To achieve important strides in reducing poverty and make progress toward the Millennium Development Goals (MDGs), our Togolese authorities have, in collaboration with all stakeholders, prepared, in a broad participatory process, an Interim Poverty Reduction Strategy Paper (I-PRSP) which lays the groundwork for enhancing public policies and programs, including by addressing the country's dire infrastructure and social service needs, especially in the education and health sectors. This endeavor will require considerable capacities and resources which are still lacking and which our authorities intend to garner through the combination of fiscal consolidation, alleviation of the heavy debt burden, external financial support, and intensified technical assistance. They are making improvements in fiscal management, have reached understandings on arrears clearance with the country's multilateral creditors and obtained financing assurances from the Paris Club of bilateral creditors.

To sustain their economic policies and reforms aimed at maintaining macroeconomic stability and reviving growth, and pave the way for debt relief as soon as possible, our Togolese authorities request a three-year arrangement with the Fund under the PRGF for the period 2008-10. Based on Togo's good implementation of the SMP, the design of an I-PRSP for which my authorities stand ready to improve gradually, and the country's renewed commitment to sound policies and reforms as laid out in their Letter of Intent and Memorandum of Economic and Financial Policies (MEFP), our authorities request a three-

year PRGF program for the period 2008-10. This program will enable our Togolese authorities to bolster their implementation of the sound macroeconomic and structural reform policies already underway, and to mobilize additional donor support so as to bring about rapid poverty reduction and attainment of the MDGs.

I- RECENT ECONOMIC DEVELOPMENTS AND PERFORMANCE UNDER THE SMP

Togo has emerged from a long socio-political crisis which made its economy vulnerable and contributed to deteriorating the country's infrastructure and social services. Over the past two years, my authorities have started to tackle the daunting institutional and economic challenges facing the country, notably through committed efforts in strengthening public finance management and restructuring public enterprises, including by making their management more transparent. As a result of these endeavors, fiscal revenues have increased, expenditures are better controlled, and domestic arrears—including to civil servants and cotton farmers—have been reduced.

Macroeconomic performance has started to improve. Real GDP growth has averaged 2.5 percent over the period 2005-07, with a strong showing in 2006 (4.1 percent), owing to favorable weather conditions for agriculture, increasing regional trade, and a rebounding cotton sector. Economic growth would have been even more robust in the absence of localized flooding and frequent power outages stemming from severe region-wide electricity shortages. On the external front, higher remittances offset a widening trade gap to maintain the current account deficit around 6.0-6.5 percent of GDP. Despite strong broad money growth and rapid credit growth fuelled by remittances and trade-related capital inflows, inflation (CPI measure) has been brought down from nearly 7 percent in 2005 to 2.2 percent in 2006 and 1 percent last year. However, concerns have risen on this front in recent weeks due to the rising world food prices.

The stock-taking on the *structural measures* also yields satisfactory results. As early as mid-2006, administrative reforms in the fiscal area were initiated to broaden the tax base and recover tax arrears. The SMP implemented by our authorities during the period October 2006 -June 2007 was geared mainly at addressing governance problems in the public finance, banking, cotton and phosphate sectors. They have met all quantitative targets at end-December 2006, end-March 2007 and end-June 2006 and completed nearly all structural benchmarks under this program. Regarding the two structural measures that are still being implemented, understandings have been reached on a strategy based on the regional Banking Commission and MCM recommendations for the restructuring of *Banque Togolaise pour le Commerce International* (BTCI) and *Union Togolaise de Banque* (UTB), and a comprehensive financial and strategic audit of the phosphate sector is being prepared, to be financed by a World Bank grant. Our authorities remain committed to finalizing these actions.

II- THE POVERTY REDUCTION STRATEGY

Togo is a low-income country where about 60 percent of the population living below the poverty line. The incidence of poverty is very high in rural areas (where three-quarters of households are poor) and high in urban areas (two-thirds of households poor); the rate of malnutrition is elevated; access to education, health, electricity and safe water is limited for poor people. The poverty diagnostic assessment conducted by the Togolese authorities shows that the major sources of poverty relate notably to the low levels of farmers' income, the relatively poor levels of financing for education and health, the past long-standing social and political unrest, and constraints to the access to safe water.

The MDGs relating to the elimination of extreme poverty, the promotion of gender equality, the reduction of infant mortality rate, and ensuring a sustainable environment can only be achieved beyond 2015. However, those related to ensuring universal primary education, improving maternal health and combating HIV/AIDS are achievable by 2015. As the MDG situation is moderately critical in Togo, sustained efforts are needed in the areas of infrastructure, education, health and other social services. To this end, my authorities, in a broad participatory process involving notably the civil service, the civil society, NGOs, trade unions, religious denominations and the private sector and guided by the principle of dialogue, have designed a poverty reduction strategy described in their I-PRSP.

The strategy is centered around three strategic pillars: (i) achieving improvements in political and economic governance through building upon the actions that have been taken in this area since 2005; (ii) strengthening the process towards economic recovery and sustainable development, notably by pursuing structural reforms to revitalize the economy through stronger liberalization focused on regional integration and multilateralist policies; and (iii) enhancing the social sectors, human resources and employment through specific programs in education and training, health system and services, nutritional areas, access to safe water and to sanitation facilities, as well as gender equity, employment, social protection and grass-root community development.

The cost of implementing the interim poverty reduction strategy over the next three years amounts to CFAF 514 billion, which will be financed by domestic and external resources. We call on the international community of donors to provide the required resources to finance Togo's poverty-reducing efforts.

III- MEDIUM-TERM ECONOMIC POLICIES AND REFORMS

Although considerable progress has been achieved during the past two years, much remains to be done to address the institutional and economic challenges facing Togo. These include the excessive public debt; the financial soundness of public enterprises, notably in the cotton and

phosphate sectors; the functioning of the financial sector; the deteriorated infrastructure, especially in the transport and energy areas; the constrained institutional capacity; the quality of education and health services; and the business environment. To help tackle these challenges, our authorities have designed a comprehensive medium-term program of economic policies and reforms, which is articulated around the country's poverty reduction strategy and centered on the objectives of maintaining macroeconomic stability and reviving economic growth.

Moreover, Togo's economy has been recently hit by the high and rising world oil and food prices, which are having worrisome effects on the most vulnerable segments—that is the largest share—of the population. Despite the mounting social pressures, our Togolese authorities have resisted the temptation of using fiscal measures such as tax exemptions and price controls to contain the adverse social impact of the high food and commodity prices. They look forward to regional responses in the context of the Western African Economic and Monetary Union (WAEMU). They reiterate the call made to Fund management and staff to contribute actively and promptly to the efforts they are making to address this new challenge and help them preserve the gains achieved recently in macroeconomic stability, growth recovery and political peace.

The 2008-10 macroeconomic framework

The medium-term macroeconomic framework for the economic program is predicated upon realistic assumptions: (i) an annual growth rate of 3 percent this year and 4 percent in 2009 and 2010, driven in the short run by donor-financed public investment, improved business confidence, expanding regional trade and rebound of the cotton and phosphate sectors, and in the medium term by higher FDI, greater financial intermediation and upgraded public infrastructure; (ii) inflation, which is anchored in the WAEMU currency union, will be contained between 3.5 and 4.1 percent as the national authorities and the central bank, BCEAO, stand ready to take actions if the monetary expansion starts to fuel high inflation; and (iii) the external conditions will remain challenging, characterized by terms of trade shocks from high oil and food prices, adverse competitiveness, and FDI-driven imports.

Fiscal policy

Our authorities intend to keep domestic spending within the domestic resource envelope, making this a guiding principle for fiscal policy. On the revenue front, they aim at bringing revenue collection to 17¾ percent of GDP and the primary domestic fiscal surplus to about 1 percent of GDP over the three-year period span of the program. They stand ready to make contingency spending cuts, which they have already identified, in case revenue or financing fall short of expectations. Expenditures will be mostly geared at improving social services and

supporting higher economic growth by scaling up spending on health, education and vital energy and transport infrastructure. This will be achieved by reallocating domestic expenditures and raising foreign financing.

The envisaged fiscal consolidation, combined with efforts to reduce domestic debt and obtain debt relief under the HIPC process and the MDRI, will help bring public debt to a sustainable level. Concessional financial assistance from donors will be critical to this end and to the objectives of boosting growth and reducing poverty.

Structural reforms

The Togolese authorities have designed an ambitious structural reform agenda, in line with the objectives specified in the I-PRSP. Priority reforms will center on the three broad domains of fiscal governance, financial sector development, and the restructuring of state-owned enterprises and enhancement of the business environment. The ambitious calendar includes the implementation of a large number of measures in 2008 and mostly in 2009-10 while taking into account the difficult capacity constraints facing the country.

The impressive set of measures envisaged in the *fiscal governance* area encompasses enhancing revenue administration; better monitoring budget execution; strengthening expenditure management; improving public debt and treasury management; tightening internal controls ; and advancing budget preparation, monitoring and accounting.

In the *financial sector*, the authorities will further strengthen the monitoring of banks and pursue the restructuring of the BICI and the UTB towards turning the former bank over to private management and starting the privatization process of the latter institution. Actions are also envisaged to improve treasury cash management and create more tradable financial instruments through the introduction of T-bill auctions. In consultation with the BCEAO, our authorities will remain vigilant in monitoring money and credit development and mitigating possible risks stemming from rapid credit growth, including through changes in reserve requirements. Over the medium term, they will prepare a financial sector strategy based on the findings of a future FSAP, and strengthen the supervision of microfinance institutions.

As regards *public enterprises*, our authorities will build on their initial measures to (i) further improve financial controls, pricing and productivity in the *cotton sector*; (ii) review options for reform of the *phosphate sector*, including for attracting a strategic investor; (iii) pursue the rehabilitation of generation capacity in the *energy sector*; and (iv) finalize the review of options for investment and reforms in the areas of *roads, the port, and telecommunications*. Specific actions taken in these areas will include notably partial ownership of the cotton company by cotton farmers and an audit of the phosphate sector in consultation with the World Bank. All these actions, combined with improved infrastructure and public finance

management, including avoiding new arrears to suppliers, will contribute to enhancing Togo's business environment. So will the reforms envisaged by the authorities to improve business registration, secure property rights, and prepare a new investment code.

IV- CONCLUSION

The infrastructure and poverty-related challenges facing Togo are daunting. Our authorities have embarked on an ambitious program of fiscal policy and structural reforms geared at boosting revenues, enhancing the efficiency of social services, rebuilding infrastructure, and improving the functioning of the financial sector. This should help create conditions conducive to sustained private sector-led growth and significant poverty reduction. As Togo's debt situation remains difficult, external financing is critical in complementing domestic efforts, and the donor community is called on to provide the necessary grants and concessional loans to finance Togo's medium-term economic program and poverty-reducing efforts. The observed improvements in the country's relations with its multilateral and bilateral creditors bode well for ensuring adequate financing.

A PRGF arrangement with the Fund is highly needed to allow the country to move as smoothly as possible towards the HIPC decision and completion points and benefit from debt relief under this initiative and the MDRI. Based on their demonstrated good track record under the SMP and completion of the I-PRSP, our Togolese authorities will appreciate Board approval of their request for a PRGF-supported program. Our authorities have consented to the publication of the staff report and the I-PRSP.