

Togo: Joint Staff Advisory Note on the Poverty Reduction Strategy Paper (2009-11)

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TOGO

Joint Staff Advisory Note on the
Poverty Reduction Strategy Paper (2009–11)

Prepared by the Staffs of the International Development Association
and the International Monetary Fund

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I. OVERVIEW

1. **The Poverty Reduction Strategy Paper (PRSP) for Togo builds on the strategy laid out in the Interim Strategy for Poverty Reduction (I-PRSP)** that was presented to the Boards of the International Development Association (IDA) and the International Monetary Fund (IMF) in April 2008. Drawing on lessons learnt from the implementation of the I-PRSP, the full PRSP lays out the strategy for growth and poverty reduction for the period 2009-2011. The PRSP is coupled with a Plan of Priority Actions (PAP) which details the pluri-annual planning of actions, programs and measures. The ultimate objective of the PRSP is to achieve effective and sustainable improvement of people's living conditions by addressing the principal causes of poverty.

2. **Due to circumstances largely beyond the control of the authorities, the results obtained under the implementation of the I-PRSP were below expectations.** The hike in oil and food prices and the severe flooding in 2008, and the global recession in 2009 have adversely impacted the performance of the Togolese economy, dragging down growth just as it was poised to improve in response to the economic program. In order to enhance the resilience of the economy to such shocks, the PRSP lays out a strategy that aims at promoting sustainable growth and at working towards strengthening the newly restored social consensus and entrenchment of the principles of good governance.

3. **The PRSP is a comprehensive strategy covering most of the challenges and areas of action to foster growth and reduce poverty.** It is based on four strategic pillars, with the first three common to the I-PRSP: (i) strengthening of governance; (ii) consolidation of the bases for strong and sustained growth; (iii) development of human capital; and (iv) reduction of regional imbalances and promotion of community development. For these pillars, the PRSP integrates

cross-cutting themes related to the environment, HIV/AIDS, gender and human rights. Staffs welcome the introduction of the fourth pillar - reduction of regional imbalances and promotion of community development - based on the recognition of the wide disparities between regions in the country. While acknowledging the importance of a comprehensive strategy, staffs consider that given capacity and resources constraints its effective implementation requires the prioritization of reforms.

4. **The preparation of the PRSP was generally inclusive.** The process encompassed the participation of all development actors and regions of the country. It involved the private sector, religious groups, the non-government organizations, the National Assembly and the technical and financial partners. There were three main levels of expanded consultation: (i) drafting and adoption of the road map of the process; (ii) diagnostic phase; and (iii) final drafting of the PRSP. The development partners, including the World Bank and IMF, were consulted at these various stages in order to facilitate implementation of the principle of alignment advocated in the Paris Declaration. Going forward, staffs recommend the continuing effective involvement of all the actors in the implementation stage of the PRSP.

II. POVERTY TRENDS AND DIAGNOSTICS

5. **The poverty analysis presented in the strategy is thorough, although it has been somewhat overtaken by events.** It is based on the results from the QUIBB (Standardized Questionnaire on the Basic Indicators of Wellbeing) of the conducted in 2006, thus not reflecting the shocks that affected the country in 2007 and 2008, in particular the rise in food and oil prices, as well as the flooding. Furthermore, economic growth was not strong enough to offset population growth and, as a result, GDP per capita fell by 1.4 and 0.8 percent in 2007 and 2008, respectively. In addition, while the strategy presents a comprehensive analysis of poverty across the country it does not assess the evolution of poverty over time.

6. **Staffs recommend enhanced monitoring of poverty and urge the authorities to fill the current information gap on recent poverty trends.** An updated survey could provide more accurate information on recent poverty developments, especially regarding regional poverty and inequality, which are critical for a successful implementation of policies regarding the fourth pillar of the PRSP – reduction of regional imbalances and promotion of community development. Staffs urge the strengthening of the capacity to monitor and analyze poverty determinants and outcomes. Also, a better understanding of the linkages between the policy actions identified in the PRSP and poverty outcomes merits attention. To this end, staffs recommend close monitoring of poverty reduction expenditures, now possible due to the introduction of the functional classification of budget expenditures in the 2009 budget. Furthermore, staffs recommend the publication of regular reports on expenditure in the priority sectors. Staffs also urge the authorities to conduct an assessment of pro-poor measures and their impact in reducing poverty.

7. **The PRSP acknowledges the significant challenges to achieve the MDGs.** The conclusions of the second national MDG monitoring report approved in December 2008 showed that, at the current pace of progress with the indicators, and by means of sustained efforts, only two MDGs can be reached: (i) achieve universal primary education; and (ii) combat HIV/AIDS. The achievement of these goals will depend on the ability of the authorities and national development actors to consolidate the political dialogue and consensus on national development priorities, mobilize resources and use them efficiently, and enhance capacity in the public administration. Despite sustained efforts, the country is unlikely to achieve the goals in the following areas by 2015: (i) eradicate extreme poverty, (ii) promote gender equality, (iii) reduce child mortality, (iv) improve maternal health, and (v) ensure environmental sustainability.

8. **Considering the impact of rapid population growth (on the capacity to deliver adequate social services, the environment and poverty), staffs urge the Government to make the management of population dynamics a priority goal.** In particular, staffs recommend the implementation of measures to satisfy unmet demand for family planning, and accelerate the demographic transition (e.g., educating girls, meeting contraceptive demand, and fighting discrimination against women). The same measures would also help accelerate the pace toward achievement of a number of MDGs (e.g., universal primary education, lower maternal mortality rates, gender equality and women empowerment, and lower child mortality rates).

III. MACROECONOMIC POLICIES AND FRAMEWORK

9. **The staffs agree with the thrust of the macroeconomic policy scenarios presented in the PRSP, while emphasizing the importance of regularly updating the macroeconomic framework given the observed volatility of the Togolese economy.** Staffs also emphasize the importance of including such updates in the annual progress reports. The scenarios are generally realistic and take into account capacity constraints, the vulnerability of the Togolese economy to external shocks, and the fact that the country has just recently emerged from a prolonged socio-political crisis. The growth performance and projections for Togo should be viewed in light of the cumulative effects of this crisis. The PRSP base scenario projects that real GDP growth would reach 1.7 percent in 2009 and 3.3 percent in 2010, which differs somewhat from the latest staff projections that take into account the effects of the global financial crisis on capital and trade flows and countercyclical policies being undertaken by the Togolese authorities. In fact, staffs expect real GDP growth to reach 2.5 percent in 2009, which is higher than what is projected in the PRSP document, but current projections for 2010 (a real GDP growth rate of 2.6 percent) are markedly lower than the projections presented in the PRSP. Under both sets of projections, per capita GDP is expected to begin to increase only modestly towards the end of the period 2009-2011.

10. **An alternative scenario based on a substantial amount of additional foreign aid linked to the United Nation's Secretary General's initiative for the MDGs in Africa is also considered in the document.** The staffs believe that this alternative scenario, while a useful and appropriate addition, should acknowledge concerns about possible weaknesses in terms of

administrative and absorptive capacity. Furthermore, the document would benefit from the inclusion of more detailed economic indicators under both scenarios.

11. **The PRSP provides a clear and consistent link between the reform agenda and the medium-term budget at the aggregate level.** The medium-term budget framework presented in the PRSP targets a primary fiscal adjustment combined with an increase in external assistance and HIPC debt relief. This favorable context would allow an increase in spending on infrastructure and basic social services in line with the priorities outlined in the PRSP. Furthermore, staffs believe that the authorities' recent actions towards a temporary relaxation in fiscal adjustment to stimulate economic activity by boosting investment on infrastructure and social sectors -given the observed growth rates (which are well below potential) and the impact of the global recession- are appropriate. The macroeconomic framework presented in the strategy is based on prudent projections on tax revenue growth. The primary fiscal balance is targeted to reach 1 percent of GDP in 2011. It is important to note that capacity constraints have limited the effectiveness of domestically financed investment spending. However, the authorities are taking steps to address administrative constraints on investment spending, and execution so far in 2009 seems to be substantially higher than in previous years.

12. **The projections on the current account balance will need updating to better reflect the effects of the global recession, which were difficult to assess at the time when the PRSP was prepared.** The latest staffs projections reflecting the impact of the global recession and increased investment spending indicate that the current account deficit will remain high at 7 percent through 2009-2010, whereas the framework in the PRSP expects a steady improvement of the current account deficit to 4.2 percent by 2010.

13. **The inflation projections presented in the PRSP seem reasonable and are in line with the WAEMU (West African Economic and Monetary Union) convergence criteria.** A deceleration of inflation is expected after the spike in 2008 linked to surges in world fuel and food prices. In this context, inflation is expected to stay between 2 and 3 percent in 2009-2010, in line with BCEAO (Central Bank of West African States) as well as staffs projections. Current staff projections suggest that credit to the economy will recover only slowly given the delays in the restructuring of the banking sector.

IV. SECTORAL POLICIES

A. Strengthening of Governance

14. **Staffs welcome the recent improvements in public finance management** but continuing efforts are critical to ensure transparency, efficiency and accountability in the use of public resources. In the context of implementation of the I-PRSP, the country has embarked on important reforms to improve governance, including incorporation of WAEMU directives in national legislation, introduction of the Integrated Public Finance Management System (SIGFIP), abolition of exceptional expenditure execution procedures, creation of the General Inspectorate of Finance and Control Auditors, and adoption of a strategy for clearance of the domestic arrears,

among others. Although the initial results of these reforms are encouraging, much remains to be done, as recognized in the PRSP. Important reforms ahead include improvements in the predictability and monitoring of budget execution, fiscal consolidation, gradual introduction of Medium-Term Expenditure Frameworks (MTEFs) and program budgets, improvements of internal and external controls, strengthening of Treasury management, including cash management in order to prevent new accumulation of domestic arrears, and effective implementation of the domestic arrears clearance strategy. Staffs agree with the reforms outlined in the strategy and encourage authorities to pursue them swiftly.

15. Staffs agree with the action plan proposed to strengthen the public procurement system. These measures, prepared on the basis of the PEMFAR report, are part of the reforms that aim to bring the Togolese system into line with international standards. The measures to be implemented as indicated in the strategy include: (i) transposition of the WAEMU directives on procurement into the national legal framework; (ii) adoption of the procurement code to make procurement arrangements more transparent and less centralized; (iii) drafting of implementing texts describing procurement procedures; (iv) drafting of a handbook of procedures; and (v) adoption of arrangements to ensure strict expenditure monitoring, among others. However, as for the public finance reform agenda, the plan would benefit from the inclusion of a timeline for the reforms. Going forward, staffs urge the authorities to finalize a calendar for the implementation of the reforms as well as identify output and outcome indicators in order to monitor the implementation of the plan.

B. Promoting Strong and Sustained Growth

16. The PRSP appropriately emphasizes the importance of creating new foundations to foster stronger and sustained growth. In particular, the strategy emphasizes the importance of pursuing reforms in the following areas.

17. Improving the Business Environment. The general business environment in Togo is difficult for investors and private operators. The strategy indicates that improving the business environment will pass through reforms that include the creation of a one-stop shop with effective delegation of approval by several administrative departments, revitalizing the industrial free trade zone, and reducing the cost of, and increasing the access to, credit. However, the details on implementation are limited, lacking references to the labor market, legislation protecting investors, taxation, and costs of factors such as energy and telecommunications, among others. The staffs recommend the identification of detailed and prioritized reforms to address the key constraints. The revision of the Investment Code could provide the adequate forum to discuss key issues and build consensus around important reforms. As mentioned in the PRSP, the strengthening of the judicial system will also be necessary to improve the business environment.

18. Increase agricultural productivity. The strategy correctly recognizes the importance of agriculture, and its role for growth and poverty reduction, especially as poverty incidence is higher in the rural areas. The strategy correctly focuses on food and export crop production, but

more attention could be given to the livestock and fishing sectors. Going forward, staffs recommend that the authorities further detail measures to address issues related to the legal and institutional framework, land tenure, the structure of the rural sector (producer associations, regional chambers of agriculture, among others), access to productive resources and markets including access to financing, environment preservation, and strengthening of capacities. The strategy indicates that the government is committed to implement the National Food Security Plan. Staffs emphasize the importance of this Plan and recommend its rapid implementation to reduce the vulnerability of the Togolese population, who has been frequently exposed to natural disasters. With regard to the cotton sector, staffs recommend that a human resources audit be undertaken for SOTOCO (Togo Cotton Company) and recommendations from the audit with respect to the size of the company's labor force implemented. Staffs also recommend the modernization of SOTOCO's accounting system to improve transparency, and efficient mobilization of resources to ensure timely provision of inputs to producers. Furthermore, the development of an effective inter-profession which allows producers to play an active role in the management of the sector will be critical for the development of the sector. In this respect, a program of capacity-building for the sector's stakeholders will be required.

19. **Boost Natural Resources Extraction.** The strategy acknowledges that the phosphates industry, historically the leading exporter, has suffered from lack of maintenance and renewal of equipment, poor management and electricity shortages, which have resulted in reduction of the operating capacity and weak sector performance. An increase in production levels requires significant improvement in managerial, technical and technological capability. Furthermore, it also entails greater emphasis on strengthening human resources as well as environmental management skills to be able to compete effectively. Staffs stress the vital importance of the preparation of a clear strategic vision for the sector, of which the strategic and financial audit would be an important input. Staffs advise that in view of the current low level of capacity utilization, the sector strategy clearly specify the critical role of the investment program for restoring and boosting the sector's production capacity in the medium term. In addition, the PRSP recognizes the weakness of the Mining Code and the need to correct its imperfections. Staffs urge its revision to be undertaken swiftly. Staffs also recommend that the country fully adopt the EITI principles to enhance sector transparency and governance.

20. **Development of infrastructure to support economic growth.** The strategy candidly assesses the weakness of the infrastructure sector and its impact on the economy. While the strategy clearly identifies goals to overcome infrastructure constraints, the document could benefit from the inclusion of additional details regarding policy reforms and actions. The ambitious rehabilitation plan for roads and bridges will need to be supported by a viable and well-managed road maintenance fund. With regard to the energy sector, reforms presented include diversification of sources and reduction of costs and institutional and regulatory reform. Staffs recommend the preparation of an articulated and integrated plan for the infrastructure sector. In the case of the energy sector, staffs recommend that it distinguish between short-term steps to improve energy supply and long-term reforms and actions, the latter comprising investments, new sources of imports and pricing and demand management.

C. Human Capital Development

21. **The strategy proposed for the education sector is ambitious yet realistic, putting priority on reaching the MDG of universal primary completion.** The strategy for the education sector is sound, having been built on very strong analytical work (Country Status Report –RESEN and a financial simulation model). Furthermore, the strategy laid out in the PRSP is consistent with the education sector national strategy as described in the Letter for Education Policy Development. However, there are discrepancies between the PAP of the PRSP and the Education Sector Plan (*ESP, Plan Sectoriel de l'Education*) which should be addressed. To ensure consistency in the monitoring and evaluation of the education program staffs urge the sectoral committee of the PSRP for education to be the same as the Coordination Committee of the education sector plan. In addition, staffs urge the three Ministries in charge of the education sector to initiate the implementation of the Education Sector Plan, in particular by organizing the set-up of the structures in charge of the coordination, monitoring and evaluation (*Comité inter-ministériel de pilotage, Comité de coordination and Secrétariat Technique Permanent*) and strengthening the project coordination unit. Staffs recommend that particular attention be paid to the preparation and implementation of the capacity-building/skills transfer program to accompany the ESP projects implementation. Activities of communication on the ESP are also encouraged.

22. **Staffs agree with the strategy to increase access to health care services and urge the implementation of policies to enhance health outcomes for the poor.** While some progress has been made in the area of immunization coverage, the availability and use of treated mosquito netting, maternal and child health, and coverage of serious malaria cases in children, functional infrastructure has not improved, with health facilities poorly equipped and ill suited, especially in the rural areas, where the incidence of poverty is higher.¹ Furthermore, the distribution of public health subsidies is not pro-poor.² The poorest 50 percent receives 20 percent of the subsidies to teaching hospitals and 30 percent of the subsidies to hospitals and health centers. Staffs recommend the strengthening of pro-poor policies, by increasing access to health infrastructure in the rural areas, training and deploying health personnel to these areas, financing the provision of services to address diseases that have the most impact on the poor, and better targeting of public health subsidies.

23. **Staffs recommend the development of a social protection strategy for Togo,** which would bring together a range of interested agencies (inside and outside the Government) and specifically address the following issues: (i) broadening the current narrow and fragmented understanding of social protection; (ii) identifying some of the key building blocks of sound social protection (e.g., targeting; delivery mechanisms; need for sustainability); (iii) ensuring that future national systems draw on pilot activities underway and (iv) defining the role of non-state actors in the provision of social protection and how this might be best supported. It is

¹ The incidence of poverty is 74.3 percent in the rural areas and 36.7 percent in the urban areas, according to the 2006 QUIBB survey.

² Based on the analysis of the 2006 QUIBB survey.

recommended that this strategy also assess the opportunity and efficacy of specific safety net transfers systems defined as non-contributory transfer programs targeted to the poor and the vulnerable.

D. Reduction of Regional Imbalances and Community Development

24. **The addition of Pillar IV constitutes a major improvement in the country's strategy to address poverty reduction, access to basic services, decentralization, and empowerment of local communities.** The strategy could, however, be further refined by identifying clearly the Government options for addressing regional imbalances, the issues and challenges of inter-sectoral dialogue and coordination, the decentralization agenda that has a major role to play in local development, and issues of governance and management of such approaches. Going forward, the implementation could capitalize on ongoing pilot projects in local development (financed by some development partners including the European Union, the UNDP, and the World Bank), which can be considered as important examples for future activities.

25. **The approach presented in Pillar IV could benefit from further decentralization especially in terms of management and project implementation arrangements.** The creation of a (central) agency implementing the subprojects and a fund to finance community development runs against the principle of effective decentralization and delegation of authority to regional and local bodies. The experience of the ongoing projects financed by development partners, for example the World Bank financed the PDC (Community Development Program) project with its five highly autonomous and independent agencies, could be seen as pilots to develop future systems and implementing structures. Staffs recommend advancing with the decentralization framework in order to effectively engage local governments in community development.

V. IMPLEMENTATION, MONITORING AND EVALUATION (M&E), AND IMPLEMENTATION RISKS

26. **The institutional framework described in the PRSP follows the I-PRSP structure, by comprising several institutional levels involved in the monitoring and evaluation of the strategy.** As in the I-PRSP, the process is led by the National Council on Development Policy and Poverty Reduction, chaired by the Prime Minister and including representatives of all branches of government and non-government stakeholders. Other oversight entities include the Interministerial Committee on Poverty Reduction Strategies, the Technical Steering Committee, the Permanent Technical Secretariat, the Sectoral Committees, and the Regional and Local Committees. While acknowledging the importance of the inclusive nature of this institutional framework, preliminary lessons learnt from the I-PRSP point to difficulties in implementing such a framework due to redundancies and lack of clarity in the division of labor and the limited capacity of civil society to fully engage in national policy discussions. In this regard, staffs encourage streamlining the oversight structure while ensuring adequate involvement of all

stakeholders, clarification of responsibilities of each entity, and strengthening of civil society capacity.

27. **While the PRSP is elaborated on a results-based framework, the strategy does not explicitly link its actions to the achievement of these goals.** Establishing a link between the sectoral strategies and the definition of clear and measurable indicators is critical for the monitoring and evaluation of the implementation of the PRSP. Staffs recommend that the authorities further link objectives to actions articulated around outcome indicators as part of the PRSP implementation. Furthermore, the PAP presents a wide range of output and outcome indicators that could benefit from some streamlining, especially given the limitations of the monitoring and evaluation system. Staffs urge the Government to focus on a smaller number of critical results and monitorable indicators with baseline and target values, based on adequacy and availability of the selected indicators, their consistency with the objectives, and appropriateness given the country's institutional capacity. Staffs also recommend the strengthening of the national statistics systems in order to produce timely data to inform policy makers as the PRSP is implemented.

28. **Significant risks remain regarding the implementation of the strategy, as capacity constraints, political tensions and adverse economic and natural disaster shocks can hamper the pace of implementation of the PRSP.** There are risks associated with a relatively weak administrative capacity and the vulnerability of the economy to external shocks. Furthermore, elections in early 2010 may stall the reform agenda, as often seen in periods of transition. Success in the current efforts to: (i) improve governance and build capacity, especially in the area of public finance management, in order to increase efficiency, effectiveness and transparency of public resources; (ii) coordinate closely with donors to ensure sufficient technical and financial assistance; (iii) deepen analysis to support and inform policies, (iv) continue working towards political unity; and (v) strengthen the integration of natural disaster management in development programs, could go a long way towards mitigating some of the these risks.

VI. CONCLUSIONS AND ISSUES FOR DISCUSSION

29. **The PRSP clearly identifies the binding obstacles to poverty reduction in Togo and outlines an adequate framework for implementing the Government's growth and poverty reduction agenda over the period 2009-2011.** The current capacity constraints that the country faces bring to the forefront the need to prioritize reform efforts. The document recognizes the considerable challenges to achieve the MDGs and the risks to its implementation. It also outlines the institutional framework required for implementation and monitoring and evaluation.

30. As the authorities sharpen their strategic focus and strengthen the implementation of the PRSP, they would benefit from addressing the following challenges highlighted earlier in this advisory note:

- Maintaining an appropriate up-to-date macroeconomic framework that takes into account the country's macroeconomic and fiscal risks; the importance of this cannot be overemphasized given the fact that Togo is a small open economy that remains vulnerable to external shocks.
- Translating the key priorities identified in the PRSP into concrete and adequately costed expenditure plans that balance development needs and macroeconomic risks.
- Improving access to social services in line with the general expectations of an expansion of public service delivery. Their sustainability will need to be supported by improved targeting and enhanced public expenditure efficiency, together with safety nets for the most vulnerable population.

31. In consideration of the PRSP and associated JSAN, Executive Directors' views are sought on whether they agree with the main areas identified by staffs as priorities for strengthening the strategy and its implementation, and areas identified as key implementation risks.