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Togo: 2009 Article IV Consultation and Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Staff Report; Public Information Notice and Press Release on the Executive Board Discussion; and Statement by the Executive Director for Togo

Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. In the context of a combined discussion of the 2009 Article IV consultation with Togo and the second review under the 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 combined 2009 Article IV Consultation and Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility, prepared by a staff team of the IMF, following discussions that ended on February 25, 2009, 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 April 8, 2009. 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 Public Information Notice (PIN) and Press Release, summarizing the views of the Executive Board as expressed during its April 21, 2009, discussion of the staff report on issues related to the Article IV consultation and the IMF arrangement, respectively.

- A statement by the Executive Director for Togo.

The document listed below has been or will be separately released.

Letter of Intent sent to the IMF by the authorities of Togo*
*Also included in Staff Report

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

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INTERNATIONAL MONETARY FUND

TOGO

Staff Report for the 2009 Article IV Consultation and Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility

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

Approved by Michael Atingi Ego and Anthony Boote

April 8, 2009

- **Discussions**: Article IV consultation and second review of the PRGF arrangement in Lomé, February 11–25, 2009.
- **Staff team**: Mr. Mills (head), Ms. Ocampos, Mr. Rosa, Mr. Dagher (all AFR), and Mr. Yao (resident representative). Mr. Krueger (AFR) joined the mission for its last three days.
- **Interlocutors**: President Gnassingbé, President of the National Assembly Bonfoh, Prime Minister Houngbo, Finance Minister Ayassor, BCEAO National Director Adjahoto, and other senior officials.
- **Relations with the Fund:** Togo's three-year PRGF arrangement was approved in April 2008, in an amount of SDR 66.06 million (90 percent of quota). An augmentation of access of SDR 18.35 million (25 percent of quota) was approved in September 2008. The HIPC decision point was reached in November 2008. The authorities have met all performance criteria and all but two benchmarks for the second review. In the attached Letter of Intent, they request completion of the review.
- **Exchange arrangements:** Togo has accepted the obligations of Article VIII, Sections 2, 3, and 4. Togo shares a common currency (CFA franc), pegged against the Euro, with other WAEMU members. The BCEAO conducts monetary and exchange rate policies for the region. Banks are supervised by the WAMU Banking Commission.
- **Past advice**: The previous Article IV consultation was concluded in June 2007. The IMF and the authorities agreed that fiscal discipline and timely implementation of structural reforms were critical to reviving and sustaining economic growth. Top priorities were financial sector and fiscal governance reforms, especially those related to budget execution and public expenditure management.
- **Focus of the Article IV consultation**: The discussions focused on (i) policies to accelerate economic growth and preserve stability, given the global financial crisis; (ii) strategies to raise growth potential and external competitiveness by investing in infrastructure, health, and education, improving the business climate, and reforming state-owned banks and enterprises; and (iii) strengthening public finances in terms of both management and sustainability.
- **Outreach**: A staff seminar with officials and representatives of civil society discussed the impact of the global financial crisis and domestic debt management. The mission also met with representatives of labor unions, employer associations, NGOs, donors, and the media.
- **Economic statistics**: Adequate for surveillance purposes, but weaknesses remain.

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GLOSSARY

BCEAO	*Banque Centrale des Etats de l'Afrique de l'Ouest* (Central Bank of the West Africa)
BTCI	*Banque Togolaise Pour Le Commerce Et L'Industrie* (Togolese Trade and Industrial Bank)
BIA-Togo	*Banque Internationale Pour L'Afrique Au Togo* (International Bank for Africa-Togo)
CEET	*Compagnie Energie Electrique du Togo* (Electric Energy Company of Togo)
FEZ	Free Economic Zone
GFS	Government Finance Statistics
PC	Performance criterion
PIP	*Programme d'Investissement Publique* (Public Investment Program)
SB	Structural benchmark
SIGFIP	*Système intègre de Gestion du Finance Publique* (Integrated Budget Execution and Reporting System)
SNTP	*Société Nouvelle des Phosphates du Togo* (New Phosphate Company of Togo)
SOTOCO	*Société Togolaise de Coton* (Cotton Company of Togo)
UTB	*Union Togolaise de Banques* (Banks' Union of Togo)
WAEMU	West African Economic and Monetary Union

EXECUTIVE SUMMARY

After three years of solid reform implementation, Togo's PRGF-supported economic revival faces new risks due to the global recession. The global financial crisis is starting to drag down growth just as it was poised to improve in response to the economic program. In response, the authorities reiterated their commitment to the PRGF-supported program and aim to accelerate growth-enhancing structural reforms.

Implementation of the PRGF-supported program was strong in 2008, despite lackluster growth of 1.1 percent due to global price shocks and heavy flooding. All quantitative targets and structural benchmarks were met—many with ample margins or in advance—with the sole exceptions that the indicative target for social and investment spending was undershot and there was an unavoidable delay in launching a study of the phosphate sector. Slow implementation of emergency repairs after the floods highlighted capacity constraints. After inflation peaked in August 2008, falling world oil and food prices helped bring it down to 8.4 percent by year-end and also mitigated deterioration in the terms of trade and the current account deficit (6.6 percent of GDP).

As for the economic outlook for 2009 and 2010, the nascent recovery is expected to be offset by the impact of the global recession on Togo. A rebound in subsistence agriculture and rising public investment are expected to be offset by the adverse effects of the global recession, even though these should be moderated by Togo's less integrated financial sector and already depressed exports. Nevertheless, the global recession's impact on exports and remittances is expected to keep growth to just 1.7 percent in 2009 and 2.1 percent in 2010. Improving terms of trade in 2009 will narrow the current account deficit to about 6 percent.

Concerned about low growth, the authorities resolved to accelerate key reforms to promote growth through the medium term. The main challenges are to (i) keep the economy stable despite the global recession, supporting demand consistent with debt sustainability; (ii) pursue fiscal policy reforms to improve budget execution, strengthen sustainability, and support growth; and (iii) effectively tackle structural bottlenecks in the financial and export sectors and utilities. In particular, addressing the liquidity and credit shortage in the private sector is an immediate priority.

Despite notable progress so far, Togo's modest economic outlook faces significant economic and political risks. A worse global recession or a heavier impact could further depress growth and revenues, as well as delaying private sector involvement in restructuring state-owned banks and enterprises. Moreover, the run-up to the 2010 presidential elections could create political uncertainty or complicate program implementation. The authorities, however, stressed their determination to implement the program fully and to achieve the HIPC completion point as early as possible in 2010.

STAFF APPRAISAL

Program performance has been commendable, especially considering the demanding circumstances. Fiscal policy has been prudent in the face of exogenous shocks and slower than expected growth, although this result is partly on account of underspending on emergency repair projects which highlights worrisome weaknesses. The authorities rightly place high priority on addressing the capacity constraints demonstrated by this underspending. The authorities' proposed adjustments to the fiscal framework—shifting unspent money for emergency projects from 2008 to 2009 and increasing the share of domestic arrears cleared in cash—are appropriate in light of slow growth and consistent with medium-term debt sustainability.

Staff welcomes the authorities' strong progress on the program's structural reforms and supports their determination to accelerate their implementation. Most program benchmarks were achieved early—the only delay was again due to capacity constraints in procurement (in this case for the strategic audit of the phosphate sector). The structural reforms rightly continue to stress fiscal governance, financial sector restructuring and public enterprise reform, with an increasing emphasis on measures with a more direct impact on growth.

Staff recommends completion of the second review of the PRGF arrangement and revision of the end-June quantitative PCs, on the basis of the performance and assessment discussed above.

The Article IV consultation discussions focused on efforts to achieve higher economic growth. The authorities understandably expressed concern that major reforms were not yielding the expected growth. The series of shocks hitting Togo's recovery is offsetting part of the growth impact, while some of the impact will take more time to materialize. Staff believes that Togo's policy priorities remain appropriate for managing the challenges of its economic recovery and the global recession. On fiscal policy, the authorities' medium-term goal is suitably to increase the level and quality of public investment, while consolidating sustainability through a prudent fiscal balance, HIPC relief and a reliance on concessional financing. Their structural policies priorities discussed above are also well-targeted and consistent with past Article IV discussions; the authorities' emphasis on accelerating and deepening reforms to achieve higher growth is therefore welcome.

The authorities' fiscal and structural policies are also consistent with external stability. Membership in the WAEMU currency zone continues to serve Togo's economic interests, providing a valuable anchor for stability. Togo remains broadly competitive, while the recent trend toward overvaluation of the real effective exchange rate places a premium on rapid implementation of fiscal and structural policies to promote growth and productivity.

It is proposed that the next Article IV consultation with Togo take place within 24 months, subject to the decision on consultation cycles in program countries.

I. Recent Economic Developments and PRGF Performance: Sluggish Growth Despite Good Program Implementation

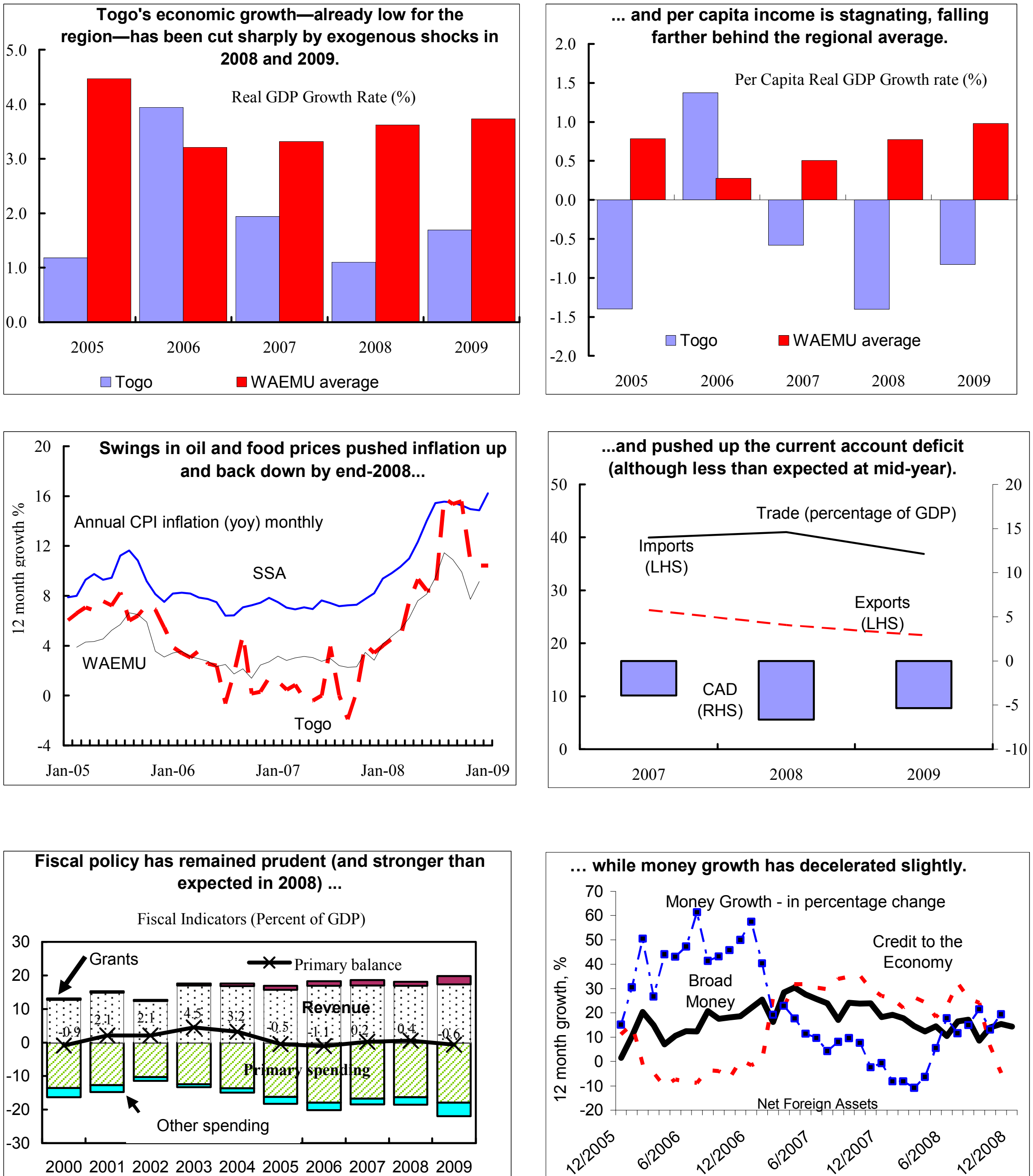
1. **Togo's success in remaining on track with its PRGF arrangement has been commendable, especially considering the severe flooding and global price shocks in 2008**. The flooding severely damaged vital infrastructure and agriculture, leading to an abrupt slowdown in the latter part of the year and reducing estimated real GDP growth to 1.1 percent (Table 1, Figure 1). Surging world food and oil prices pushed inflation up to 15.8 percent (on a 12-month basis) in August 2008, although it dropped back to an estimated 8.4 percent (average) by year-end as oil and commodity prices fell. Money growth increased by 16 percent, comparable to other WAEMU countries, as delays in spending donor assistance for emergency repairs temporarily pushed up net foreign assets. Credit to the nongovernment sector fell slightly, however. Falling oil and food prices helped limit the deterioration of the terms of trade by year-end and contain the upsurge in the current account deficit to 6.6 percent (Tables 2 and 4).

2. **In 2009 Togo's recovery will be dampened by the impact of the global recession.** Staff projects real GDP growth of about 1.7 percent in 2009, 1.3 percentage points lower than previously expected. The expected rebound in subsistence production after the flood damage and increased public investment (about 2 percentage points of GDP) are expected to be counterbalanced by the crisis' impact on trade and remittances. However, the decline in global energy and food prices will reduce inflationary pressures, improve the terms of trade, and narrow the current account deficit.

A. Solid Fiscal Performance Tempered by Capacity Constraints

3. **Fiscal performance was generally good in 2008, although overperformance on key targets is partly due to underspending on emergency infrastructure repairs**. Collection of both taxes and customs revenues was higher than expected, reflecting improved management and computerization. Spending was below budget because capital spending was underexecuted while current spending was disciplined despite economic difficulties. In particular, complex and cumbersome procurement procedures hampered the expedited start-up of priority repair projects following flood damage. As a result, the domestic primary balance (a performance criterion) amounted to +0.4 percent of GDP, compared with the program floor of −0.5 percent. The target on net domestic financing (PC) was met by an ample margin (0.4 percent of GDP), with a corresponding accumulation of government deposits in the banking system. On the other hand, social and capital spending fell more than 1 percent of GDP short of the indicative target (Table 3).

Figure 1. Togo: Recent Macroeconomic Developments



Sources: National authorities and Fund staff estimates.

4. **The 2009 budget strengthens the focus on priority spending and promoting growth while preserving debt sustainability** (Text Table 1)**.** Even with some proposed relaxation (see below), the budget targets a domestic primary deficit of only 0.6 percent of GDP. Continued efforts to broaden the tax base and reduce tax rates are expected to be fiscally neutral. The government intends to further increase the share of priority spending on social and physical capital, in line with its poverty reduction strategy (PRS) objectives.

Text Table 1. Togo: Spending by priority sectors, 2007-12

	2007	2008	2009	2010	2011	2012
			Budget		Proj.	
			(Percent of GDP)			
Primary spending (domestically and foreign financed)	18.6	17.8	20.3	22.1	22.2	22.2
Spending in priority sectors	6.4	7.0	9.4	12.4	12.4	12.7
Health	1.8	2.2	3.3	5.1	5.2	5.3
Education	3.7	3.9	5.0	5.7	6.1	6.4
Other social	1.0	0.9	1.2	1.6	1.1	1.0
Of which capital spending	0.9	1.3	3.2	5.3	5.4	5.4
Other spending	12.1	10.8	10.9	9.7	9.8	9.5
Of which capital spending	2.1	2.2	2.4	1.8	1.6	1.6

Source: Togolese authorities; and IMF staff estimates and projections

5. **The authorities have also acted in 2008 and in the 2009 budget to help protect vulnerable segments of the population.** In 2008 they allowed full pass-through of rising international food prices and sought to mitigate the social impact through targeted measures, particularly subsidies for seeds and fertilizers to boost production; sales of food stocks; accelerated payment of pension arrears; and an increase in the minimum wage. For 2009 the budget increases the subsidies for agricultural inputs and cut personal and corporate taxes. For petroleum products, the authorities limited the pass-through of world oil prices in 2007 and 2008 to mitigate their impact on real incomes; by the terms of a previous agreement, the government incurred contingent liabilities equal to 1.5 percent of GDP to oil distributors as a result of their reduced margins. With current world and domestic prices, however, margins have become higher than normal, gradually reducing this contingent liability (LOI, ¶13).

6. *Policy Response and Authorities' Views:* **In light of past over-performance and the somber economic context both in Togo and globally, the authorities are determined to make the best use of the limited fiscal leeway available, with the priority on addressing slow project execution** (LOI, ¶7). Delayed repair projects have prolonged the economic costs of the damage from the 2008 floods, most notably to bridges and roads critical to agriculture, transport, and related activities. Recognizing the role of increased investment spending in supporting growth, the authorities have drawn up an action plan, with staff assistance, to strengthen and streamline project execution and procurement processes, so that domestic and donor resources are used in accordance with PRS objectives. Priority projects will be expedited, a higher share of the annual budget will be available at the beginning of the fiscal

year, overlapping controls in the spending chain will be reduced, and training will be provided for project execution. Staff welcomed these measures but noted the need for continued spending controls and the risks capacity constraints still pose to project budget execution.

7. **The authorities plan to increase domestic investment spending in 2009 by the amount of underspending on emergency repairs in 2008**. They also concurred with staff that it should favor priority investments. The authorities plan to submit a supplementary budget to this effect. Due to stronger than expected revenue performance in 2008, the authorities are maintaining revenue projections for 2009 despite somewhat slower projected growth. As a result the floor on the 2009 fiscal balance falls relative to the previous 2009 fiscal framework by the amount of carried over investment spending—about ½ percent of GDP. Combined with rising foreign-financed investment, the resulting increase in public investment is affordable, helps Togo cope with the impact of the global crisis, and supports growth.

8. **To increase liquidity for businesses, the authorities intend to increase the portion of domestic arrears clearance to be settled in cash.** Domestic arrears verified by an audit conducted by KPMG[1] amount to nearly 3 percent of GDP. The budget already provides for settling ½ percent of GDP in cash to smaller suppliers, based on a plan developed in consultation with Fund staff. The rest was to be settled by issuing medium-term securities directly to businesses, which would provide limited help for their pressing liquidity needs. Representatives of the private sector and other observers highlighted the constraints on growth posed by this shortage of liquidity for enterprises in an economy with anemic private sector credit and a large stock of outstanding domestic government arrears. To help jump-start private sector activity, the authorities prefer to increase the portion of settlements in cash, to be financed both by grants from donors and by domestic financing of ½ percent of GDP. Staff supports this measure, which is affordable and addresses pressing liquidity needs. The impact on public finances would be small. Increasing the 2009 arrears cash clearance will not have an impact on the primary balance, while the additional domestic financing required is limited to about 0.3 percent of GDP, compatible with the government's available deposits.

9. **Staff supported the authorities' planned measures to help protect vulnerable segments of the population, consistent with the budget, especially the increase in subsidies for inputs for subsistence agriculture.** The authorities also discussed options to help the cotton sector, which is struggling due to the liquidation of the former state cotton company and low world demand.[2] Using resources in the budget, the government intends to

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[1] A discount of 20 percent will be applied to the verified domestic arrears. Amounts not cleared in cash will be settled with government securities with a maturity of 5 to 7 years at below-market interest rates.

[2] The former publicly owned cotton ginning company, SOTOCO, was liquidated in 2008 after it was unable to pay more than 250.000 farmers for their 2004/2005 crop. After the company was audited, farmers were paid off in cash and its debt to domestic banks was securitized by government bonds. A new cotton ginning company, NSCT (New Cotton Company of Togo) has been created as part of the reforms to the sector.

absorb the projected net operating losses (less than 0.1 percent of GDP).[3] The government also intends to help the new cotton company obtain financing (either a domestic loan guarantee or a direct loan) for fertilizer and seeds for the 2009/2010 season (projected at less than 0.2 percent of GDP). Staff supported these efforts as interim measures, provided they remain consistent with the program's fiscal framework, but urged the authorities to draw up longer-term arrangements for the cotton sector that minimize the need to resort to public money. Regarding petroleum products, staff expressed serious concern about the current contingent liability and future risks. The government is committed to maintaining a margin for distributors that will eliminate the contingent liability within 20 months and to reviewing the pricing mechanism to avoid such large liabilities in the future.

B. Good Progress on Structural Reforms for 2008/09

10. **The authorities have made good progress in achieving structural reforms, meeting nearly all program benchmarks on or ahead of schedule** (Text Tables 2 and 3, as well as Appendix 1, Tables 2 and 3). There was a slight delay in initiating the strategic audit of the phosphate sector. In 2009 the focus of structural reforms will expand from reinforcing public finances and laying the groundwork for reform of state-owned banks and enterprises to measures with more direct impact on growth. The program's structural reform agenda has four measures planned for completion before the next review; two structural benchmarks have already been completed (initiating restructuring of BTCI and reducing tax exemptions), and the other two measures concern reform of the Treasury (structural performance criterion[4]) and the preparation of development strategy for the phosphate sector (structural benchmark).

Advances on reforms to strengthen fiscal policy implementation

11. **After helping to restore fiscal discipline, public financial management reforms are starting to address such medium-term needs as accounting, tax policy, and debt management**:

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[3] The net loss assumes the sale of the stock of unsold cotton, worth about 0.2 percent of GDP.

[4] In the context of the transition to review-based structural conditionality decided by the Board, the Togolese authorities chose to maintain the sole existing structural performance criterion on Treasury reform, to be completed by the end of June 2009.

- *Treasury reform*: Far-reaching reforms underway at the Treasury aim to strengthen its credibility, lay the groundwork for effective cash and debt management, and ensure accurate accounting of budget execution. The Treasury has been reorganized, and planned accounting reforms (PC for June 2009) are on track. A General Finance Inspectorate has been set up to monitor use of public resources. A framework for regular Treasury bill auctions was established in September 2008 (SB, met three months early).

- *Tax policy*: The 2009 budget law has reduced tax exemptions and the fiscal administration has been given more authority to control the Free Economic Zone (FEZ) (SB for June 2009, met early).

- *Domestic arrears clearance and domestic debt*: The government has established a mechanism to monitor domestic debt, adopted the principles for an arrears clearance strategy, and set up an intergovernmental committee to define concrete steps. The authorities plan to initiate settlement well before year-end, as discussed above (SB for end-2009).

Progress on bank restructuring and plans to accelerate it

12. **Three state-owned banks, including BTCI, were fully recapitalized with government securities in December 2008** (March 2009 SB, met early) (LOI, ¶10). Drawing on technical assistance from the Fund and the World Bank, the authorities issued securities in exchange for the NPLs of three large undercapitalized public banks, representing about 27 percent of total loans (about 7 percent of GDP). This operation restored the banks' compliance with the prudential indicators. The authorities intend, with the support of the World Bank, to set up a mechanism for recovering and settling the NPLs now in their possession; completion of the process has been postponed to December 2009 because of its complexity and the need to procure advisory services (revised SB for December 2009). With World Bank technical support, the authorities also plan to work with the BCEAO to help develop a secondary market for the securities.

Text Table 2. Togo: Status of Structural Reforms Through 2008

Measures	Type	Date	Status
Fiscal governance			
Create a General Inspectorate of Finance under the responsibility of the Minister of Finance.	Performance criterion	August 2008	Done
Adopt a strategy and timetable for clearing domestic arrears.	Performance criterion	December 2008	Done
Financial sector			
Change management and oversight of BTCI based on terms of reference prepared in consultation with the WAMU Banking Commission.	Prior action for PRGF approval		Done
Adopt an action plan for introducing regular Treasury bill auctions in 2009.	Benchmark	December 2008	Done
Public enterprises			
Initiate an audit of the phosphate sector, based on competitive selection of an audit company, in consultation with the World Bank.	Benchmark	October 2008	Done in Jan. 2009
Prepare a review of the finances of the national electricity company (CEET), in consultation with the World Bank.	Benchmark	December 2008	Done

13. *Policy Response and Authorities' Views:* **Concerned with tight private sector credit and liquidity, the authorities are determined to accelerate privatization of four state-owned banks.** They hope to launch the initial call for bids much earlier than planned (SB for December 2009). Staff strongly supported this ambitious goal and hoped that signs of interest in the region hold up despite the global downturn. Staff also urged the authorities to expedite the transfer of the management of bad loans from banks to a separate agency so that the banks can focus on restarting the flow of credit to the economy.[5]

14. **Staff underscored the importance of continuing strict management oversight of state-owned banks after recapitalization and before privatization.** While stressing their preference for expeditious privatization, the authorities and the supervisory authorities committed to maintain heightened oversight until its completion. If privatization were delayed or unsuccessful, the banks would continue under state ownership but with this heightened management oversight.

15. **Staff stressed that banking sector reform and the clearance of domestic arrears needs to proceed together expeditiously**. The domestic arrears clearance strategy is based on the principle of cancellation of cross-obligations involving arrears of the government to private suppliers, NPLs (now owned by the government) and unpaid taxes. The government agreed on the need to closely coordinate the two operations (NPL recovery and arrears clearance) and to avoid delays in establishing an NPL recovery mechanism. Completion of the operations will re-establish normal financial relations among the government, banks, and enterprises, easing the flow of credit and payments (LOI, ¶9 and 17).

Restructuring of state-owned phosphate and electricity enterprises in process

16. **SOE reforms have progressed but they need to continue until more concrete results are achieved** (LOI, ¶11 and 21). In January 2009 the government selected a consulting company for the strategic audit of the phosphate sector (October 2008 SB, mildly delayed due to procurement difficulties). The report is expected to be completed in April 2009. Meanwhile, the government has begun to restructure the phosphate company's operations. A draft report reviewing the finances and operations of CEET, the electric company, was submitted to the government and the World Bank for comments in December 2008 (SB). Launch of a strategic and financial audit, in consultation with the World Bank, is planned for May.

17. *Policy Response and Authorities' Views:* **The authorities concurred with staff that lags in restructuring key economic sectors may jeopardize a recovery in growth**. They reaffirmed their resolve to finalize the preparatory work and act on the strategies developed, while maintaining intensified oversight to avoid losses and mismanagement. Attracting the interest of strategic investors to the sectors is a top priority.

[5] The size of potential privatization receipts and their inclusion as revenue will have to be assessed as the process is closer to the privatization stage (they are not included in 2009).

Text Table 3. Togo: Status of Structural Reforms Through 2009

Measures	Type	Date	Status
Fiscal governance			
Reduce tax and customs exemptions and strengthen tax and customs control, including in the Free Economic Zone (FEZ).	Benchmark	June 2009	Done
Make operational a new Treasury structure based on WAEMU directives.	Performance criterion	June 2009	On track
Start implementing the domestic arrears clearance strategy by securitizing validated arrears to suppliers and setting up a mechanism for monitoring domestic debt.	Benchmark	December 2009	On track
Financial sector			
Initiate restructuring of BTCI, including by raising its capital through issuance of government securities.	Benchmark	March 2009	Done
Set up a structure and mechanism for managing the NPLs that have been exchanged against government securities in the bank restructuring process.	Benchmark	December 2009 (revised)	On track
Initiate the process of identifying strategic investors for state-owned banks.	Benchmark	December 2009	On track
Public enterprises			
Phosphate sector: Prepare a development strategy based on the results of the strategic audit.	Benchmark	September 2009	On track

C. Program Monitoring and Risks

18. **The discussions culminated in understandings on revised quantitative and structural indicators to monitor PRGF-supported program implementation through 2009** (Appendix I, Tables 1 and 3). The earlier established end-June quantitative PCs were revised and understandings were reached on new PCs for end-December 2009. The performance criteria on the domestic primary balance and net domestic financing reflect a modest relaxation of the fiscal framework in 2009, as do the indicators for priority spending. The continuous PCs on nonaccumulation of domestic arrears and the central government not contracting or guaranteeing nonconcessional external debt are maintained. The structural PC and benchmarks for the period June-December 2009 on strengthening public financial management, the financial sector, and public enterprises remain unchanged except for the revised timing on NPLs.[6]

19. **The main near-term program risks are related to the global financial crisis and the upcoming elections.** If the financial crisis worsens or has more impact on Togo than expected, it would jeopardize revenue performance and generate new spending pressures to provide for vulnerable groups. Political uncertainty in the period leading up to presidential elections in the first quarter of 2010 could complicate program implementation or weaken economic confidence. Multiparty talks on organizing the elections have been contentious. The authorities nevertheless expressed a commitment to forceful program implementation throughout the electoral period.

D. HIPC Process

20. **Progress toward meeting the HIPC floating completion point triggers is good, particularly with the completion of the final PRS by the end of April** (Table 10). The government officially adopted the PRS paper after extensive discussions with civil society, representatives of the business community, development partners, and the National Assembly. The strategy provides a comprehensive description of poverty-reducing policies, their costing, and the expected domestic and external financing. Its macroeconomic framework is consistent with the PRGF-supported program.

21. *Policy Response and Authorities' Views:* **The government stressed its determination to fulfill the conditions for reaching the HIPC completion point as early as possible in 2010**. In particular, the authorities noted that the Court of Auditors will begin operations in June 2009, the Procurement Regulatory Agency is planned to be set by end April 2009, and

[6] The Technical Memorandum of Understanding remains unchanged.

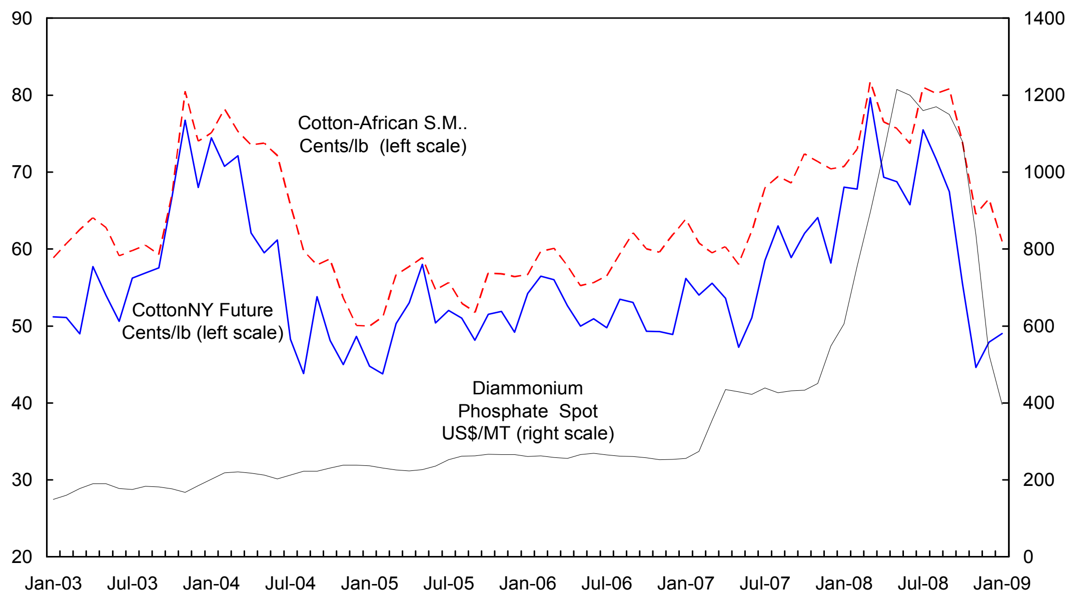
data on revenues received from and payments to the phosphate company are being published regularly.

II. Article IV Consultation Discussions

A. Macroeconomic Outlook and Vulnerabilities: Moderate Impact of the Global Crisis Expected; Vigilance Still Needed

22. **The impact of the global crisis, though evident, is expected to be moderate in 2009 and 2010, given Togo's limited international financial integration and its already depressed exports** (Box 1)[7]. The first signs of the crisis are emerging in declining export prices and volumes (Figure 2). Country-specific factors are expected to mitigate the impact, such as the rebound in production after the flood damage, increased public investment, and a less internationally integrated banking system. Finally, the decline in energy and food prices is expected to reduce inflationary pressures, improve the terms of trade, and narrow the current account deficit.

Figure 2: Cotton and Phosphate Prices
(January 2003 - January 2009)



[7] See also the Selected Issues Paper.

Box 1. Expected Transmission Channels of the Global Crisis to Togo [1]

The global crisis is having or may have the following spillover effects on Togo:

- *Lower demand and prices for exports:* Lower global growth may adversely impact demand for traditional commodity exports, such as cotton and phosphate. Their share in total exports declined from 50 percent at the end of the 1990s to just 13 percent in 2008 and could fall further with the crisis. Cement exports, which represent about 20 percent of total exports, are expected to continue to increase, but declining regional demand should not be ruled out.

- *Decreasing trade-related activities:* The activity of the Port of Lomé and the related transport sector may suffer from lower transit and re-export of goods to Burkina Faso, Niger, and Mali. Early in 2009 there was no sign of declining activity, but there may be a delayed impact.

- *Lower remittances:* If economic conditions worsen in host countries, particularly in continental Europe, remittances, which make up 10 to 15 percent of GDP, could drop off sharply and jeopardize domestic demand (which is particularly important for construction). As of December 2008, no drop-off was evident, however.

- *Lack of interest of strategic investors:* Togo is not highly dependent on private capital flows, but delays in attracting strategic investors, which are key to finalizing restructuring of the banking and phosphate sectors, would constitute lost opportunities to enhance growth. For example, low international demand for phosphate may delay investor interest, which is crucial to obtain fresh capital and raise output.

- *Lower aid flows*: Togo is not heavily dependent on donors flows—its foreign-financed investment and social spending are among the lowest in the WAEMU—but it is expecting an increase to support economic revival.

- *Declining fiscal revenues:* A greater than expected slowdown would likely reduce revenues below projections. The resulting financing gap would pose policy challenges.

Togo's exposure to the crisis may, however, be mitigated by the following country-specific factors:

- *Low international exposure of the financial sector:* The banking sector is mostly publicly and regionally owned, with low exposure to the most affected markets. Nonetheless, a recent pick-up in household credit could reverse, if regionally owned private banks—the most active in this market—cut back lending in Togo to rebalance their portfolios. While there is no evidence so far of disruptions in international trade finance or the interbank market, banks are seeing more strict requirements from correspondent banks. Microfinance institutions, which represent 15 percent of total credits, have experienced decreasing funding from international institutions, however. Second round effects (e.g., rising NPLs) are also expected to be moderate given the recent restructuring, but the authorities are committed to heightened oversight to minimize the risks.

- *No major decrease in committed donor support*: Public investment in 2009, financed in large part by donor support, is expected to pick up due to new commitments. Togo is largely reliant on multilateral donors—the World Bank, the EU, and the AfDB—whose disbursement is more stable and which together have committed budget support of about 2 percent of GDP to help Togo meet its 2009 financing needs.

- *Subsistence agriculture that accounts for about 25 percent of GDP* might be an important shock absorber. Staff projects a rebound in subsistence production following the floods in 2008.

- *Declining energy and food prices* are expected to reduce inflationary pressures, improve the terms of trade, and narrow the current account deficit in 2009.

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[1] For further details see Selected Issues Paper.

23. **Given planned growth-enhancing reforms, the economy could achieve real GDP growth of about 4 percent annually by 2011, with the fiscal position gradually improving** (Table 5)**.** The main sources of medium-term growth are expected to be agricultural production (especially food); construction fueled by higher public investment; a recovery in phosphate production; the competitive cement industry; and a recovery in trade-related services capitalizing on Togo's role as a regional hub. Protracted delay in structural reforms, especially restructuring state-owned banks and enterprises, would undermine this projection. The domestic primary balance is projected to reach to 1 percent of GDP by 2011, which is the medium-term target under the program and would be sustainable thanks to full HIPC relief. With stepped-up concessional official assistance in priority sectors, the average overall deficit (including grants) will rise to about 2.5 percent of GDP for 2009/11, before falling back to a medium-term average of 1 percent (or about 5 percent excluding grants)—which serves as a fiscal anchor consistent with debt sustainability. With increased donor support, this fiscal path allows for increasing growth-enhancing priority spending (Text Table 1). In particular, the envisaged fiscal loosening in 2009 is not expected to harm long-term debt indicators, given its modest size, temporary nature, and pro-growth focus. Inflationary pressures are projected to be moderate through the medium term.

24. **The external current account deficit is expected to improve in 2010 and beyond as a result of export growth.** An expected recovery in global demand, along with improved productive capacity in Togo, is expected to lead to an increase in 2010 in the volume and prices of main exports, such as phosphate and cement. Imports are also expected to grow in value in 2010 (although less so than exports), due to a modest economic recovery in Togo and higher prices for commodities such as oil and food. The terms of trade are expected to strengthen strongly in 2009, after which part of the gains are expected to reverse in 2010.

25. *Policy Response and Authorities' Views:* **The authorities expressed concern that major reforms were not translating into higher economic growth.** Staff explained that 2009 and 2010 growth projections were prudent, given the uncertain but potentially large impact of the global financial crisis. In this context, a modest acceleration in growth could be considered a measure of success. Staff further noted that the global financial crisis posed serious downside risks. Staff acknowledged that the impact of many reforms on growth was still limited at this early stage and could be higher than projected in the future. Both staff and the authorities agreed that Togo has potential for higher growth, which could be attained—barring a deepening of the global crisis—by sustained economic stability and deeper structural reforms, supported by the international community.

26. **An update of the DSA, including new data on domestic debt, indicated that sustainability depends on faster growth and prudent fiscal policies, even after full HIPC relief** (Box 2)**.** These conclusions are consistent with those from the LIC DSA conducted for

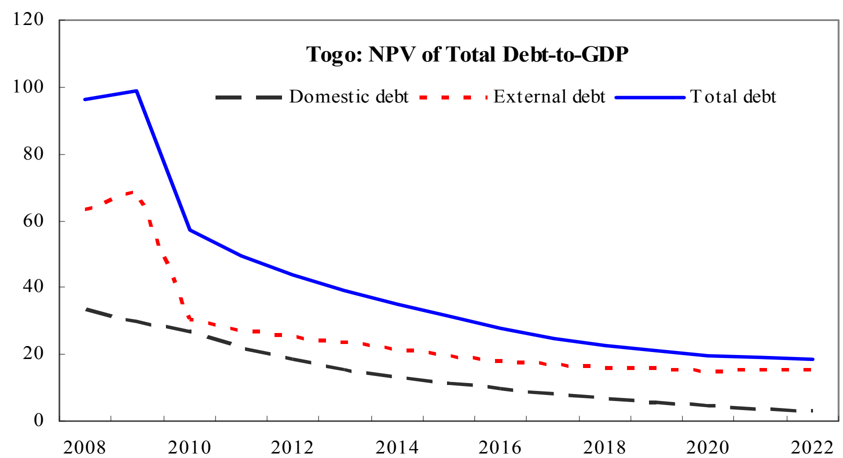
the HIPC decision point in November 2008. The mission urged the authorities to keep debt sustainable by relying on concessional debt, limiting fiscal deficits to sustainable levels, and concentrating on boosting growth.[8]

Box 2. The HIPC Initiative to Bring Debt Indicators to Comfortable Levels Even After Including Domestic Debt

The updated public debt indicators incorporated the revised macroeconomic framework and—for the first time—the impact of domestic debt, including the bank recapitalization and domestic arrears clearance.

The analysis confirmed the earlier finding of a substantial reduction of the NPV of total (external and domestic) debt over GDP to around 30 percent in the steady state. The PV of debt to revenue and the debt service-to-revenue ratio would also stabilize at comfortably low level.

Sensitivity analysis confirmed that Togo's debt dynamics are particularly vulnerable to substantial reductions in official aid, the level of concessionality, and macroeconomic shocks, particularly a reduction in growth.



B. Strengthening Medium-Term Fiscal Policy: Crucial to Economic and Debt Sustainability

27. **Continued efforts to increase project spending and reinforce public expenditure management will be critical to economic growth and stability, particularly given the global crisis.** Because Togo is a member of the WAEMU, sound fiscal policies are a primary instrument for reinforcing growth and sustainability, both external and fiscal. Fiscal policy will

[8] The DSA update was an interim partial update conducted by the staff. A full DSA will be prepared with Bank staff towards end of 2009.

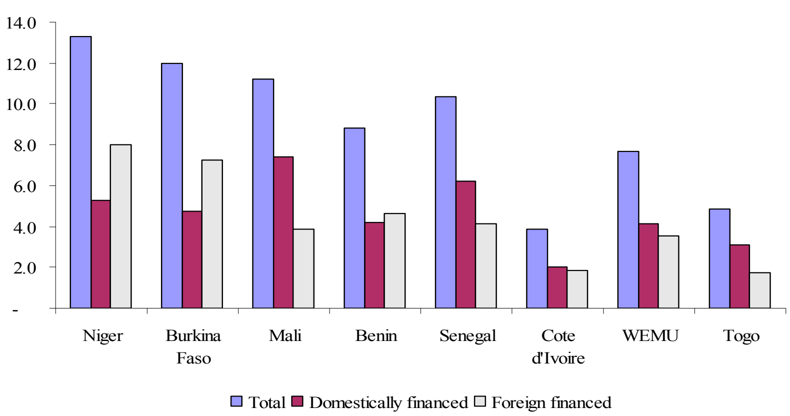
target a moderate domestic primary balance, refocus domestic spending towards priority sectors, and increase overall outlays in health, education, and public infrastructure thanks to increased external support. Fiscal policy, supported by increased external assistance, can also be used temporarily to counter the decline in global demand and support long-term growth—so long as it is well-targeted, implemented by sound institutions, and consistent with debt sustainability.

Strengthening spending capacity and quality

28. **Togo's public capital spending is among the lowest in the WAEMU and sub-Saharan Africa (Figure 3).** Even though earlier progress in public financial management contained spending pressures, staff emphasized fiscal policy needs to reallocate spending toward public infrastructure and priority social spending to underpin long-term growth and implement the government's PRS. Togo's progress toward the Millennium Development Goals has accordingly been slow (Table 11).

29. *Policy Response and Authorities' Views:* **The authorities agreed that public investment spending needs to be boosted, both for long-term development and to offset the expected impact of the global crisis.** For at least the medium term this boost in capital and social spending is expected to be financed by higher external grants and highly concessional loans. To ensure that development objectives are reached while preserving a sustainable fiscal balance, the mission has encouraged the authorities to reduce the share of nonpriority current spending (such as untargeted transfers) and increase outlays on both public infrastructure and human capital (see below). The action plan discussed above to strengthen project execution is an important element in this effort.

Figure 3. Capital investment in the WAEMU countries
(Percent of GDP - latest available data)



More active cash and debt management

30. **The Treasury is strengthening cash and debt management.** It is implementing a new template to assess cash needs on an ongoing basis and is testing a new Integrated Budget Execution and Reporting System (*SIGFIP)* to track revenue and spending throughout budget execution. To build its capacity to manage cash, the Treasury issued short-term bills on the regional market for the first time in September 2008. Coordinated with the BCEAO, the issuance of 0.8 percent of GDP was well received by domestic banks. The government is planning additional issuances for 2009, in part to expedite clearance in cash of domestic arrears.[9]

31. *Policy Response and Authorities' Views:* **Better real-time budget accounting and oversight continues to be an agreed priority**. Staff discussed steps to ensure better coordination between line ministers and the Treasury on tracking priority spending. While the introduction of SIGFID on a testing basis is welcome, staff noted that improvements will be needed before it can become fully operational. The mission commended the authorities on their plan to disseminate regular reports on budget execution in line with the GFS.

32. **It is important to pursue the significant institutional reforms underway to consolidate debt management**. Staff urged the authorities to improve and centralize debt data and explicitly define a debt strategy that is coordinated with cash flow needs and minimizes borrowing costs. Authority to contract debt on behalf of the government needs to be centralized.

Growth-friendly tax policy

33. **A broad-based economic pick-up would benefit from a more business-friendly tax environment.** The tax system is complex and costly to administer, even by regional standards, with an excessive number of rates and numerous exemptions.

34. *Policy Response and Authorities' Views:* **The authorities recognize the need to streamline the tax system and further reduce rates, particularly for corporate and income tax**. They report that better management and computerization are reducing tax evasion, though there is still considerable scope for progress. They also discussed their plans to enhance communication with the business community.

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[9] See Selected Issues Paper on the principles for the design and implementation of a domestic debt management strategy for Togo.

C. Enhancing Productivity Growth and External Competitiveness: The Path to Higher and Sustainable Economic Growth

35. **To sustain its economic revival, Togo will have to boost productivity and improve its external competitiveness.** The policy priorities are to restructure state-owned banks and enterprises, invest in public infrastructure and human capital, and create a more favorable business environment.

Banking sector

36. **Despite forceful first steps to restructure state-owned banks, financial intermediation needs to be deepened to contribute to growth**. The high level of NPLs in Togo has hamstrung intermediation for decades (Figure 2), though the microfinance sector has partly compensated for this, particularly in rural areas. While securitization is a necessary step to restore the flow of credit, further steps must also be taken to resume sound lending to the private sector. In particular efforts are needed to tackle the structural impediments to expanding lending to small and medium enterprises and households. Togo's considerable potential as a commercial hub and service provider cannot be fully realized if credit cannot reach small businesses in the trade sector.

37. *Policy Response and Authorities' Views:* **Staff has urged the authorities to complete implementation of the strategy for recovery of the banking sector and identify further steps to facilitate credit access.** The agreed priorities are to (i) ensure that the recommendations of the regional banking commission on management and oversight are implemented; (ii) create a more predictable business environment; (iii) address bottlenecks to a well-developed collateral market, particularly impediments to land and real estate property rights; and (iv) improve creditor protection and credit information. Staff noted the continuing need for technical cooperation with Fund and Bank staff, including a possible FSAP once the restructuring process is complete.

SOEs: Electricity, water, telecommunications, and phosphate

38. **The quality of services provided by SOEs operating in noncompetitive markets is low by regional standards, hampering growth and competitiveness**. Leading examples are the lack of a reliable energy and water supply, the low level of telecommunication services, and poor indicators from business climate international surveys, such as those of the World Bank. The near-term constraints on growth imposed by electricity shortages were relaxed somewhat, by installing new generators in the past year, although shortages still jeopardize growth over the medium term.

39. *Policy Response and Authorities' Views:* **Staff encouraged the authorities to pursue aggressively ways to increase the coverage and quality of electricity, water, and telecommunication services**. Staff welcomed the plans to increase the electricity supply in

2009 through an independent power producer. The authorities are also seeking to ensure other sources of energy, such as gas from Nigeria. Staff discussed the government plan to improve management of the CEET, whose rates are slightly below the cost of production and which has large payment arrears from both the private and the public sector. The government outlined ambitious plans to increase the supply of and access to electricity, as well as improve telecommunication and Internet services. Staff urged consideration of comprehensive strategies for these sectors that take full advantage of market-based approaches, such as private investment and increased competition; mobile phone services in particular might benefit from the entrant of a new provider to compete with the dominant state-owned provider.

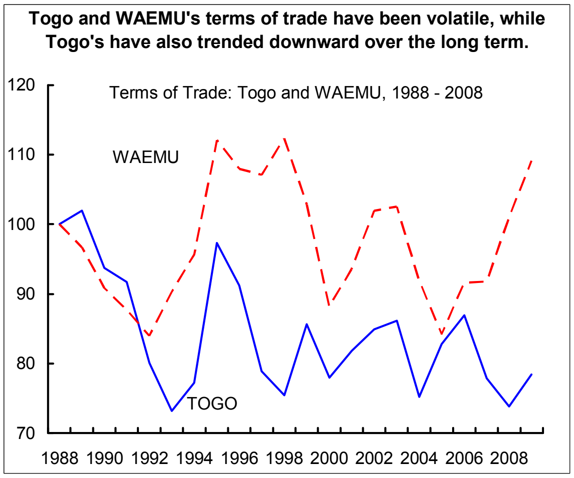
40. **To boost production of Togo's high-quality phosphate—now at less than a quarter of potential capacity—the authorities plan to finalize a long-term reform strategy on the basis of the World Bank-financed audit**. The strategy would define the financial and organizational conditions conducive to attracting strategic investors, which is crucial to complete the restructuring process. Achieving full capacity could increase GDP by as much as 2 percent.

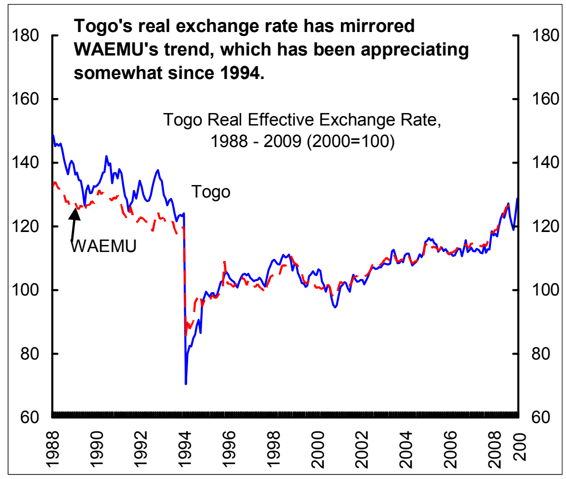
41. *Policy Response and Authorities' Views:* **Staff urged the authorities to move quickly to rehabilitate the phosphate sector**. Staff noted that the increase in phosphate production in 2008 and the improved managerial and financial situation of the SNPT are steps in the right direction. It encouraged the government to continue to closely monitor the finances and management of the phosphate company. The authorities intend to proceed rapidly once the strategic audit is complete.

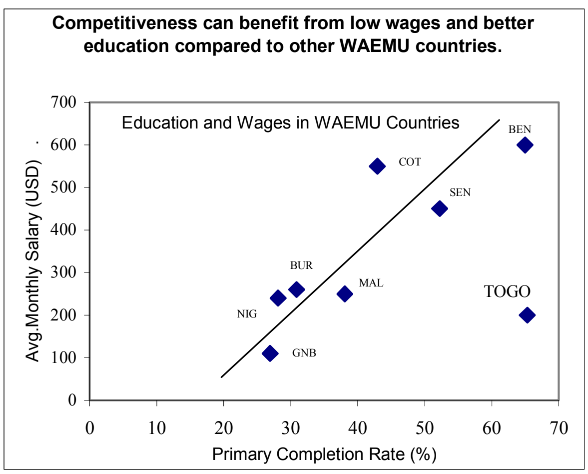
D. Raising External Competitiveness

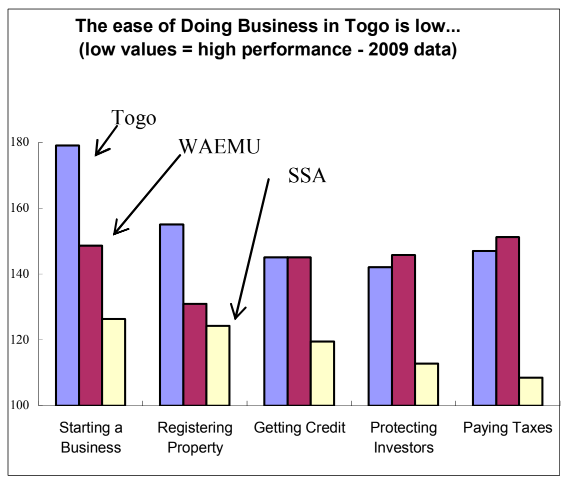
42. **International comparisons highlight the importance of Togo's priorities for boosting productivity and growth—infrastructure and human capital, financial intermediation, and a business friendly environment** (Figure 4). Indicators of business climate and infrastructure endowment show that Togo is positioned below its main regional competitors. Surveys reflect perceptions that establishing a new company in Togo is complex and costly, the judicial system ineffective, and the administration inefficient. The authorities acknowledge these weaknesses and recognize that Togo's relative positioning as a business space compared with the other countries in the subregion has deteriorated. They also recognize that increasing productivity in all sectors will require a substantial rehabilitation of public infrastructure and an education system more focused on technical skills. Progress in these areas will enable Togo to capitalize on its advantages as a regional hub with a well-educated but relatively cheap workforce.

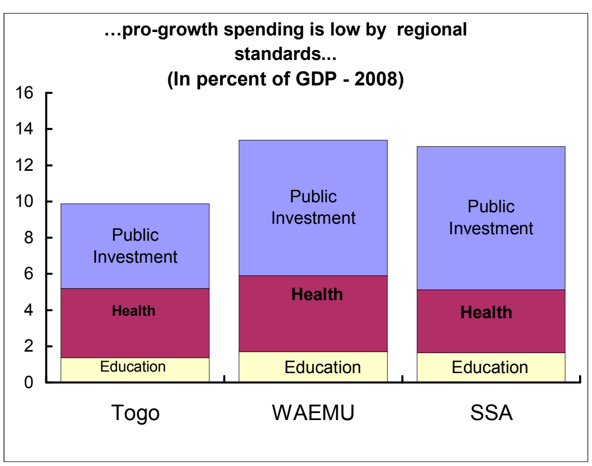
Figure 4. Togo: Improving Competitiveness and Boosting Economic Growth

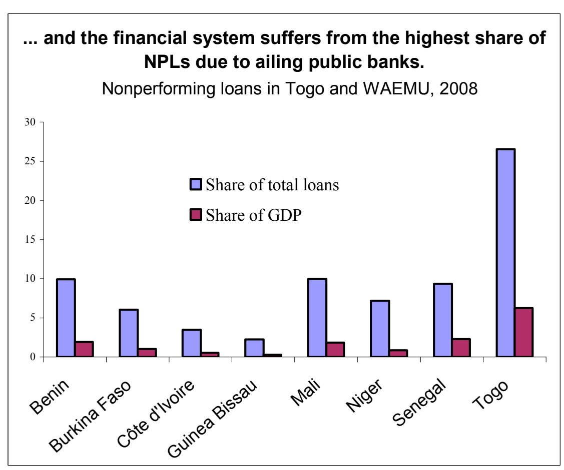












43. **A variety of macroeconomic analyses of the balance of payments and the real effective exchange rate (REER) suggest that Togo's current account balance and exchange rate are on balance broadly in line with fundamentals**:

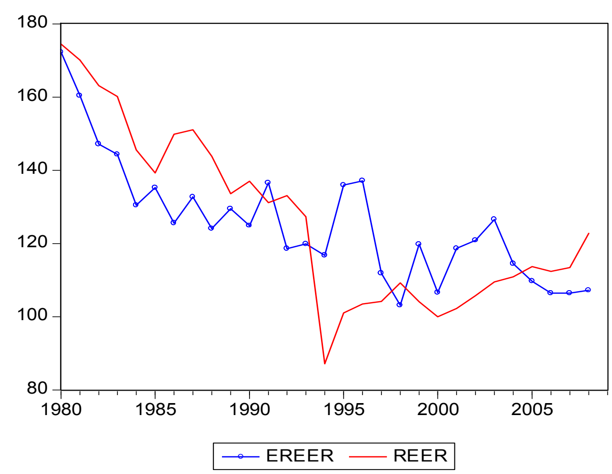
- The REER has largely mirrored WAEMU-wide trends since devaluation. Econometric estimates of the equilibrium real effective exchange rate (EREER) suggest that the real exchange rate is not seriously misaligned despite a recent trend toward overvaluation (Box 3).

- The current account deficit is comfortably financed by inflows through the capital and financial account, in particular project grants and concessional loans (Tables 2 and 5).

- The macroeconomic balance approach suggests Togo's projected current account deficit would be in line with the norm for a low income African country that receives aid inflows. Nonetheless, Togo's ability to sustain the projected current deficits (5-6 percent of GDP) over the medium-term depends on the expected increase in aid inflows (consistent with donor pledges) or other, non-debt-creating inflows such as FDI.

Box 3. Togo's REER: No Serious Misalignment Despite Recent Trend Toward Overvaluation

Togo's real effective exchange rate (REER) has been on an upward trend since it plunged in 1994 following the devaluation of the F CFA (Figure 3). This appreciation has accelerated in recent years with the continued strength of the Euro.



The text figure compares the REER with the estimated equilibrium REER (EREER).[1] The result of the estimation suggests that most of the long-term fluctuation has been explained by changes in fundamentals.

The results indicate a slight overvaluation of the REER since 2005 that intensified in 2008. The recent widening in the gap between the REER and the EREER is due to inflationary pressures in 2008 combined with the Euro appreciation against the dollar. However, with the recent deceleration in inflation in Togo, Euro depreciation, and terms of trade improvement, the REER is expected to revert toward its equilibrium.

[1] To calculate the EREER the FEER approach was used with the following fundamentals: terms of trade, government spending, openness, and real GDP per capita—all variables that are significantly correlated with the REER and share a cointegrating relation.

44. *Policy Response and Authorities' Views:* **The mission supported the authorities' plans to boost competitiveness and growth potential as embodied in the PRS**. Their strategy appropriately focuses on three priorities: (i) rehabilitating transport infrastructure; (ii) providing quality education to more of the population (following the advice of the World Bank); and (iii) improving the business environment (through a new investment code, corporate tax reform, easier business registration, better allocation and recording of property rights, and—with the support of the EU—a more effective judicial system). Concerning competitiveness, the current account and real exchange rate appear sustainable, despite a recent trend toward real appreciation. Staff noted that Togo's competitiveness benefits from its low wage levels, especially considering educational attainment, relative to other WAEMU countries (Figure 4). Staff advised out that membership in the WAEMU currency zone continues to serve Togo's economic interests as an anchor of stability; the emphasis should be on the implementation of agreed fiscal and structural policies to promote growth and productivity.

Table 1. Togo: Selected Economic and Financial Indicators, 2006–10

	2006	2007	2008	2009	2010
		Act.	Prel.	Proj.	Proj.
	(Percent change, unless otherwise indicated)				
National income, prices, and exchange rates					
Real GDP	3.9	1.9	1.1	1.7	2.1
Real GDP per capita	1.4	-0.6	-1.4	-0.8	-0.4
GDP deflator	0.3	1.3	6.4	1.8	2.0
Consumer price index (annual average)	2.2	1.0	8.4	2.8	2.1
GDP (CFAF billions)	1,159.8	1,197.7	1,288.5	1,333.7	1,389.6
Exchange rate CFAF/US$ (annual average)	522.4	478.5	445.8	...	...
Real effective exchange rate (annual average)	-1.4	0.5	0.1	…	…
Terms of trade (deterioration = –)	5.0	-10.5	-2.3	7.2	…
Monetary survey					
Net foreign assets [1]	19.2	1.4	8.0	0.0	4.7
Credit to government [1]	-0.7	1.1	15.4	2.7	-0.3
Credit to the nongovernment sector [1]	0.4	14.9	-2.5	6.8	7.1
Broad money (M2)	22.1	18.2	15.9	10.0	10.0
Velocity (GDP/ end-of-period M2)	3.0	2.6	2.4	2.3	2.2
	(Percent of GDP, unless otherwise indicated)				
Investment and savings					
Gross domestic investment	12.8	12.1	12.2	15.8	16.6
Government	3.4	2.0	3.5	5.6	7.1
Nongovernment	9.4	10.1	8.7	10.2	9.5
Gross national savings	9.9	8.2	5.5	9.7	10.7
Government	-0.4	0.1	2.5	2.4	5.1
Nongovernment	10.3	8.1	3.0	7.2	5.5
Government budget					
Total revenue and grants	18.3	18.7	18.7	19.1	21.9
Revenue	16.9	17.0	17.1	16.9	17.6
Total expenditure and net lending	22.1	20.6	19.7	22.2	23.9
Domestic primary expenditure	18.0	16.7	16.7	17.5	17.0
Overall balance (payment order basis)	-3.8	-1.9	-1.0	-3.1	-2.0
Primary balance [2]	-1.1	0.2	0.5	-0.6	0.6
Change in domestic arrears	-0.4	-0.8	0.0	-0.9	-0.7
External sector					
Current account balance	-2.9	-3.9	-6.6	-6.1	-5.9
Exports (goods and services)	24.7	26.3	23.5	21.5	26.7
Imports (goods and services)	37.2	40.0	41.0	37.6	42.6
External public debt	83.9	79.2	56.6	53.0	30.5
Of which: Arrears	29.5	31.4	0.0	0.0	0.0
External public debt service (percent of exports)	8.9	7.5	5.6	5.9	4.5
Gross international reserves (months of imports)	3.4	3.0	4.4	5.0	4.7

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

[1] Percent of broad money at the beginning of the period.

[2] Revenue minus expenditure, excluding grants, interest, and foreign-financed expenditure.

Table 2. Togo: Balance of Payments, 2007–14

	2007	2008	2009	2010	2011	2012	2013	2014
		Prel.			Proj.			
	(Billions of CFA francs)							
Current account balance	-47.2	-85.6	-81.4	-82.2	-74.8	-82.6	-92.8	-100.1
Trade balance [1]	-119.7	-178.1	-179.3	-176.2	-176.6	-184.1	-193.8	-200.4
Exports	557.6	470.9	422.6	556.6	599.2	646.8	697.6	752.6
Domestic exports	263.6	245.9	236.1	317.0	343.1	366.0	391.3	417.7
Of which: Cotton	12.0	12.1	7.0	6.9	7.3	7.8	8.2	8.6
Phosphates	15.0	21.9	16.9	17.3	18.8	19.7	20.9	22.2
Cement & clinker	71.9	59.5	59.5	62.0	65.8	69.8	74.0	78.5
Transit and Reexport	294.0	225.0	186.5	239.6	256.1	280.8	306.2	334.9
Imports, f.o.b.	-677.3	-649.0	-601.9	-732.8	-775.7	-830.9	-891.4	-952.9
Domestic imports	-383.3	-424.0	-415.4	-493.2	-519.6	-550.1	-585.2	-618.1
Of which: Petroleum products	101.2	110.0	73.6	94.5	101.0	110.7	120.8	132.1
Imports for transit and reexport	-294.0	-225.0	-186.5	-239.6	-256.1	-280.8	-306.2	-334.9
Of which: Petroleum products	-98.8	-96.8	-64.7	-88.9	-189.9	-208.2	-227.0	-248.3
Services and income (net)	-65.1	-54.2	-44.5	-51.7	-47.0	-50.0	-53.0	-56.0
Services (net)	-44.3	-48.0	-36.1	-43.9	-45.5	-48.1	-50.8	-53.7
Credit	51.4	56.5	50.6	54.6	59.0	63.7	68.8	74.3
Debit	-95.7	-104.4	-86.6	-98.5	-104.4	-111.8	-119.6	-127.9
Income (net)	-20.8	-6.3	-8.4	-7.7	-1.5	-1.9	-2.2	-2.4
Current transfers (net)	137.6	146.7	142.4	145.7	148.7	151.5	154.0	156.3
Private	117.2	126.4	113.8	86.0	85.3	84.2	82.7	80.7
Public	20.4	20.3	28.7	59.8	63.4	67.2	71.3	75.6
Capital and financial account	34.9	59.9	31.5	71.5	84.2	90.0	88.9	123.0
Direct investment	30.1	32.2	46.7	62.5	59.0	62.6	66.3	70.4
Portfolio investment, incl. bond	3.2	-8.2	0.0	-8.2	0.0	0.0	0.0	0.0
Other investment	1.6	35.9	-15.1	17.2	25.2	27.4	22.5	52.6
General government	-17.9	-16.4	0.6	2.3	20.3	19.9	19.6	19.8
Disbursements	2.0	7.1	20.3	22.2	22.1	23.5	24.9	26.4
Amortization	-19.9	-23.5	-19.6	-20.0	-1.8	-3.5	-5.3	-6.6
Banks, net foreign assets [3]	13.4	-11.9	0.0	0.0	0.0	0.0	0.0	0.0
Other capital, errors, and omissions	6.1	64.3	-15.8	14.9	4.9	7.5	2.9	32.9
Capital account	0.0	232.0	0.0	267.2	0.0	0.0	0.0	0.0
Long-term private capital	20.7	22.3	23.1	24.0	25.5	27.0	28.7	30.4
Other medium-and long-term investme	-4.4	-4.4	-0.3	-0.5	-0.5	-0.5	-0.5	-0.5
Short-term capital	6.1	-167.7	-15.8	-252.3	14.2	15.9	13.4	44.9
Of which: Trade credit	25.5	21.1	-14.1	-23.5	0.0	0.0	0.0	0.0
Errors and omissions	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Financial account (net)	34.9	-172.0	31.5	-195.7	118.5	125.0	127.5	165.0
Overall balance	-12.3	-25.7	-49.8	-10.7	9.4	7.4	-3.9	22.9
Financing	12.3	25.7	49.8	10.7	-18.7	-15.8	-6.6	-35.0
Central bank net foreign assets [3]	-18.9	-25.4	0.0	-28.0	-18.7	-15.8	-6.6	-35.0
Of which : Past use of Fund resources	-3.2	-0.8	0.0	0.0	0.0	0.0	0.0	0.0
Arrears, net change	38.6	0.8	0.0	0.0	0.0	0.0	0.0	0.0
Flow rescheduling	0.0	21.9	12.4	12.6	0.0	0.0	0.0	0.0
Clearance of debt/arrears [2]	7.4	403.4	0.0	267.2	0.0	0.0	0.0	0.0
Debt/arrears cancellation [2]	-7.4	-232.0	0.0	-267.2	0.0	0.0	0.0	0.0
Debt and arrears rescheduling	0.0	-171.5	0.0	0.0	0.0	0.0	0.0	0.0
Exceptional financing	0.0	32.3	37.4	26.1	12.4	0.0	0.0	0.0
PRGF financing	...	15.3	12.4	12.4	0.0			
PRGF augmentation	...	6.5	6.5	0.0				
Other committed financing	...	10.5	18.6	13.7	0.0	0.0	0.0	0.0
Unidentified financing	0.0	-3.9	0.0	0.0	9.3	8.5	10.5	12.1
Memorandum items:	(Percent of GDP, unless otherwise indicated)							
Current account balance	-3.9	-6.6	-6.1	-5.9	-5.1	-5.3	-5.6	-5.7
Exports of goods and services	26.3	23.5	21.5	26.7	27.3	27.5	27.7	28.0
Imports of goods and services	40.0	41.0	37.6	42.6	42.3	42.3	42.5	42.4
Trade Balance	-10.0	-13.8	-13.4	-12.7	-12.0	-11.8	-11.7	-11.4
Gross int. reserves (months of imports)	3.0	4.4	5.0	4.7	3.0	3.0	3.0	3.0

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

[1] The trade balance has been revised down from 2006 onwards, mostly by excluding from domestic imports imports in transit to neighboring countries

[2] Assumes external debt and arrears rescheduling/relief in 2008–2010 in line with potential debt

[3] Negative sign indicates increase.

Table 3. Togo: Central Government Financial Operations, 2007–10

	2007	2008		2009			2010
	Actual	Prog. 1st. Rev.	Est.	H1-Prog.	Proj. 1st. Rev.	Prog.	Proj.
	(CFAF Billions)						
Revenue and grants	223.7	232.8	241.0	128.0	278.4	254.3	304.3
Total revenue	203.3	209.8	220.7	108.0	228.4	225.7	244.6
Tax revenue	195.9	198.7	211.2	103.0	215.4	215.4	233.4
Tax administration (DGI)	89.7	86.2	91.2	44.0	97.5	97.5	105.7
Customs administration (DGD)	106.2	112.6	120.0	59.0	117.9	117.9	127.8
Nontax revenue	7.4	11.0	9.4	5.0	13.0	10.3	11.1
Grants (projects)	20.4	23.0	20.3	20.0	50.0	28.7	59.8
Expenditures and net lending	246.5	269.3	253.3	154.9	312.1	296.2	331.5
Of which: Dom. primary expenditures	*200.5*	217.3	*214.8*	*118.7*	228.4	*233.5*	*236.2*
Current expenditures	222.4	205.9	208.2	103.9	218.2	221.9	232.9
Domestic primary current spending	186.5	189.9	192.5	93.7	197.5	196.6	208.4
Wages and salaries	64.3	73.2	69.1	33.7	78.0	78.0	83.2
Goods and services	53.6	53.7	58.6	27.5	56.0	55.0	59.8
Transfers and subsidies	62.0	50.0	49.1	25.0	48.0	48.0	50.5
Other/unclassified	2.7	1.0	3.7	0.0	0.0	0.0	0.0
Bank and SOE restructuring, emergency spending	3.9	12.0	12.0	7.5	15.5	15.5	15.0
Foreign-financed current spending	10.2	5.0	4.8	4.5	7.0	11.6	11.1
Interest	25.7	11.0	10.9	5.7	13.7	13.8	13.3
Domestic debt	2.9	3.2	4.6	2.0	5.3	5.3	5.6
External debt	22.8	7.8	6.3	3.7	8.4	8.4	7.7
Public investment	24.1	63.4	44.9	51.0	93.9	74.2	98.7
Domestically financed	14.0	27.4	22.3	25.0	30.9	36.9	27.8
Additional costs for floodings		9.5	4.5			5.0	
Foreign financed	10.1	36.0	22.6	26.0	63.0	37.3	70.9
Domestic primary balance	2.8	-7.6	5.6	-10.7	0.0	-7.8	8.3
Overall balance, payment order basis	-22.8	-36.6	-12.3	-26.9	-33.7	-41.8	-27.2
Change in arrears and treasury float	11.3	-2.8	0.3	-12.6	-6.0	-12.6	-9.7
Domestic arrears and treasury float [1]	-9.3	-3.1	0.0	-12.6	-6.0	-12.6	-9.7
External interest arrears	20.7	0.3	0.3	0.0	0.0	0.0	0.0
Overall balance, cash basis	-11.4	-39.3	-12.0	-39.5	-39.7	-54.4	-36.9
Financing	12.2	7.0	-16.4	15.4	6.3	17.0	10.8
Domestic financing (net) [2]	12.2	-7.5	-12.6	10.0	-6.5	4.0	-4.0
Banking system	5.8	9.4	68.4	19.2	-6.2	14.3	-1.9
Nonbank financing	6.4	-16.9	-80.9	-9.3	-0.3	-10.3	-2.1
External financing (net)	0.0	14.6	-3.8	5.4	12.8	13.0	14.9
Drawings	2.0	18.0	7.1	7.7	20.0	20.3	22.2
Amortization due	-19.9	-23.5	-23.5	-9.5	-19.6	-19.6	-20.0
Arrears on amortization	17.9	0.5	0.5	0.0	0.0	0.0	0.0
Contingency for debt service	0.0	-2.3	0.0	0.0	0.0	0.0	0.0
Debt flow relief (int. & amort.)	...	21.9	12.2	7.2	12.4	12.4	12.6
Clearance of debt & arrears stocks	...	-425.1	-425.1	0.0	0.0	0.0	-267.2
Debt/arrears stock rescheduling	0.0	193.2	193.2	0.0	0.0	0.0	0.0
Debt/arrears stock cancellation	0.0	232.0	232.0	0.0	0.0	0.0	267.2
Exceptional financing	0.0	32.3	32.3	24.1	28.0	37.4	26.1
PRGF-linked BCEAO credit	0.0	21.7	21.7	12.7	18.8	18.8	12.4
Other identified financing	0.0	10.5	10.5	11.5	9.2	18.6	13.7
Residual/unidentified financing	-0.8	0.0	-3.9	0.0	5.4	0.0	0.0

(cont.)

Table 3. Togo: Central Government Financial Operations, 2007–10 (concluded)

	2007	2008		2009			2010
	Actual	Prog. 1st. Rev.	Est.	H1-Prog.	Proj. 1st. Rev.	Prog.	Proj.
	(Percent of GDP)						
Revenue and grants	18.7	18.4	18.7	9.6	21.1	19.1	21.9
Total revenue	17.0	16.6	17.1	8.1	17.3	16.9	17.6
Grants (projects)	1.7	1.8	1.6	1.5	3.8	2.2	4.3
Expenditures and net lending	20.6	21.3	19.7	11.6	23.7	22.2	23.9
Of which: Dom. primary expenditures	16.7	17.2	16.7	8.9	17.3	17.5	17.0
Current expenditures	18.6	16.3	16.2	7.8	16.6	16.6	16.8
Domestic primary current spending	15.6	15.0	14.9	7.0	15.0	14.7	15.0
Wages and salaries	5.4	5.8	5.4	2.5	5.9	5.9	6.0
Goods and services	4.5	4.2	4.5	2.1	4.3	4.1	4.3
Transfers and subsidies	5.2	4.0	3.8	1.9	3.6	3.6	3.6
Other/unclassified	0.2	0.1	0.3	0.0	0.0	0.0	0.0
Bank and SOE restructuring, emergency spending	0.3	0.9	0.9	0.6	1.2	1.2	1.1
Foreign-financed current spending	0.9	0.4	0.4	0.3	0.5	0.9	0.8
Interest	2.1	0.9	0.8	0.4	1.0	1.0	1.0
Domestic debt	0.2	0.3	0.4	0.1	0.4	0.4	0.4
External debt	1.9	0.6	0.5	0.3	0.6	0.6	0.6
Public investment	2.0	5.0	3.5	3.8	7.1	5.6	7.1
Domestically financed	1.2	2.2	1.7	1.9	2.3	2.8	2.0
Foreign financed	0.8	2.8	1.8	1.9	4.8	2.8	5.1
Domestic primary balance	0.2	-0.6	0.4	-0.8	0.0	-0.6	0.6
Overall balance, payment order basis	-1.9	-2.9	-1.0	-2.0	-2.6	-3.1	-2.0
Domestic arrears and treasury float [1]	-0.8	-0.2	0.0	-0.9	-0.5	-0.9	-0.7
External interest arrears	1.7	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance, cash basis	-1.0	-3.1	-0.9	-3.0	-3.0	-4.1	-2.7
Financing	1.0	0.6	-1.3	1.2	0.5	1.3	0.8
Domestic financing (net) [2]	1.0	-0.6	-1.0	0.7	-0.5	0.3	-0.3
Banking system	0.5	0.7	5.3	1.4	-0.5	1.1	-0.1
Nonbank financing	0.5	-1.3	-6.3	-0.7	0.0	-0.8	-0.2
External financing (net)	0.0	1.2	-0.3	0.4	1.0	1.0	1.1
Drawings	0.2	1.4	0.5	0.6	1.5	1.5	1.6
Amortization due	-1.7	-1.9	-1.8	-0.7	-1.5	-1.5	-1.4
Arrears on amortization	1.5	0.0	0.0	0.0	0.0	0.0	0.0
Contingency for debt service	0.0	-0.2	0.0	0.0	0.0	0.0	0.0
Debt flow relief (int. & amort.)	...	1.7	0.9	0.5	0.9	0.9	0.9
Clearance of debt & arrears stocks	...	-33.6	-33.0	0.0	0.0	0.0	-19.2
Debt/arrears stock rescheduling	0.0	15.3	15.0	0.0	0.0	0.0	0.0
Debt/arrears stock cancellation	0.0	18.3	18.0	0.0	0.0	0.0	19.2
Exceptional financing	…	2.6	2.5	1.8	2.1	2.8	1.9
PRGF-linked BCEAO credit	…	1.7	1.7	0.9	1.4	1.4	0.9
Other identified financing	…	0.8	0.8	0.9	0.7	1.4	1.0
Residual/unidentified financing	-0.1	0.0	-0.3	0.0	0.4	0.0	0.0
Memorandum items							
Social spending [3]	6.4	7.7	6.4	5.8	9.9	9.9	12.5
Investment and social spending [3]	8.5	11.1	9.4	7.7	14.0	12.7	14.9
Of which: foreign financed	2.2	3.6	4.5	2.0	5.7	4.4	6.5
Nominal GDP (CFAF billions)	1,198	1,264	1,288	1,334	1317	1,334	1,390

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

[1] Includes, for 2009 a reduction of domestic arrears in cash to private suppliers (CFAF 12.6 bn). Additional reduction of arrears will take place in 2009, in exchange of government's securities. The final amount will be decided during 2009.

[2] Including, for 2008, bank recapitalization and offsetting government assumption of NPLs for CFAF 88 bn.

[3] Includes health and education (including salaries), and pension transfers.

Table 4. Togo: Monetary Survey, 2007–09

	2007	2008			2009
	Dec.	March	June	Dec. Prel.	Dec Proj.
	(Billions of CFA francs)				
Net foreign assets	212.2	215.9	240.8	249.5	249.5
BCEAO	170.2	165.5	172.6	195.6	195.6
Assets	193.0	213.6	233.8	276.3	286.3
Liabilities	22.8	48.1	61.2	80.7	90.7
Commercial banks	42.0	50.4	68.2	53.9	53.9
Assets	85.9	103.9	116.0	113.2	113.2
Liabilities	43.9	53.5	47.9	59.3	59.3
Net domestic assets [1]	252.3	274.3	240.5	289.0	342.8
Credit to the government (net)	14.0	10.0	3.4	85.7	100.0
BCEAO	-7.8	-19.9	-25.8	-15.5	-1.2
Commercial banks	21.8	29.8	29.2	101.2	101.2
Credit to the rest of the economy	254.7	251.6	258.0	242.9	279.4
Other items (net)	-16.4	12.7	-20.9	-39.7	-36.5
Money supply (M2)	464.5	490.3	481.3	538.5	592.3
Currency in circulation	122.0	112.9	115.7	129.2	142.1
Bank deposits	342.5	377.4	365.6	409.3	450.2
	(Annual change, percent of beginning-of-period broad money)				
Net foreign assets	1.4	0.8	6.2	8.0	0.0
BCEAO	4.8	-1.0	0.5	5.5	0.0
Commercial banks	-3.4	1.8	5.6	2.6	0.0
Net domestic assets	16.9	4.7	-2.5	7.9	10.0
Credit to the government (net)	1.1	-0.9	-2.3	15.4	2.7
Credit to the rest of the economy	14.9	-0.7	0.7	-2.5	6.8
Other items (net)	0.9	6.3	-0.9	-5.0	0.6
Money supply (M2)	18.2	5.6	3.6	15.9	10.0
Currency in circulation	5.6	-2.0	-1.3	1.6	2.4
Bank deposits	12.7	7.5	5.0	14.4	7.6
Memorandum items					
Velocity (GDP/ end-of-period M2)	2.6	2.3	2.4	2.4	2.3

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

1 Preliminary data for December 2008. Accounting of the securitization process is being revised by BCEAO staff.

Table 5. Togo: Medium-Term outlook, 2007–14 [1]

	2007	2008	2009	2010	2011	2012	2013	2014
	(Annual percentage change)							
National accounts								
Real GDP (percent change)	1.9	1.1	1.7	2.1	4.1	4.0	4.0	4.0
Primary sector	2.2	2.9	2.3	2.6	5.4	5.3	5.3	5.3
Secondary sector	-1.3	0.8	2.8	1.9	3.4	3.1	3.1	3.1
Tertiary sector	1.6	-0.1	0.9	2.4	3.5	3.5	3.5	3.5
Prices, period average								
GDP deflator	1.3	6.4	1.8	2.0	2.0	2.0	2.0	2.0
CPI inflation	1.0	8.4	2.8	2.1	2.5	2.5	2.5	2.5
Terms of trade	-10.5	-2.3	7.2	-4.5	0.2	-0.2	-0.7	0.0
	(Percent of GDP; unless otherwise indicated)							
National accounts								
Investment (percent of GDP)	12.1	12.2	15.0	16.6	17.5	18.5	18.5	18.5
Government	2.0	3.5	4.8	7.1	7.0	7.0	7.0	7.0
Nongovernment	10.1	8.7	10.2	9.5	10.5	11.5	11.5	11.5
Savings (percent of GDP)	8.2	5.5	8.9	10.7	12.4	13.2	12.9	12.8
Government	0.1	2.5	1.7	5.1	6.0	6.0	6.0	6.0
Nongovernment	8.1	3.0	7.2	5.5	6.4	7.2	6.9	6.8
Government								
Total revenue and grants	18.7	18.7	19.1	21.9	22.5	22.5	22.5	22.5
Revenues	17.0	17.1	16.9	17.6	18.2	18.2	18.2	18.2
Total expenditure	20.6	19.6	22.2	23.9	23.5	23.5	23.5	23.5
Domestic primary spending	16.7	16.7	17.5	17.0	17.2	17.2	17.2	17.2
Overall balance	-1.9	-0.9	-3.1	-2.0	-1.0	-1.0	-1.0	-1.0
Domestic primary balance	0.2	0.5	-0.6	0.6	1.0	1.0	1.0	1.0
Change in domestic arrears	-0.8	0.0	-0.9	-0.7	-0.5	-0.3	-0.3	-0.3
External sector								
Current account balance	-3.9	-6.6	-6.1	-5.9	-5.1	-5.3	-5.6	-5.7
Exports of goods and services	26.3	23.5	21.5	26.7	27.3	27.5	27.7	28.0
Imports of goods and services	40.0	41.0	37.6	42.6	42.3	42.3	42.5	42.4
External public debt	79.2	56.6	53.0	30.5	5.0	4.4	3.7	3.1
Of which: external arrears	31.4	0.0	0.0	0.0	0.0	0.0	0.0	0.0
External assistance (gross; excl. debt relief)	1.9	2.1	3.7	5.9	5.8	5.8	5.8	5.8
External debt service due	3.6	-30.7	1.2	1.1	0.2	0.3	0.4	0.5

Sources: Togolese authorities and Fund staff estimates and projections.

[1] Assumes structural reforms, fiscal adjustment, higher donor support, and external debt and arrears rescheduling/relief in 2009–14. Debt service projections are shown net of the impact of debt and arrears rescheduling/relief.

Table 6. Togo: Official External Debt, 2007–10

	2007			Debt service (proj.) [3] 2008		2009		2010	
	Nominal Stock	*Of which arrears* [1]	NPV of Debt [2]	Amort.	Interest	Amort.	Interest	Amort.	Interest
				(US$ Millions)					
Total	2,204.8	850.5	1,803.5	72.9	23.2	75.2	21.3	73.0	19.3
Multilateral	1,124.1	199.1	783.2	39.9	10.7	39.5	9.8	39.5	8.9
IDA	764.8	129.1	511.7	21.7	4.7	22.3	4.6	22.7	4.4
AfDF	148.2	19.0	89.7	2.3	1.0	2.9	0.9	3.0	0.9
IMF	1.7	-	1.6	1.7	0.0	-	-	-	-
IFAD	26.8	7.5	19.9	0.7	0.2	0.7	0.2	0.7	0.2
IsDB	39.5	-	26.9	1.7	0.6	2.0	0.6	2.3	0.5
BADEA	1.8	0.0	1.6	0.4	0.1	0.2	0.0	0.2	0.0
OFID	13.6	10.5	13.2	0.4	0.1	0.4	0.1	0.4	0.1
European Investment Banl	52.6	32.6	47.8	2.3	0.2	2.3	0.2	1.5	0.1
BOAD	74.5	-	70.1	8.6	3.9	8.5	3.3	8.6	2.7
FEGECE	0.7	0.4	0.6	0.0	-	0.0	-	0.0	-
Bilateral and commercial	1,080.7	651.4	1,020.2	33.0	12.5	35.7	11.5	33.6	10.4
Bilateral	1,048.1	636.0	988.8	25.9	12.3	28.2	11.4	33.1	10.3
Paris Club	964.3	634.9	922.7	18.3	11.4	20.5	10.6	21.7	9.7
Other official bilateral	83.8	1.1	66.1	7.6	0.9	7.7	0.8	11.4	0.6
Commercial	32.6	15.4	31.4	7.1	0.1	7.5	0.1	0.4	0.1
Post-cutoff date (only)	32.6	15.4	31.4	7.1	0.1	7.5	0.1	62.9	0.1
Pre-cutoff date	-	-	-	-	-	-	-	-	-
Arysta	3.1	3.1	3.1	-	-	-	-	-	-
Bayer	7.6	7.6	7.6	-	-	-	-	-	-
CBAO Senegal	14.1	-	13.1	7.1	-	7.1	-	-	-
Cotecna	3.3	3.3	3.3	-	-	-	-	-	-
Filtisac	-	-	-	-	-	-	-	-	-
Fortis Bank	3.1	0.1	3.0	-	0.1	0.4	0.1	0.4	0.1
Ivoirembal	0.1	0.1	0.1	-	-	-	-	-	-
Natexis	-	-	-	-	-	-	-	-	-
Sotico	0.2	0.2	0.2	-	-	-	-	-	-
Tema	0.5	0.5	0.5	-	-	-	-	-	-
Yara	0.5	0.5	0.5	-	-	-	-	-	-
				(CFAF Billions)					
Total	982.4	379.0	803.6	32.5	10.3	33.5	9.5	32.5	8.6
Multilateral	500.9	88.7	349.0	17.8	4.8	17.6	4.4	17.6	4.0
Bilateral and commercial	481.6	290.3	454.6	14.7	5.6	15.9	5.1	15.0	4.6
Bilateral	467.0	283.4	440.6	11.5	5.5	12.6	5.1	14.8	4.6
Paris Club	429.7	282.9	411.2	8.2	5.1	9.1	4.7	9.7	4.3
Other official bilateral	37.4	0.5	29.4	3.4	0.4	3.4	0.4	5.1	0.3
Commercial	14.5	6.9	14.0	3.2	0.1	3.3	0.1	0.2	0.1
				(Percent of GDP)					
Total	82.0	31.6	67.1	2.6	0.8	2.5	0.7	2.3	0.6
Multilateral	41.8	7.4	29.1	1.4	0.4	1.3	0.3	1.3	0.3
Bilateral and commercial	40.2	24.2	38.0	1.2	0.4	1.2	0.4	1.1	0.3
Bilateral	39.0	23.7	36.8	0.9	0.4	1.0	0.4	1.1	0.3
Paris Club	35.9	23.6	34.3	0.6	0.4	0.7	0.4	0.7	0.3
Other official bilateral	3.1	0.0	2.5	0.3	0.0	0.3	0.0	0.4	0.0
Commercial	1.2	0.6	1.2	0.2	0.0	0.3	0.0	0.0	0.0
				(Percent of revenue)					
Total	483.3	186.4	395.3	15.5	4.9	14.7	4.2	13.2	3.5
Multilateral	246.4	43.6	171.7	8.5	2.3	7.7	1.9	7.2	1.6
Bilateral and commercial	236.9	142.8	223.6	7.0	2.7	7.0	2.2	6.1	1.9
Bilateral	229.7	139.4	216.7	5.5	2.6	5.5	2.2	6.0	1.9
Paris Club	211.4	139.2	202.3	3.9	2.4	4.0	2.1	3.9	1.8
Other official bilateral	18.4	0.2	14.5	1.6	0.2	1.5	0.2	2.1	0.1
Commercial	7.1	3.4	6.9	1.5	0.0	1.5	0.0	0.1	0.0

Sources: Togolese authorities; and IMF and World Bank staff estimates.

[1] Includes principal and interest in arrears as well as late interest before debt relief.

[2] Includes arrears.

[3] Excluding debt service on the augmentation of PRGF access.

Table 7. Togo: Proposed Schedule of Disbursement Under PRGF Arrangement, 2008–11

Amount				Date	Condition for Disbursement [1]
	Total	Original program	Augmentation		
SDR	13,260,000	13,260,000		April 30, 2008	Executive Board approval of the three-year arrangement under the PRGF arrangement (April 23, 2008)
SDR	17,975,000	8,800,000	9,175,000	September 22, 2008	Observance of performance criteria for end-June 2008 and other relevant performance criteria, and completion of the first review under the PRGF arrangement
SDR	17,975,000	8,800,000	9,175,000	April 30, 2009	Observance of performance criteria for end-December 2008 and other relevant performance criteria, and completion of the second review under the PRGF arrangement
SDR	8,800,000	8,800,000		October 31, 2009	Observance of performance criteria for end-June 2009 and other relevant performance criteria, and completion of the third review under the PRGF arrangement
SDR	8,800,000	8,800,000		April 30, 2010	Observance of performance criteria for end-December 2009 and other relevant performance criteria, and completion of the fourth review under the PRGF arrangement
SDR	8,800,000	8,800,000		October 31, 2010	Observance of performance criteria for end-June 2010 and other relevant performance criteria, and completion of the fifth review under the PRGF arrangement
SDR	8,800,000	8,800,000		April 30, 2011	Observance of performance criteria for end-December 2010 and other relevant performance criteria, 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, 2006-16 1/

	2006	2007	2008	2009	2010	2011	2012	2013	2014	2015	2016
				Projections							
Fund obligations based on existing credit											
(in millions of SDRs)											
Principal	4.3	4.3	1.1	-	-	-	-	1.3	6.3	6.3	6.3
Charges and interest	0.4	0.5	0.4	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.1
Fund obligations based on existing and prospective credit											
(in millions of SDRs)											
Principal	4.3	4.3	1.1	-	-	-	-	1.3	8.0	12.5	16.0
Charges and interest	0.4	0.5	0.4	0.3	0.4	0.5	0.5	0.5	0.5	0.4	0.3
Total obligations based on existing and prospective credit											
In millions of SDRs	4.8	4.8	1.5	0.3	0.4	0.5	0.5	1.8	8.5	12.9	16.3
In billions of CFAF	3.7	3.5	1.1	0.2	0.3	0.3	0.3	1.3	6.0	9.0	11.5
In percent of government revenue	1.9	1.7	0.5	0.1	0.1	0.1	0.1	0.4	1.9	2.7	3.2
In percent of exports of goods and services	0.7	0.6	0.2	0.0	0.0	0.0	0.0	0.2	0.7	1.2	1.4
In percent of debt service 2/	8.9	8.2	3.6	0.7	1.0	9.6	6.0	16.9	66.5	95.0	129.9
In percent of GDP	0.3	0.3	0.1	0.0	0.0	0.0	0.0	0.1	0.3	0.5	0.6
In percent of quota	6.5	6.5	2.1	0.4	0.5	0.6	0.6	2.5	11.6	17.5	22.2
Outstanding Fund credit 2/											
In millions of SDRs	5.4	1.1	31.2	58.0	75.6	84.4	84.4	83.1	75.0	62.6	46.6
In billions of CFAF	4.2	0.8	22.1	41.1	53.4	59.4	59.2	58.3	52.6	43.9	32.6
In percent of government revenue	2.1	0.4	10.0	18.2	21.8	22.1	20.8	19.3	16.4	12.9	9
In percent of exports of goods and services	0.8	0.1	4.2	8.7	8.7	9.0	8.3	7.6	6.4	5.7	4
In percent of debt service 2/	10.1	1.9	74.4	146.3	192.8	1,761.4	1,086.3	781.6	587.6	461.4	370
In percent of GDP	0.4	0.1	1.7	3.1	3.8	4.0	3.8	3.5	3.0	2.4	2
In percent of quota	7.4	1.5	42.6	79.0	103.0	115.0	115.0	113.2	102.2	85.2	63.4
Net use of Fund credit (millions of SDRs)	(4.3)	(4.3)	30.1	26.8	17.6	8.8	-	(1.3)	(8.0)	(12.5)	(16.0)
Disbursements	-	-	31.2	26.8	17.6	8.8	-	-	-	-	-
Repayments and Repurchases	4.3	4.3	1.1	-	-	-	-	1.3	8.0	12.5	16.0
Memorandum items:											
Nominal GDP (in billions of CFAF)	1,160	1,198	1,288	1,334	1,390	1,475	1,564	1,658	1,759	1,866	1,970
Exports of goods and services (in billions of CFAF)	506	609	527	473	611	658	710	766	827	765	808
Government revenue (in billions of CFAF)	196	203	221	226	245	268	285	302	320	340	359
Debt service (in billions of CFAF) 2/	41	43	30	28	28	3	5	7	9	10	9

Sources: IMF staff estimates and projections.

1/ Including a PRGF augmentation of SDR 18.35 million (25 percent of quota) disbursed in two equal disbursements after completion of the first and second review of the PRGF arrangement.
2/ Total debt service includes IMF repurchases and repayments.

Table 9. Togo: Compliance with WAEMU Convergence Criteria, 2004-09
(Ratios in percent, unless otherwise indicated)

	Ratio	2004	2005	2006	2007	2008	2009 Proj.
Primary criteria							
Basic fiscal balance / GDP	>=0	3.2	-1.0	-1.9	-0.6	0.1	-1.5
Inflation (annual average percentage change)	<=3	0.4	6.8	2.2	1.0	8.4	2.8
Total nominal debt / GDP	<=70	115.0	110.8	109.6	103.9	77.2	78.9
Domestic arrears accumulation (in billions of CFA francs)	<=0	5.0	20.7	-5.2	-9.3	0.0	-12.6
External arrears accumulation (in billions of CFA francs)	<=0	12.1	21.8	21.2	20.7	0.3	0.0
Secondary criteria							
Wages / fiscal revenue	<=35	32.1	30.4	33.1	32.8	32.7	36.2
Domestically financed investment / fiscal revenue	>=20	1.9	8.4	13.1	7.1	10.6	17.1
Current account deficit, excl. current official transfers / GDP	<=5	1.5	-10.0	0.2	0.4	3.1	1.8
Fiscal revenue / GDP	>=17	15.8	14.6	15.4	16.4	16.4	16.2

Sources: Togolese authorities; and staff estimates and projections.

Table 10. Togo: Triggers for the HIPC floating completion point [1]

Measure
PRSP
· Prepare a full PRSP through a participatory process and implement satisfactorily its recommended actions for at least one year, as evidenced by an Annual Progress Report submitted by the Government to IDA and the IMF.
Macroeconomic stability
· Maintain macroeconomic stability as evidenced by satisfactory performance under a PRGF-supported program.
Public financial management
· Adopt a mechanism to track public expenditures for poverty reduction on the basis of a functional expenditure classification and publish quarterly reports on these expenditures executed over a period of at least six months preceding the completion point.
· Nominate and install the judges for the *Cour des Comptes*, and submit the draft of the *Loi de règlement* and draft General Treasury Balance (*Balance générale du Trésor*) for a given fiscal year to the *Cour des Comptes* and Parliament within the statutorily-specified period (9 months after the end of that fiscal year) for at least one year immediately preceding the completion point
· Adopt a decree creating the Procurement Regulatory Authority in conformity with the WAEMU Procurement Directives, nominate its managerial staff, and provide them with an adequate budget; and monthly publication in a public procurement gazette or on a government website of all of the signed contracts, including sole source contracts and public concessions, for at least six months immediately preceding the completion point.
Governance
· Regular public reporting of payments to, and revenues received by, the government for the phosphates sector in line with the EITI criteria, including an annual report for at least the year immediately preceding the completion point.
Debt Management
· Consolidate external and domestic debt data under a single unit charged with all public debt management tasks. Publish an annual report on a government website providing accurate and complete data on external and domestic public debt, including information on debt stocks, actual debt service, and new loans within six months after the end of the year, for at least one year immediately preceding the completion point.
Social sectors
· Increase domestically-funded health expenditures in the year prior to the completion point to at least 7.5 percent of actual domestic non-interest expenditures (the 2007 ratio was 5.7 percent).
· Start implementation of the national education sector plan as evidenced by completing the training of at least 500 new teachers and the remedial training of at least 4,000 existing teachers.

[1] The first two triggers (PRSP implementation and satisfactory macroeconomic performance) are requirements for reaching the completion point under the IMF PRGF-HIPC Trust Instrument.

Table 11. Togo: Selected indicators on the Millennium Development Goals 1990-2007

	1990	1995	2000	2007
Goal 1: Eradicate extreme poverty and hunger	(2015 target: halve 1990 $1 a day poverty and malnutrition rates)			
Employment to population ratio, 15+, total (%)	..	65	64	63
Employment to population ratio, ages 15-24, total (%)	..	54	53	51
Malnutrition prevalence, weight for age (% of children under 5)	21	..	23	..
Goal 2: Achieve universal primary education	(2015 target: net enrollment to 100)			
Literacy rate, youth female (% of females ages 15-24)	..	..	64	..
Literacy rate, youth male (% of males ages 15-24)	..	..	84	..
Primary completion rate, total (% of relevant age group)	35	39	61	67
Total enrollment, primary (% net)	..	..	78	80
Goal 3: Promote gender equality and empower women	(2015 target: education ratio 100)			
Proportion of seats held by women in national parliament (%)	5	..	1	7
Ratio of female to male primary enrollment	..	..	78	86
Ratio of female to male secondary enrollment	..	..	44	51
Ratio of young literate females to males (% ages 15-24)	..	..	76	..
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	83
Mortality rate, infant (per 1,000 live births)	88	86	78	69
Mortality rate, under-5 (per 1,000)	149	139	124	108
Goal 5: Improve maternal health	(2015 target: reduce 1990 maternal mortality by three-fourths)			
Adolescent fertility rate (births per 1,000 women ages 15-19)	..	..	108	92
Births attended by skilled health staff (% of total)	31	..	49	62
Contraceptive prevalence (% of women ages 15-49)	34	..	26	17
Maternal mortality ratio (modeled estimate, per 100,000 live births)	..	..	..	510
Pregnant women receiving prenatal care (%)	43	..	73	89
Goal 6: Combat HIV/AIDS, malaria, and other diseases	(2015 target: halt, and begin to reverse AIDS, etc.)			
Children with fever receiving antimalarial drugs (% of children under age 5 with fever)	..	..	60	48
Incidence of tuberculosis (per 100,000 people)	327	345	364	389
Prevalence of HIV, female (% ages 15-24)	..	..	..	2.4
Prevalence of HIV, total (% of population ages 15-49)	..	..	..	3
Tuberculosis cases detected under DOTS (%)	..	13	11	19
Goal 7: Ensure environmental sustainability	(2015 target: various)			
CO2 emissions (kg per PPP $ of GDP)	0.3	0.3	0.4	..
CO2 emissions (metric tons per capita)	0.2	0.2	0.3	..
Forest area (% of land area)	13	..	9	7
Improved sanitation facilities (% of population with access)	13	12	12	12
Improved water source (% of population with access)	49	52	55	59
Goal 8: Develop a global partnership for development	(2015 target: various)			
Aid per capita (current US$)	65	42	13	12
Debt service (PPG and IMF only, % of exports of G&S, excl. workers' remittances)	11	5	5	2
Internet users (per 100 people)	0	0	2	5
Mobile phone subscribers (per 100 people)	0	0	1	18
Telephone mainlines (per 100 people)	0	0	1	1
Other				
Fertility rate, total (births per woman)	6.4	6	5.5	4.9
GNI per capita, Atlas method (current US$)	380	280	270	360
GNI, Atlas method (current US$) (billions)	1.5	1.3	1.5	2.4
Gross capital formation (% of GDP)	26.6	16.1	17.8	18
Life expectancy at birth, total (years)	58	58	58	58
Literacy rate, adult total (% of people ages 15 and above)	..	..	53	..
Population, total (millions)	4	4.5	5.4	6.6
Trade (% of GDP)	78.8	69.8	81.5	82.1

Source: World Development Indicators database

APPENDIX I. LETTER OF INTENT

Lomé, April 1, 2009

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

Dear Mr. Managing Director:

1. Further to my letter dated September 12th, 2008, I wish to take the opportunity of the second review of the program to report on the progress made in implementing this financial program supported by the Poverty Reduction and Growth Facility (PRGF) arrangement. In spite of the external shocks suffered during the first year of the program, we have remained committed to pursuing economic reforms with a view to consolidating the results of the actions undertaken over the last few years. We have made considerable progress, enabling us to meet our objectives under the reform program and fulfill our commitments. We would also like to explain our policy plans and commitments as the reform program shifts to a new phase in an uncertain global environment.

Background

2. Launched in 2006 as part of the government's strategy to overcome the prolonged social, political, and economic crisis, our economic recovery and poverty reduction program aims to restore macroeconomic stability, rationalize the public finances, and boost economic growth in order to raise living standards. Our major priority remains the implementation of our Interim Poverty Reduction Strategy Paper (I-PRSP) which underpins the program. The government's program, supported by the PRGF arrangement, has achieved significant results for the first two objectives despite difficulties beyond its control, such as the steep rise in world food and oil prices and the severe flooding that took place in August 2008.

3. Indeed, the program's framework contributed to mitigating the effects of these shocks on the public finances and to improving the macroeconomic situation. The government's financial situation has improved significantly. The program has also enabled us to normalize relations with our external creditors and to reach the HIPC decision point in November 2008, thus opening the way for significant debt relief and financial and technical support. Further action and continuing vigilance remain necessary in pursuing these objectives. The program is entering a phase that places greater emphasis on accelerating growth and reducing poverty. Despite the efforts and sacrifices made in implementing the measures called for in the

program, the results in terms of growth have been mixed as a result of the difficulties mentioned above. Moreover, the current global economic slowdown threatens to further delay the pickup in growth that was much expected by the population of Togo.

Recent economic developments

4. The Togolese economy and population were seriously affected by the global environment and the floods in 2008. The expected economic recovery did not materialize and the growth rate hovered around 1.1 percent, which is below the average for the last five years. This poor performance is mostly attributable to the damage caused by the floods and to the global hike in food and energy prices. In the wake of these shocks, inflation rose to a peak of 15.8 percent in August (year-on-year) before falling back to 8.4 percent at the end of the year with the reversal of global price rises. Reflecting the deterioration of the economy, household purchasing power has eroded.

5. The current account of the external balance of payments has worsened as a result of deteriorating terms of trade and the destruction caused by the floods. The current account deficit is projected at 6.6 percent of GDP in 2008, compared to 3.9 percent in 2007. The monetary situation has been characterized by an increase in foreign assets and slow growth in domestic credit due to stagnation in the economy. These developments have led to a slower expansion in the money supply, which rose by 16 percent.

Implementation of the PRGF-supported program

6. The strict implementation of the PRGF-supported program has provided a flexible and sound macroeconomic environment which has enabled Togo to deal with the impact of external shocks, while contributing to the achievement of the program's objectives. Despite the difficulties, public finances improved during the year and structural reforms have remained on track. All performance criteria and quantitative indicators for end-December 2008 have been met, with the exception of the indicative target for the minimum level of domestically-financed social and capital spending (see Table 1). Similarly, all structural benchmarks were achieved on time, except for a three-month delay in the case of one benchmark (Table 2).

7. The government's good financial performance is attributable to strong mobilization of domestic resources and solid control over recurrent expenditure. On the other hand, the rate of execution of capital expenditure has been low. Specifically, repairs to infrastructure damaged by the August floods were delayed by the country's limited absorptive capacity. Revenue collection was bolstered by the strengthening of the tax and customs administrations and the progressive computerization of customs operations. As a result, the PRGF-supported program ceilings for the primary fiscal balance and domestic financing were met by a comfortable margin. The primary balance stands at 0.4 percent of GDP and the government's net position with the banking system has improved. Greater fiscal discipline has prevented the

accumulation of payment arrears and the government has neither issued nor guaranteed any external debt on non-concessional terms.

8. Significant progress has been made in implementing the structural reforms aimed at enhancing public financial management, repairing the damage to the financial sector caused by the prolonged social and political crisis, and creating the conditions for a return to financially viable and healthy banks and industries (see Table 2).

9. Significant progress has been made in public financial management reform:

- A strategy for clearing Togo's domestic arrears was adopted by the Council of Ministers in December 2008 (meeting a performance criterion) and a national commission to clear the country's domestic debt has been set up. The clearance of arrears will be carried out on the basis of the budget resources allocated for that purpose. The combined impact of implementing the strategy and the financial sector reform will strengthen the financial position of the enterprise sector and boost economic activity.

- With a view to limiting any distortions in economic incentives and broadening the tax base, we have included in the 2009 budget some important measures to reduce tax and customs exemptions in the Free Economic Zone, thus meeting a structural benchmark six months ahead of the program schedule. The General Tax Code is being updated to incorporate the amendments made in successive budget laws since 1998.

10. Continuing the process of bank restructuring is key to economic stability and to effective financial intermediation for raising growth potential:

- In November and December, the government initiated a financial restructuring process through the securitization of non-performing loans (NPLs) extended by banks to state-owned entities as well as those made by state-owned banks to the private sector. To that end, a Memorandum of Understanding was signed between the government of Togo and the banking pool (BTCI, UTB, BIA-TOGO, and ECOBANK-TOGO) for securitizing NPLs validated as at December 31, 2007 (thereby meeting a structural benchmark), with a 35 percent discount on government loans. The bonds amount to 7 percent of GDP and has enabled the three banks to meet the 8 percent minimum coverage requirement for the risk-to-equity ratio. The bonds will be eligible for refinancing by the Central Bank (BCEAO) and will be reimbursed over a period of seven years, after a one-year grace period.

- In addition, the government is exploring, in consultation with the World Bank, the possibility of creating a structure and mechanism to recover the banks' NPLs on behalf of the government.

11. We have made significant progress in reforming the state-owned enterprise sector to restore the conditions for sustainable operations:

- A strategic audit of the phosphate sector (structural benchmark) was launched with the World Bank support in January 2009, three months later than originally planned. This delay was due to the fact that only two firms responded to the initial call for expressions of interest, and a second call had to be issued. The final report could be available by the end of April 2009. The strategic audit will help determine the overall restructuring of the sector and facilitate the search for a strategic partner.

- In December 2008 the review of CEET's financial situation to establish the projected budget allocations was completed, and a performance-based contract between the government and CEET was signed (meeting a structural benchmark). The strategic and financial audit of CEET will begin in consultation with the World Bank.

- For the cotton sector, pursuant to the recommendations from the strategic audit, SOTOCO was liquidated, and a new cotton company was set up and will be rescaled to ensure its financial viability. In addition, the recommended establishment of a mechanism for indexing cottonseed producer prices to world prices has been endorsed by the cotton sector and will be operational during the 2009/10 crop season.

12. The measures taken by the government to alleviate economic hardship in 2008 remained consistent with program objectives. Despite rising prices for consumer goods, no controls were placed on their domestic levels or on international trade in such goods. However, in order to protect the most vulnerable segments of the society, the government sought to mitigate the price impact through targeted measures, including subsidies on seeds and fertilizers, swift payment of retirement pension arrears, and the sale of security stockpiles of foodstuffs in the most affected areas. The government intends to refrain from any interference with the prices of staple consumer goods. Lacking a social security system, the government intends to mitigate international price fluctuations by stressing programs to promote the domestic production and supply of consumer goods, especially staple foods. The government also took fiscal steps to raise household purchasing power by issuing lump-sum grants to civil servants for the last five months of 2008. That temporary step has been replaced in the 2009 budget by a cut in the personal income tax (IRPP). In addition, the Guaranteed Minimum Wage (SMIG, SMAG) was raised as of August 1, 2008. We have also reduced the corporate tax rate by seven percentage points, and the maximum rate is 33 percent as of January 2009.

13. Retail fuel prices did not keep pace with rising world oil prices. A price adjustment mechanism was in place between the government and the oil companies in order to keep prices at the pump stable. By comparing the import price with the benchmark price range (changes exceeding plus or minus 5 percent), surpluses or shortfalls are calculated vis-à-vis the oil

companies' operating margin, which is set at 35 CFA francs per liter. Generally speaking, at a time of rising world oil prices, the oil companies suffer a shortfall, while in the case of falling prices they realize a surplus. The mechanism of surpluses or shortfalls allows pump prices to be kept unchanged, but requires compensation between the government and the oil companies. Faced with rising inflation, and in order to avoid social unrest, the government had kept retail fuel prices at their November 2006 level. As a result, the accumulated shortfall to the oil distributors due to this mechanism has increased considerably. The government commissioned an audit of the sector, which calculated that the net shortfalls incurred by fuel importers totaled 1.5 percent of GDP. Despite the recent turnaround in global oil prices, the government has decided to keep the retail price above world levels. The resulting surpluses will be used to clear the deficit to the oil companies within 20 months, in consultation with the companies. The government intends to review the mechanism for setting the pump prices for oil products in order to avoid creating a contingent liability for the government.

Macroeconomic outlook

14. Togo's growth in 2009 will be sluggish owing to the global economic slowdown. Economic growth is projected at 1.7 percent. The crisis is expected to lead to a reduction in migrants' remittances, a decline in the demand for transit and warehousing services, and a drop in phosphate, cement, and clinker exports. We are seeing the early signs of the crisis through the fall in the value of our exports (cotton, phosphate, and clinker). We are closely monitoring trends in development assistance and private transfers for possible declines. This unfavorable development will be offset by an improvement in the terms of trade, renewed confidence following the government's reform measures, and a substantial boost in public capital spending. In addition, the recent easing of externally induced inflationary pressures, especially on fuel and food prices, should help bring the inflation rate below the 3 percent threshold set in the WAEMU pact on convergence, stability, growth, and solidarity. A significant improvement in the terms of trade will contribute to reducing the current account deficit to about 6.1 percent of GDP, despite the sharp rise in capital spending.

Implementation of the PRGF-supported program in 2009

15. In spite of these risks and difficulties, the government is determined to continue and even accelerate its planned reforms under the PRGF-supported program in order to lay the foundation for strong and sustained growth. We would also like to register our concern about the vulnerability of our economy to external shocks and describe the actions we intend to take to alleviate their adverse economic impact.

16. The fiscal policy objective for 2009 is to preserve our achievements in macroeconomic stabilization, improve the absorptive capacity of the economy, and support economic recovery. In that context, government revenues are projected to be comparable to last year at 16.9 percent of GDP, as a result of continued fiscal reforms, mainly the broadening of the tax

base (including in the Free Economic Zone) and administrative capacity building. However, the global crisis remains a downside risk to revenue projections. In view of this, the government will continue to monitor growth and revenue trends closely.

17. Expenditures are projected at 22.2 percent of GDP, i.e., up by 2.5 percentage points from 2008. Despite the additional cost of loan securitization, recurrent expenditure will be contained. The level and share of social expenditures will increase substantially and the food production support program will continue. Investment spending financed both domestically and externally will be boosted by one percentage point of GDP each. Part of this increase will come from a supplementary budget (*collectif budgétaire*) that we plan to enact in the second quarter to increase spending authority by the amount of the remaining emergency spending from 2008, which will be used exclusively for funding priority infrastructure projects. As a result, the primary fiscal balance should remain at a level equivalent to −0.6 percent of GDP. We also plan an increase from 0.5 to 1.0 percent of GDP in the amount of arrears to be settled in cash. In addition, we have approached our development partners to explore the possibility of additional budget support to increase this amount. The deficit will be financed by budget support expected from our partners, including the European Union (EU), the World Bank, the African Development Bank, France, China, and other bilateral partners. In order to accelerate the implementation of emergency repairs to infrastructure and of the clearance of domestic arrears, we plan to issue in the first half of the year a six-month T-bill for about 1.3 percent of GDP.

18. The reforms envisioned in our program for the rest of 2009 aim to safeguard macroeconomic stability, strengthen public finances and—increasingly—build the foundation for stronger growth, and we are determined to implement and in some cases strengthen them (Table 3).

19. Key fiscal reforms will be focused on the following points:

- Before the end of June 2009, the government will make operational the new Treasury structure consistent with WAEMU directives (structural performance criterion). In July 2008, a start was made to reorganizing the Directorate General of Treasury and Public Accounting, with the adoption of legislation creating three main central offices and regional offices of the Treasury, and appointments to the relevant positions were made in December. This new structure will strengthen the Treasury's capacity to effect better controls and provide more reliable information on revenues, expenditures, and government cash management as well as avoid the accumulation of payment arrears. The Treasury will complete the validation of entry items in the Treasury balance sheet, and will start producing monthly treasury balances with a lag of one month, as of April.

- The government will start implementing the strategy to clear domestic arrears by the amount provided in the budget and the supplementary budget, and securitize the arrears to suppliers validated by the KPMG audit by December 2009 (structural benchmark).

- In order to preserve public debt sustainability, the government will ensure that its financing needs are met through grants or highly concessional loans and are committed to maintaining sustainable levels of debt. In this regard, a National Public Debt Committee has been set up to develop, coordinate, and monitor the national policy for the assumption and management of public debt (contributing thereby to achieving a structural benchmark).

- A plan of action has been launched to strengthen the capacity for quick and effective project implementation in the short run, with a view to enhancing aid absorptive capacity for implementation of the Emergency Program especially to repair flood damage. We will ensure that these measures will be accompanied by reforms to strengthen the cash management so as to ensure that resources are available.

- In addition, public expenditure control will be enhanced by further reform of government procurement, for which a new law will be passed in June 2009. This reform is essential for guaranteeing the efficiency of public investment outlays.

- Steps have been taken to complete the remaining structural reforms for June 2009, including the enactment of the new law on the Court of Auditors, the appointment of judges to this body, the preparation of the 2007 management accounts and the *Loi de règlement* (budget reconciliation law) for 2007. These actions will also move Togo toward the HIPC completion point.

20. Further bank restructuring will enable Togo’s economy to improve quickly the financial intermediation needed to support economic activity:

- The initial call for proposals for strategic investors in the four major state-owned banks will be completed before the end of the year, as planned (structural benchmark). With support from the World Bank, the government intends to engage the services of one or more investment banks for that purpose. In cooperation with the supervisory authorities, the government will maintain close oversight of banks’ management through to the end of the process.

- By December, the government will set up a structure and mechanism for managing NPLs that have been exchanged against government bonds (revised structural benchmark). Given the complexity of this operation, which benefits from technical assistance from the World Bank, the timetable has been extended by four months. The mechanism will allow the government to recover some of the cost of recapitalizing the banks and reduce the large stock of cross-debts, which will help revitalize credit channels.

21. Maintaining sound public finances and reviving growth will require reforms to state-owned enterprises so as to restore their financial health, guard against future losses, and promote gains in production and productivity:

- The government intends to assist the new cotton company to obtain the credit necessary to complete its operations in its first year, but that assistance will remain consistent with the current fiscal framework.

- The government will prepare a development strategy for the phosphate sector based on the strategic audit, no later than September 2009 (structural benchmark), as planned. The final report could be available by the end of April 2009. The strategic audit will help shape the overall restructuring of the sector and facilitate the search for a strategic partner.

22. In order to address external shocks and ensure economic recovery, we will need the continued support of the development partners who agreed in Brussels in September 2008 to mobilize resources in the context of the resumption of international cooperation and in accordance with the principles of the Paris Declaration and the Accra Agenda for Action. Beyond the resources required for the clearance of arrears and debt servicing, Togo needs immediate new resources (in the form of grants or concessional loans) to finance the investments that are essential to improve economic infrastructure, deliver social services, reduce poverty, and more generally, to achieve the MDGs. We welcome our partners' decision to increase the level of aid and to ensure maximum flexibility in their procedures. For its part, Togo is determined to meet its floating completion point triggers under the HIPC initiative as early as possible in 2010.

23. Work on preparing the full Poverty Reduction Strategy Paper is far advanced. At the heart of the process is the government's will and commitment to a participatory approach involving all segments of society. This participatory approach has allowed all the stakeholders from the public and private sectors to take ownership of the PRSP process. Thematic studies have been conducted with input from civil society organizations through consultations that led to the production of a preliminary draft of the F-PRSP. Regional consultations on this draft have been held and the document will be sent to the National Assembly for consideration before submission for national validation and adoption by the Council of Ministers, no later than April 30, 2009.

24. Progress under our PRGF-supported program will be monitored against the revised end-June PC and end-December 2009 quantitative PCs understandings on which have been

reached with the mission. We would like for the fourth review under the arrangement to be completed by the end of April, 2010.

25. To support our policies and in view of the remarkable progress achieved in implementing the PRGF-supported program, we are requesting the completion of the second review. We also request disbursement of the third loan, including the augmentation approved by the IMF Board during the first PRGF review.

26. The government is convinced that the measures and policies set out in this Letter of Intent are sufficient to achieve the program's objectives. It stands ready to take any additional steps needed to achieve them. The government will consult with the IMF, at its own initiative or at that of the Managing Director, in advance of any additional measure or revisions to the policies set out in this Letter of Intent.

27. The government authorizes the IMF to publish its staff report and the Letter of Intent related to the discussions on the second review of the program.

Sincerely yours,

/s/

Adji Otèth AYASSOR
Minister of Economy and Finance

Table 1. Togo: Quantitative Performance Criterion and Indicative Targets

June 30, 2008 - December 31, 2009

	2008				2009	
	June		Dec.		June	Dec.
	Prog. [1]	Act.	Prog. [2]	Act.	Prog.	
	(Billion CFA francs, cumulative from end of preceding year)					
Performance criteria (for end-June, end-December 2008, and end-June 2009; indicative targets otherwise)						
Domestic primary fiscal balance (floor)	-4.5	28.3	-7.6	5.6	-10.7	-7.8
Nonaccumulation of external arrears [3]	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic financing (ceiling)	-3.1	-31.5	-7.5	-12.6	10.0	4.0
Central government contracting or guaranteeing of nonconcessional external debt (ceiling)	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Targets						
Total revenue (floor)	103.6	109.6	209.8	220.7	108.0	225.7
Domestic payments arrears, changes in stock (ceiling)	0.0	-3.1	-3.1	0.0	0.0	0.0
Domestically financed social and capital spending (floor)	48.9	34.7	99.7	82.8	50.3	120.7
Projected program financing	…	16.4	32.3	32.3	24.1	37.4

[1] Letter of Intent dated March 28, 2008.

[2] Letter of Intent dated September 12, 2008.

[3] Continuous performance criterion.

Table 2. Structural Conditionality for 2008

Measures	Date	Macroeconomic rationale	Status
Fiscal governance 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	Done: July 2008.
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	Done. Decree adopted on July 23. The Inspector General was appointed on August 29.
Adopt a new 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	Done. Strategy approved on December 9 2008.
Financial sector			
Change management and oversight of BTCI based on terms of reference prepared in consultation with the WAEMU Banking Commission.	Prior action for PRGF approval	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.	Done: February 2008.
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.	Done. The Treasury has agreed with the BCEAO on a framework for issuing T-bills on a regular basis in 2009, following one initial issue this year.
Public enterprises			
Initiate an audit of the phosphate sector, based on competitive selection of an audit company, in consultation with the World Bank.	Benchmark October 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.	Done late. After a delay due to the fact that only two firms responded to the initial call for expressions of interest, a second call was issued. The audit firm was selected and the work is underway.
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	Done. The preliminary report was submitted to the authorities and the World Bank in December 2008. The final report was concluded on February 12, 2009 and submitted to the World Bank.

Table 3. Structural Conditionality for 2009

Measures	Date	Macroeconomic rationale	Status
Fiscal governance			
Reduce tax and customs exemptions and strengthen tax and customs control, including enterprises licensed in the Free Economic Zone.	Benchmark June 2009	To limit leakage of tax-exempt goods into the domestic economy, which distorts economic incentives and reduces fiscal revenues	Done. Tax exemptions have been reduced in the 2009 budget law. Customs and tax authorities have the power to conduct inspections in the Free Economic Zone.
Make operational a new Treasury structure based on WAEMU directives.	Performance criterion June 2009	To create a functioning Treasury that has adequate control and information on revenues, spending, and cash management to ensure timely payments, avoid arrears, and provide for real-time consistent budget execution data	On track. The Treasury reorganization began in 2008, based on World Bank and IMF advice.
Start implementing the domestic arrears clearance strategy by securitizing validated arrears to suppliers and setting up a mechanism for monitoring domestic debt (see paragraph 19).	Benchmark December 2009	To move toward a sustainable debt position and prevent new arrears as Togo regularizes its large stock of domestic arrears, starts servicing long-term regional bonds, and initiates short-term Treasury bill auctions	On track. The overall strategy adopted in November 2008, based on IMF advice, and the National Debt Management Council were instituted in January 2009.
Financial sector			
Initiate restructuring of BTCI, including by raising its capital through issuance of government securities.	Benchmark March 2009	To support the financial rehabilitation of Togo's largest bank, prepare it for privatization, and set the conditions for sound financial sector development	Done. Remarkable progress has been made in preparing the exchange of BTCI's NPLs against government securities as part of a broader multi-bank scheme
Set up a structure and mechanism for managing the NPLs that have been exchanged against government securities in the bank restructuring process.	Benchmark December 2009 (revised from August)	To recover part of the budgetary cost of securitizing NPLs and reduce the large stock of state-owned enterprise arrears and cross-debts	On track. Given the complexity of the operation, for which the IMF and World Bank are providing technical assistance, the timetable has been extended by four months.
Initiate the process of identifying strategic investors for state-owned banks.	Benchmark December 2009	To reduce risks to macroeconomic stability caused by Togo's large loss-making state-owned banks and support expansion of financial intermediation	On track. The World Bank is supporting government efforts in this area.
Public enterprises			
Phosphate sector: Prepare a development strategy based on the results of the strategic audit.	Benchmark September 2009	To promote transparency in the restructuring of the phosphate sector, which could generate additional exports of up to 10 percent of GDP at current world prices	On track. The World Bank is supporting government efforts in this area. The strategic audit is underway.

INTERNATIONAL MONETARY FUND

TOGO

2009 Article IV Consultation and Second Review Under the Three-Year Arrangement Under the Poverty Reduction and Growth Facility—Informational Annex

Prepared by the African Department

April 8, 2009

Contents Page

I. Relations with the Fund
(as of February 28, 2009)

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	0.33	0.45

III. SDR Department:	SDR million	Percent of allocation
Net cumulative allocation	10.98	100.00
Holdings	0.05	0.50

IV. Outstanding Purchases and Loans:	SDR million	Percent of quota
PRGF Arrangements	31.24	42.55

V. Financial Arrangements:

Type	Approval Date	Expiration Date	Amount Approved (SDR million)	Amount Drawn (SDR million)
PRGF	Apr 21, 2008	Apr 20, 2011	84.41	31.24
PRGF	Sep 16, 1994	Jun 29, 1998	65.16	54.30
PRGF	May 31, 1989	May 19, 1993	46.08	38.40

VI. Projected Payments to the Fund[11]
(SDR million; based on existing use of resources and present holdings of SDRs)

	Forthcoming				
	2009	2010	2011	2012	2013
Principal					1.33
Charges/Interest	0.20	0.22	0.22	0.22	0.22
Total	0.20	0.22	0.22	0.22	1.54

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

VII. Implementation of HIPC Initiative:

I. Commitment of HIPC assistance	Framework
Decision point data	Nov 2008
Assistance committed	
By all creditors (US$ Million) [1]	270.000
Of which: IMF assistance (US$	0.31
million)	0.21
(SDR equivalent in millions)	Floating
Completion point date	
II. Disbursement of IMF assistance (SDR	
Million)	0.04
Assistance disbursed to the member	0.04
Interim assistance	--
Completion point balance	--
Additional disbursement of interest income [2]	
	0.04
Total disbursements	

[1] Assistance committed under the original framework is expressed in net present value (NPV) terms at the completion point, and assistance committed under the enhanced framework is expressed in NPV terms at the decision point. Hence these two amounts can not be added.

[2] Under the enhanced framework, an additional disbursement is made at the completion point corresponding to interest income earned on the amount committed at the decision point but not disbursed during the interim period.

VIII. 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

IX. 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.

X. Article IV Consultation

Togo is on the standard 24-month Article IV consultation cycle. The Executive Board completed the last 2007 Article IV consultation on June 8, 2007.

XI. 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.
February 2009	Review of the Treasury Accounting System

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 93in 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 2006	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

XII. Resident Representative

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

II. Relations with the World Bank

(Updated March 25, 2009) [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 was in non-accrual status with the International Development Association (IDA) from May 2002 to May 2008. During the non-accrual period, the Bank continued 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 health, education, agriculture and rural development, and HIV/AIDS.

2. Prior to the May 2008 re-engagement, the principal means for the Bank to provide support to Togo was through grants under the Low Income Country Under Stress (LICUS) Initiative. Since 2005, six grants have been provided. Three of these supported a community-driven Emergency Program for Poverty Reduction (EPPR) with the aim of halting the decline into extreme poverty and the deterioration of social indicators throughout the country.

3. Three additional LICUS projects aimed 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, and energy 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).

4. Successful implementation of initial political and economic reforms since 2005-06, including good performance under an IMF Staff Monitored Program, laid the foundation for strengthening donor assistance to support the process of clearing Togo's arrears to IDA and other major creditors and thereby of full resumption of the Bank's operations in the country. On May 29, 2008, the Bank's Board discussed the Interim Strategy Note and approved a development policy operation (the Economic Recovery and Governance Grant, ERGG) that enabled Togo to clear its arrears to IDA and thereby normalize its relations with the Bank.

B. World Bank Group strategy

5. The Bank's May 2008 Interim Strategy Note (ISN) sets out the Bank Group's plan to help Togo recover from its long period of instability and begin laying the foundations for sustained, shared growth over the medium term. This would 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 aimed to set realistic expectations with regard to the progress and achievements that could be realized from June

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

2008 through FY10. ISN support is 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 builds on a Development Policy Needs Review (DPNR) prepared and discussed with the Government in early 2008.

6. The three pillars are supported through: (i) assistance for the clearance of Togo's arrears to IDA; (ii) investment projects, development policy operations and LICUS trust fund grants 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 the Government's reform agenda, including preparation of the full PRSP. This support is complemented by ongoing and new World Bank regional activities in the areas of transport and transit facilitation, energy and mining.

7. Under Pillar 1 (Improve Governance and Transparency), there is a particular focus on supporting the Government's own reform program to improve governance, transparency and efficiency in public expenditure management as well as to advance structural reforms aimed at improving 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. In addition to the first ERGG, support is to be provided through two annual development policy operations and a Financial Sector and Governance Reform Technical Assistance project. The latter will support banking, social security and microfinance institutions restructuring and recovery. Ongoing analytical and advisory work includes a Trust Fund grant for Statistical Capacity Building, support to strengthen the country's debt management capacity, and an updated Public Expenditure Management and Financial Review (PEMFAR).

8. 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. 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 through a Country Economic Memorandum on the Sources of Growth, an Investment Climate Assessment and a Diagnostic Trade Integration Study. Lending will include a Support to Growth-inducing Sectors Project, which would focus on improving agricultural productivity and diversification and port infrastructure, and an Emergency Infrastructure Rehabilitation and Energy project, to provide energy investments and to upgrade roads and sanitation systems in selected urban areas. Togo is also expected to participate in the regional Abidjan-Lagos Transit and Transport Facilitation Project and a possible Adjarala Hydroelectric Project. In the energy sector, the World Bank is providing ongoing advisory assistance to the authorities in the context of support to the West Africa Regional Power Pool.

9. Under Pillar 3 (Provide for Urgent Social Needs), the strategy focuses 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. Activities will help rebuild the minimal effectiveness of local basic services delivery systems and improve access to economic opportunities. This will be achieved by addressing urgent infrastructure rehabilitation needs in the poorest areas of Lomé, the capital city, and by scaling up, under the Community Development Project approved in June 2008, the approach implemented in Togo since 2004 through successive LICUS grants. In October 2008, IDA approved an additional US$7 million grant under the Global Food Crisis Response Program to complement the Community Development Project, to support Togo's efforts to manage the global food price shocks.

10. 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. Recently, the Bank, in collaboration with the UNDP, conducted a background study on the sources of growth as input to preparation of the full PRSP. The Bank is preparing a Country Environmental Assessment Note to monitor the impact of activities included in the ISN on the environment.

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.

12. The Bank has worked closely with the IMF on a regional Financial Sector Assessment, and the two institutions have also cooperated in analysis of the debt situation and in bringing Togo to the HIPC Decision Point in November 2008.

Contact person: Madani Tall, Country Director (225-22400401), and Philip English, Lead Economist (202-473-6483).

III. 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 (GDDS) 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. Like other West African Economic and Monetary Union (WAEMU) member states, Togo had embarked in late 2002 on implementing the *System of National Accounts 1993* (*1993 SNA*), using the ERETES software. The NA for the new base year (2000) were completed in 2005 but since then due to a number of difficulties such as lack of staff, material and financial resources, the program was suspended and the NA for 2001 was not finalized. A West Afritac mission in March 2009 trained the staff into the *1993 SNA* and the structure of the ERETES database and emphasized the necessity to achieve, as soon as possible, the **1993 SNA** implementation process. As Togo only prepared the NA for the base year (2000), the mission recommended to proceed with the compilation of the NA for 2007 and to prepare afterwards the NA series for the missing years as an abridged version. The authorities demonstrated a stronger commitment to achieve the implementation of the **1993 SNA**. The National Statistics Office (NSO) website has not been updated since June 2008. There is no hard copy publication on NA.

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. Statistics are compiled with a six-month delay and are revised twice a year. A STA technical assistance mission in balance of payments statistics visited Lomé in September 2008 and found that significant progress had been made recently, in particular concerning informal trade, since the subregional unit for the reconciliation of intra-WAMU trade was set up. Trade in services seems to be well covered, as well as remittances. External trade on oil products had also been subject of a thorough study by the BCEAO which led subsequently to important revisions, and thereafter to a more appropriate reporting by the National Accounts Directorate. Data provided by BCEAO headquarters on the treatment of regional banknotes need to be reviewed at Headquarters level.

Government accounts and public debt data

5. The Government finance statistics accounting system is undergoing important improvements. The new WAEMU budget nomenclature now permits the economic and functional classification of expenditure. 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. Inconsistencies in domestic arrears records held by different units of the Ministry of Finance and the stock of domestic debt have been audited and a new database is being set up. 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

6. 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 31, 2009)

Economic Variable	Date of latest observation	Date received	Frequency of Data[2]	Frequency of Reporting[2]	Frequency of publication[2]
Exchange Rates	December 2008	February 2009	M	Q	Not published
International Reserve Assets and Reserve Liabilities of the Monetary Authorities	December 2008	March 2009	M	Q	Not published
Reserve/Base Money	December 2008	March 2009	M	Q	Not published
Broad Money	December 2008	March 2009	M	Q	Not published
Central Bank Balance Sheet	December 2008	March 2009	M	Q	Not published
Consolidated Balance Sheet of the Banking System	December 2008	March 2009	M	SA	Not published
Interest Rates[2]	December 2008	March 2009	M	Q	Not published
Consumer Price Index	December 2008	February 2009	M	SA	Not published
Revenue, Expenditure, Balance and Composition of Financing – General Government[1]	December 2008	February 2009	M	M	Not published
Revenue, Expenditure, Balance and Composition of Financing– Central Government	December 2008	February 2009	M	M	Not published
Stocks of Central Government and Central Government-Guaranteed Debt	December 2008	February 2009	M	M	Not published
External Current Account Balance	2007	August 2009	A	OM	Not published
Exports and Imports of Goods and Services	Dec 2008	February 2009	M	OM	Not published
GDP/GNP	2007	June 2008	A	OM	Not published
Gross External Debt	December 2008	February 2009	A	OM	Not published
International Investment Position[3]	2007	July 2008			

[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).
[3] Includes external gross financial asset and liability positions vis-à-vis nonresidents.

INTERNATIONAL MONETARY FUND
Public Information Notice
EXTERNAL
RELATIONS
DEPARTMENT

Public Information Notice (PIN) No. 09/55
FOR IMMEDIATE RELEASE
May 12, 2009

International Monetary Fund
700 19th Street, NW
Washington, D. C. 20431 USA

IMF Executive Board Concludes 2009 Article IV Consultation with Togo

On April 21, 2009, the Executive Board of the International Monetary Fund (IMF) concluded the Article IV consultation with Togo[1]. The Executive Board also completed the second review of Togo's performance under its Poverty Reduction and Growth Facility (PRGF) arrangement.

Background

Since 2006 Togo has made significant strides in overcoming the effects of a protracted period of political, social and economic crisis by embarking on a program of major political and economic reforms. Implementation of the PRGF-supported program has been strong since its launch in 2008, despite the adverse impact of global price shocks and heavy flooding. With these difficulties, growth reached only 1.1 percent in 2008. All quantitative targets and structural benchmarks for the second review of the PRGF-supported program were met, many with ample margins or in advance, with only two exceptions—the indicative target for social and investment spending was undershot and there was an unavoidable delay in launching a study of the phosphate sector. Priority spending fell below its target largely owing to slow implementation of emergency repairs after the 2008 floods, which highlighted capacity constraints. After inflation peaked in August 2008, it dropped back down to 8.4 percent by year-end thanks to falling world oil and food prices, which also mitigated the deterioration in the terms of trade and the current account deficit (6.6 percent of Gross Domestic Product).

A nascent recovery in Togo's economy following three years of reforms is expected to be offset in 2009 by the impact of the global recession. In response, the authorities have reiterated their commitment to the PRGF-supported program and aim to accelerate growth-enhancing structural reforms. A rebound in subsistence agriculture and rising public investment are expected to be

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[1] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board. At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities.

counterbalanced by the adverse effects of the global recession, even though these should be moderated somewhat by the limited global integration of Togo's financial sector and its already depressed exports. Nevertheless, the global recession's impact on exports and remittances is expected to keep growth to just 1.7 percent in 2009 and 2.1 percent in 2010. Improving terms of trade in 2009 will narrow the current account deficit slightly to about 6 percent.

As a near-term response to slow growth in the face of the global recession, the authorities have appropriately placed high priority on increasing public investment spending, financed by growing external assistance and by shifting unspent financial resources intended for emergency projects in 2008 to 2009. The authorities are forcefully implementing plans to address capacity constraints in project execution, with the support of development partners. At the same time, the authorities are also aiming to accelerate implementation of structural reforms in the banking sector, public finances, and state-owned enterprises. The planned increase in the share of domestic arrears cleared in cash will support economic recovery by helping address the liquidity and credit shortage in private sector.

For the medium-term, the authorities rightly emphasize structural and fiscal measures to enhance the low growth observed recently, which has resulted in a stagnation in per capita income and slow progress toward the Millennium Development Goals. Against the backdrop of global economic instability, the main challenge will be the implementation of sustainable macroeconomic policies and structural measures that support external stability, faster growth and accelerate poverty reduction.

Despite notable progress so far, Togo's economic outlook faces significant risks. A worsening of the global recession or a heavier than expected impact could further depress growth and revenues, as well as delaying private sector involvement in restructuring state-owned banks and enterprises. The run-up to the 2010 presidential elections might also create political uncertainty or complicate program implementation. The authorities, however, stressed their determination to continue to implement the program fully and to achieve the Heavily Indebted Poor Countries Initiative (HIPC) completion point as early as possible in 2010.

Executive Board Assessment

Executive Directors agreed with the thrust of the staff appraisal. They commended the Togolese authorities for their strong implementation of economic policy and reforms, despite the adverse global and domestic circumstances. Fiscal policy remained prudent, revenue performance is being strengthened, and good progress was made on growth-oriented structural reforms.

Directors observed that the economic recovery program is bearing fruit more slowly than expected, and conditions are likely to remain difficult. With substantial downside risks remaining due to the global recession, the near-term challenge will be to manage lower demand for Togo's export commodities. Over the medium-term, it will be important to persevere with the implementation of sustainable macroeconomic policies and structural reform measures that support external stability, faster growth and accelerated poverty reduction.

Directors welcomed the authorities' prudent policy response to last year's economic shocks and their intention to continue to focus on targeted measures to mitigate the social impact of shocks and on supporting agricultural production, especially of food. They encouraged the authorities to maintain fiscal discipline in the run-up to 2010 elections.

Directors noted that public investment to rehabilitate infrastructure, including flood damage, will be an important support for economic activity. They supported a modest fiscal loosening for 2009, including shifting unspent money intended for emergency projects from 2008 to 2009 and increasing the share of domestic arrears cleared in cash. Noting that capacity constraints hamper project spending, Directors encouraged the authorities to follow through on plans to strengthen project execution and procurement processes, with the support of development partners. It would also be important to review the oil pricing mechanism to avoid accumulation of contingent liabilities by the public sector.

Directors supported the structural reform agenda's emphasis on accelerating and deepening reforms to encourage higher growth. They viewed reform priorities as appropriately focusing on consolidating fiscal governance, reforming the state-owned phosphate sector following up on the strategic audit, and restructuring the financial sector. Directors welcomed the recapitalization of state-owned banks and the intention to attract strategic investors as quickly as possible.

Directors agreed that Togo's membership in the West African Economic and Monetary Union has provided an important anchor of stability. To safeguard external competitiveness and boost productivity, they stressed the importance of improvements in the investment climate and delivery of basic services, as well as of public investment in education, health and infrastructure.

Directors noted that the projected increases in external assistance are essential to sustainably finance the needed increase in investment and social spending, and Togo's economic recovery. They observed that this will require the authorities' continuing commitment to strengthen fiscal policy, improve institutional capacity, and implement key structural reforms. In this connection, Directors welcomed the authorities' determination to fulfill the conditions necessary to achieve the floating trigger points for the HIPC completion point as early as possible in 2010. They underlined the importance of fiscal and financing policies, including a prudent debt management strategy, that maintain robust debt sustainability over the medium term.

Public Information Notices (PINs) form part of the IMF's efforts to promote transparency of the IMF's views and analysis of economic developments and policies. With the consent of the country (or countries) concerned, PINs are issued after Executive Board discussions of Article IV consultations with member countries, of its surveillance of developments at the regional level, of post-program monitoring, and of ex post assessments of member countries with longer-term program engagements. PINs are also issued after Executive Board discussions of general policy matters, unless otherwise decided by the Executive Board in a particular case.

Togo: Selected Economic and Financial Indicators, 2006–10

	2006	2007	2008	2009	2010
		Act.	Prel.	Proj.	Proj.
	(Percent change, unless otherwise indicated)				
National income, prices and exchange rates					
Real GDP	3.9	1.9	1.1	1.7	2.1
Real GDP per capita	1.4	-0.6	-1.4	-0.8	-0.4
GDP deflator	0.3	1.3	6.4	1.8	2.0
Consumer price index (annual average)	2.2	1.0	8.4	2.8	2.1
GDP (CFAF billions)	1,159.8	1,197.7	1,288.5	1,333.7	1,389.6
Exchange rate CFAF/US$ (annual average)	522.4	478.5	445.8	...	...
Real effective exchange rate (annual average)	-1.4	0.5	0.1	…	…
Terms of trade (deterioration = –)	5.0	-10.5	-2.3	7.2	…
Monetary survey					
Net foreign assets [1]	19.2	1.4	8.0	0.0	4.7
Credit to government [1]	-0.7	1.1	15.4	2.7	-0.3
Credit to the nongovernment sector [1]	0.4	14.9	-2.5	6.8	7.1
Broad money (M2)	22.1	18.2	15.9	10.0	10.0
Velocity (GDP/ end-of-period M2)	3.0	2.6	2.4	2.3	2.2
	(Percent of GDP, unless otherwise indicated)				
Investment and savings					
Gross domestic investment	12.8	12.1	12.2	15.8	16.6
Government	3.4	2.0	3.5	5.6	7.1
Nongovernment	9.4	10.1	8.7	10.2	9.5
Gross national savings	9.9	8.2	5.5	9.7	10.7
Government	-0.4	0.1	2.5	2.4	5.1
Nongovernment	10.3	8.1	3.0	7.2	5.5
Government budget					
Total revenue and grants	18.3	18.7	18.7	19.1	21.9
Revenue	16.9	17.0	17.1	16.9	17.6
Total expenditure and net lending	22.1	20.6	19.7	22.2	23.9
Domestic primary expenditure	18.0	16.7	16.7	17.5	17.0
Overall balance (payment order basis)	-3.8	-1.9	-1.0	-3.1	-2.0
Primary balance [2]	-1.1	0.2	0.5	-0.6	0.6
Change in domestic arrears	-0.4	-0.8	0.0	-0.9	-0.7
External sector					
Current account balance	-2.9	-3.9	-6.6	-6.1	-5.9
Exports (goods and services)	24.7	26.3	23.5	21.5	26.7
Imports (goods and services)	37.2	40.0	41.0	37.6	42.6
External public debt	83.9	79.2	56.6	53.0	30.5
Of which: Arrears	29.5	31.4	0.0	0.0	0.0
External public debt service (percent of exports)	8.9	7.5	5.6	5.9	4.5
Gross international reserves (months of imports)	3.4	3.0	4.4	5.0	4.7

Sources: Togolese authorities; and IMF staff estimates and projections.
[1] Percent of broad money at the beginning of the period.
[2] Revenue minus expenditure, excluding grants, interest, and foreign-financed expenditure.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

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International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Second Review under PRGF with Togo and Approves US$26.6 million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the second review of Togo's economic performance under the Poverty Reduction and Growth Facility (PRGF) arrangement. The completion of the review enables the immediate disbursement of an amount equivalent to SDR 17.9 million (about US$26.6 million), bringing total disbursements to SDR49.2 million (about US$72.9 million).

The Executive Board also concluded the 2008 Article IV consultation with Togo. Details of the findings will be published in a Public Information Notice.

The three-year PRGF arrangement for Togo was approved by the Executive Board in April 2008 (see Press Release 08/90) in an amount equivalent to SDR 66.06 million (about US$108.4 million). In September 2008, the Executive Board approved an increase in financial support (see Press Release 08/216) by SDR18.3 million (about US$29 million).

Following the Executive Board's discussion, Mr. Murilo Portugal, Deputy Managing Director and Acting Chair, stated:

"The Togolese authorities are to be commended for their continuing strong implementation of economic reforms under the PRGF-supported program. Despite the adverse impact of the global price shocks and heavy flooding last year, all quantitative fiscal performance criteria for the second review were met by ample margins, and good progress was made on structural reforms.

"External conditions are likely to remain difficult for Togo owing to the global recession. The near-term challenge will be to manage the impact of the crisis on global demand for its commodity exports such as phosphate and cotton. Public investment to rehabilitate Togo's infrastructure, especially to repair the damage caused by the flooding last year, will play a major role in supporting economic activity.

“Against this background, the authorities’ plans for a modest fiscal loosening in 2009 are appropriate. These plans include shifting unspent money intended for emergency projects from 2008 to 2009 and increasing the share of domestic arrears cleared in cash. Given capacity constraints for project spending, it will be important to follow through on plans to address slow project execution, with the support of development partners. The authorities also intend to continue to focus on targeted measures to mitigate the social impact of shocks and on support to agricultural production, especially food.

“Togo’s structural reform agenda for the remainder of 2009 focuses on consolidating fiscal governance, reforming the state-owned phosphate sector, and restructuring the financial sector. The authorities have completed the important recapitalization of state-owned banks and intend to attract strategic investors for these banks as quickly as possible.

“Over the medium-term, the authorities remain firmly committed to sustainable macroeconomic policies and structural reform measures that support external stability, faster growth and accelerated poverty reduction. The projected increases in external assistance will be vital to finance the increased investment and social spending in a sustainable fashion, and to the success of Togo’s economic recovery,” Mr. Portugal said.

Statement by Laurean Rutayisire, Executive Director for Togo and Kossi Assimaidou, Alternate Executive Director for Togo April 21, 2009

On behalf of our Togolese authorities, we would like to express our appreciation to Management for its continued support to Togo, and to staff for the quality of their advice and collaboration. Encouraged by this support, our authorities continue to make progress towards consolidating macroeconomic stability, paving the way for stronger growth and reducing poverty. At this critical juncture characterized by an uncertain global environment, this support will carry even more weight in helping Togo meet the requirements for debt relief under the Enhanced HIPC Initiative and the MDRI.

Our authorities share the thrust of the staff appraisal regarding Togo's performance under the PRGF-supported program since the first review; the vulnerabilities of the economy to exogenous shocks, including the current global recession; and the medium-term growth challenges facing the country. Since the last review under the program in September 2008, performance continues to be strong, with all quantitative and structural PCs and benchmarks having been met, with the exception of a missed indicative target on net domestic financing and a delay in initiating an audit of the phosphate sector, which were due, respectively, to capacity constraints and a factor out of the authorities' control.

That said, a protracted global recession may deteriorate the country's growth projections and debt profile, as they are sensitive to shocks, even though the HIPC Initiative would bring debt indicators to comfortable levels. Already, growth in 2008 has been lower than initially expected, reaching 1.1 percent. Other macroeconomic indicators have, however, behaved satisfactorily: inflationary pressures have receded, while the current account deficit has been contained, thanks to falling oil and food prices in the second half of the year.

Our authorities are fully aware that, over the medium term, they need to pursue fiscal and structural policies that are well-targeted, aimed at raising the level and improving the quality of public investment; boosting productivity; and creating conditions conducive to the development of the private sector. In the meantime, they will also pursue their policy and reform agenda set forth in their Letter of Intent, in the context of the PRGF-supported program.

Based on the assessment made by staff, the authorities' continued track record of good policy performance, and their renewed commitments to sound policies and reforms going forward, we seek the support of the Executive Board for completing the Second Review of the PRGF program and for endorsing the modifications in the PRGF arrangement as laid out in the proposed decision.

CONTINUING TRACK RECORD OF POLICY AND REFORM IMPLEMENTATION

The continuation of a prudent approach in macroeconomic policies, particularly fiscal policies, since the last review—albeit the initial effects of the global financial crisis—attests of the Togolese authorities' strong commitment to sound policies and macroeconomic stability.

The maintaining of domestic primary balance of +0.4 percent of GDP, thanks to strong revenue collection and improved fiscal management, helped meet another performance criterion at end-December 2008—net domestic financing—with a wide margin. Moreover, supported by greater fiscal discipline, the Togolese government continues to refrain from accumulating any external arrears and from contracting or guaranteeing any external debt that would not meet the concessionality criterion. The only missed indicative target—floor on domestically-financed social and capital spending—was due to weak capacities in the execution of investment projects. Our authorities envisage to remedy this underexecution by reallocating the unspent capital budget of 2008 to 2009 through a supplementary budget, while strengthening in the short term their capacity for more rapid and effective project implementation.

The implementation of structural reforms under the program has also continued satisfactorily, with all structural PCs and benchmarks at end-December 2008 having been observed on time, with the exception of a delayed audit of the phosphate sector. Progress in this area since the last review includes: (i) enhancement of public financial management, with the adoption of a domestic arrears-clearing strategy, the creation of a national commission to this end, reduction of tax and customs exemptions, and improvements in the general tax code; (ii) continuing process of bank restructuring through securitization of NPLs owed by state-owned enterprises (SOEs), as a cornerstone to effective financial intermediation and increased growth potential; (iii) the adoption of an action plan for introducing regular Treasury bill auctions this year, with the agreement of the regional central bank; and (iv) reform of SOEs in the cotton sector (setting up of a new company following the liquidation of Sotoco) and in the electricity sector, with the view to improving their performance and ensuring their financial viability.

The sole delay among the planned structural measures (audit of the phosphate sector) was caused by the fact that an insufficient number of firms responded to the initial call for expressions of interest. Ultimately, the benchmark was observed as a second call was issued successfully and an audit firm selected in a competitive manner. The restructuring of this important sector of the Togolese economy, with the view to attracting a strategic investor, is now underway, with the support of the World Bank.

While our Togolese authorities have taken in 2008 targeted measures to protect the most vulnerable segments of the society amid the economic hardship caused by exogenous shocks, they remain committed to not interfering with the prices of basic consumer goods. Instead, they intend to mitigate world price fluctuations by promoting domestic production and supply of basic consumer goods. As for the oil bill, the government envisages to review the current pump price mechanism (based on constant prices that generate surpluses or shortfalls for the government vis-à-vis oil companies), in order to prevent the build-up of contingent public liabilities.

PROGRAM AGENDA FOR 2009

In pursuing efforts to revive the economy, amid an unfavorable external environment, our Togolese authorities remain determined to enhance fiscal soundness; continue prudent debt management through external financing based on grants and highly concessional loans; and advance structural reforms in key growth-oriented sectors, notably banks, cotton and phosphates. They understand the critical importance of revitalizing these sectors.

The fiscal policy objective this year is to improve the absorptive capacity of the economy and support the recovery, while preserving the gains achieved in macroeconomic stabilization. As the global crisis is expected to have a greater toll on the domestic economy, our authorities will continue to monitor growth and revenue trends carefully. Six-month T-bills will be issued, amounting to about 1.3 percent of GDP, in order to accelerate the implementation of emergency infrastructure repairs and the clearance of domestic arrears. Other key fiscal reforms will aim at: (i) making operational the new Treasury structure, in conformity with the WAEMU directives; (ii) enhancing the efficiency of investment outlays and, more broadly, public financial management by further reform of government procurement; and (iii) making operational the *Cour des Comptes*.

Regarding bank restructuring, efforts will be geared at completing the proposals for strategic investors in the four major state-owned banks, while maintaining close oversight of their management throughout the process. The government will also set up, with the technical assistance of the World Bank and the Fund, a mechanism for managing the NPLs that have been exchanged against government bonds.

Reforms of SOEs will also be pursued as scheduled, with a view to restore their financial health and promote production and productivity gains. In the cotton sector, assistance will be provided to the new company in obtaining credit to complete operations in its first year, and in the phosphate sector, a development strategy, based on the strategic audit, will be prepared.

POVERTY REDUCTION STRATEGY AND HIPC PROCESSES

Togo is refining its poverty reduction strategy. The full PRSP is being prepared in a large participatory process involving all segments of society, including the government, the civil society, the business community, development partners and the National Assembly. It is expected to be submitted for national validation and adoption by the Council of Ministers by the end of this month.

Other requirements for the HIPC completion point are also advancing well. Among the completion point triggers, the Procurement Regulatory Agency should be set by the end of April 2009; the *Cour des Comptes* will be operational in June 2009 as hinted earlier; and an annual report on the revenues from, and payments to, the phosphate company, in line with the EITI criteria, will be published. These transactions are already being published regularly.

MEDIUM TERM CHALLENGES

Our Togolese authorities fully understand that the attainment of greater growth rates in the medium run is predicated on their capacity to close the country's infrastructure gaps; to boost productivity by taking advantage of moderate wages and a competitive, well-educated labor force; and to create a business-friendly environment. They acknowledge the weaknesses in these areas, and agree with the recommendations of Fund staff. In fact, their approach, embodied in the PRS, focuses on three pillars: (i) rehabilitating infrastructure; (ii) improving the quality of education and making it more accessible; and (iii) addressing the factors that impede a good business environment, notably the investment code, the corporate tax system, the business registration, property rights, and the judicial system.

CONCLUSION

Togo continues to face capacity and infrastructural challenges. Nevertheless, our Togolese authorities will do their utmost to meet soon the HIPC completion point requirements. These include continuing a good implementation of the PRGF program, putting in place the full poverty reduction strategy and meeting the trigger points under the enhanced HIPC Initiative. They will do so while promoting a climate of political and social stability, and peace. All the efforts made and committed by the authorities, especially in the context of an unfavorable environment, will require the continued support of the international community. Fresh resources to finance investments and reforms are critically needed to achieve the objectives laid out in the PRGF-supported program and the country's PRSP.

Based on our authorities' continued good track record and their renewed determination to pursue sound policies and reforms going forward, we call on the Executive Board to support the proposed decision.