Togo and the IMF

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IMF Executive Board Concludes First Review under the Extended Credit Facility Arrangement for Togo and Approves US$35.6 Million Disbursement
December 14, 2017

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Togo: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

November 29, 2017

Letter of Intent

MINISTRY OF ECONOMY AND FINANCE

OFFICE OF THE MINISTER

N°.................. /MEF/CAB

REPUBLIC OF TOGO
Travail-Liberté-Patrie

Lomé, November 29, 2017

To

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Lagarde:

1. The government requests the completion of the first review under Togo's ECF arrangement based on the satisfactory implementation of the program. All end-June 2017 performance criteria were met while the two end-June 2017 indicative targets have not been met. Four of the five structural benchmarks set for end-June 2017 and end-September 2017 have been met. We also completed the prior action. The government also requests the modification of the end-December 2017 indicative target on the floor on total fiscal revenue.

2. We have started with strong determination the fiscal consolidation envisaged under our program supported by the ECF arrangement. We ceased the non-orthodox financing of investment expenditure, which had led to large public debt build-up in recent years. At the same time, good progress was made in implementing our structural reform agenda, including on tax and customs administration, and debt and public financial management. We are strengthening verifications and control of potential tax evasions, reorganizing debt management, and auditing government arrears. The restructuring process of the two troubled public banks has encountered delays, but steps are being taken towards its completion.

3. The government has adopted a revised 2017 budget consistent with the primary balance floor and domestic financing ceiling envisaged under the program; we will continue to contain investment expenditure, while making efforts to repay arrears. We will continue to refocus our policies on sustainable and inclusive growth through targeted social spending and sustainably financed investment. The government also remains committed to pursue the fiscal consolidation in 2018 to address the high debt level. The government has adopted a budget for FY 2018 consistent with the thrust of the ECF-supported program while accommodating tighter domestic and external constraints. While clearing existing domestic arrears, we will put in place a comprehensive system to prevent re-accumulation. Our policies will ensure that Togo adheres to the regional convergence criteria and contribute to the joint WAEMU countries' efforts to rebuild regional reserves.

4. As part of the continuation of the program, our structural reforms under the program in the first half of 2018 will primarily focus on six (6) structural benchmarks related to: (i) the adoption by the Ministry of Economy and Finance of a comprehensive restructuring plan for the two public banks (February 2018); (ii) the reduction of pending customs transit cases (June 2018); (iii) the closure of some accounts of general government entities in commercial banks and the transfer of the balance to the Treasury Single Account (June 2018); (iv) the issuance of circulars to financial services of government entities providing directives to prevent arrears (June 2018); (v) the preparation of guidelines to include in the 2019 budget only investment projects selected through cost-benefit analyses (reset for June 2018); and (vi) the completion of the legal transfers under the restructuring of the two ailing public banks (reset for June 2018).

5. We are confident that the policies set out in the attached Memorandum of Economic and Financial Policies (MEFP) will enable us to achieve our program objectives. However, we will take any further measures that may become necessary for this purpose. We will consult with the IMF on the adoption of such measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the IMF's policies on such consultations. We will provide such information as the IMF may request in connection with progress in implementing our economic and financial policies. We authorize the publication of the staff report for the first review under the ECF arrangement, this letter of intent, and the attached MEFP and technical memorandum of understanding.

Very truly yours,

Minister of Economy and Finance

/s/
Sani Yaya

Attachments (2);

I. Memorandum of Economic and Financial Policies
II. Technical Memorandum of Understanding

Memorandum of Economic and Financial Policies (MEFP)

1. This Memorandum informs on recent economic developments, reports on performance under the program supported by the ECF arrangement, and describes the authorities' policies going forward. It takes stock of performance criteria and structural benchmarks at end-June and end-September 2017 and sets the targets for end-March and end-June 2018.

I. RECENT ECONOMIC DEVELOPMENTS

2. Economic activity appears to have expanded at a growth rate of about 5 percent in 2017, accompanied by a low inflation. Following a strong expansion in the second half of 2016, commercial bank credits remained broadly stable in the first half of 2017. Energy consumption has increased by 11.2 percent in May 2017 (y-o-y). Traffic at both port and airport has also increased, driven primarily by transshipment. However, there are reportedly some incipient signs of economic weaknesses; the turnover of some large companies has reportedly stagnated in the first half of 2017, particularly in the construction sector. The trade balance improved in the first quarter of 2017, relative to the previous quarter, due to the combination of lower imports and strong exports; preliminary data for the second quarter of 2017 point to a slight deterioration of the trade balance, relative to the previous quarter. Headline inflation rate at end September was -0.6 percent (average, y-o-y) and -0.8 percent (m-o-m), driven primarily by lower food prices; the core inflation rate, excluding food and transportation prices, was 1 percent (average, y-o-y).

3. We have begun the fiscal consolidation envisaged under the program supported by the ECF arrangement. We reduced significantly public investment expenditure by ceasing the prefinancing of investment expenditure, which had led to large public debt build-up in recent years. During 2013-16, the primary fiscal balance averaged a deficit of about 6 percent of GDP per year, which included an average investment prefinancing of about 3.4 percent of GDP per year. During the first half of 2017, the primary fiscal balance registered a surplus of 1.4 percent of GDP.

II. PROGRAM IMPLEMENTATION

4. All end-June 2017 performance criteria (QPCs) have been met while the two end-June indicative targets (ITs) have not been met. The domestic primary balance and the net domestic financing of the government were met with large margins. The zero-ceiling on the following QPCs were also respected: non-accumulation of arrears on external public debt, government contracting or guaranteeing of nominal non-concessional external debt, government guaranteeing of domestic loans to suppliers and contractors, and government guarantees on bank pre-financing for public investments. The indicative target on fiscal revenue was missed by a very small margin; the underperformance on social spending was more significant.

5. Our strong start of fiscal consolidation led to an overperformance of 2.2 percentage points of GDP on the domestic primary fiscal balance. This consolidation was based on domestic primary expenditures, which have been contained beyond the program path by 2.2 percentage points of GDP. This strong expenditure restraint relied on both primary current spending and domestically financed capital spending. This strong fiscal consolidation resulted in a significantly lower net domestic financing by about 3.5 percentage points of GDP. Instead of a programmed domestic borrowing of about 2.5 percent of GDP, we succeeded to reduce our liabilities by about 1 percentage point of GDP.

6. All the zero-ceiling QPCs, aimed at improving our debt sustainability, were observed. The government refrained from contracting or guaranteeing non-concessional external debt. The government ceased providing guarantees on bank pre-financing for public investments and guarantees of domestic loans to suppliers and contractors. Previous guarantees under such schemes, which had become government debt following the substitution of debtor, were replaced with financing at more favorable conditions. We have continually remained current on our external debt obligations.

7. Although the indicative targets were missed, the underperformance was not due to a policy intention of the government. Total fiscal revenue was marginally underperformed. The revenue authority (*Office Togolais des Recettes*) are stepping up revenue collection measures. Total domestically financed social spending fell by about 0.4 percentage point of GDP below target. This shortfall may be due to the deficiency of our current budgetary reporting system to present detailed fiscal information. We will make all necessary effort to strengthen our data processing capacity. It is to be noted that the overall primary balance exceeded projections by about 4 percentage points of GDP and concessional borrowing was lower by about 1 percentage point of GDP.

8. We met four of the five end-June and end-September 2017 structural benchmarks. The Tax Authority completed the verification of 30 percent of revenue foregone from customs exemptions in 2016 through a post-clearance audit program. The Ministry of Economy and Finance has also developed a methodology to identify and verify domestic arrears. A decree was issued to strengthen debt management, based on IMF technical assistance. An independent audit of government arrears by a private company was completed. The structural benchmark on the restructuring of the two remaining publicly owned banks was not fully completed, but we are making progress and are taking corrective measures.

III. ECONOMIC AND FINANCIAL POLICIES FOR 2017-18

Macroeconomic Framework

9. Although growth forecasts for 2018 and the medium term may be slightly weaker than previously projected, economic activities are expected to remain healthy. The upgrading of public infrastructure in recent years will likely boost productivity and motivate private investments; external concessional financing of public investments from international financial partners is also projected to rise. This is expected to offset the negative fiscal impulse resulting from the strong fiscal consolidation. Inflation is expected to remain well anchored within the WAEMU regional policy framework. The external current account balance will gradually improve as the government reduces its imports of capital goods.

Fiscal Policy

10. The government is determined to reach in 2017 the primary balance target envisaged under our ECF-supported program. Based on our fiscal performance at end-June 2017, we are confident that the end-December targets—primary deficit of 2.7 percent of GDP—is well within our reach. Our policy will be based primarily on continuing to contain investment expenditure, which soared in previous years, and strengthen revenue collection. We stand ready to take the necessary measures in case there are indications that the targets may be missed. We will ensure that priority social expenditures are not adversely impacted by the consolidation.

11. The government also remains committed to continuing the fiscal consolidation in 2018 to ensure debt sustainability, given the sharp debt accumulation in recent years. Accordingly, the Cabinet adopted the 2018 budget consistent with the thrust of the ECF-supported program. We plan to achieve a primary deficit (cash basis) of 0.2 percent of GDP. This adjustment will allow preparing to reach our primary surplus target of 2 percent of GDP in 2019. This envisaged primary surplus would put the public debt, including public enterprise debt, on a clear downward trajectory, from 81.5 percent of GDP in 2016 to 70.2 percent of GDP at end-2019. Sustaining the primary surplus of 2 percent of GDP in the post-program period would bring the net present of public debt below the threshold of 38 percent of GDP of heightened risk of public sector debt distress by 2025.

12. To accommodate stronger domestic and external constraints, we opted to adjust the composition of the fiscal consolidation to rely more on revenue measures. The reduced VAT rates introduced by the 2017 Finance Law will not be included in the 2018 Finance Law. A turnover tax for telecom companies, deductible from corporate tax, will be introduced in the 2018 Finance Law. An intelligence and risk analysis unit and a case handling unit will also be created. On the expenditure side, we will continue to contain domestically financed expenditure and will make efforts to seek external concessional loans, within the program limit. This would create fiscal space to allow transfers for social spending.

13. Our above policies will support the regional policies agreed to by WAEMU member countries. These policies will ensure that Togo adheres to the regional convergence criteria. They will contribute to the joint WAEMU countries' efforts to rebuild regional reserves.

Fiscal Management and Institutions

14. We plan to reorganize the Ministry of Economy and Finance. Essential elements of this reform will be as follows: (i) strengthening the debt management directorate; (ii) strengthening the budget directorate by encompassing budget preparation and monitoring, and medium-term budget frameworks; and (iii) establishing of a tax policy unit in charge of defining tax policy and their related fiscal impact. We will sign a decree to implement this reorganization (structural benchmark December 2017).

15. We will step up efforts to fully reap the benefits from the modernization of texts and procedures carried out by the Office Togolais des Recettes (OTR). We will issue all secondary legislations of the revenue authority law to provide the OTR with the necessary legal framework to fully operate. A performance contract is regularly signed between Chairperson of the Board of OTR and General Commissioner. For domestic taxation, we will broaden the taxpayer base by carrying out a general taxpayer census. We will improve the consolidation of the taxpayer file by way of this tax census and higher registration of economic operators. We will step up the fight against tax evasion, which will begin with the resolution of potential evasion cases already detected in specific economic sectors. We will implement controls and other appropriate initiatives to detect and tax inaccurate declarations and potential evasions in the following sectors: phosphate, clinker, cement, and iron (structural benchmark end-December 2017). The recently revised segmentation of taxpayers will be effectively implemented. Voluntary compliance will be encouraged by improving tax procedures and taxpayer services based on taxpayers' type and characteristics.

16. As for customs, we will build on the results of the recent audit of customs exemptions to address the identified irregularities. We will enhance automation by reducing manual procedures and cash transactions. In particular, we will audit the entire automated processing of customs clearance from the arrival of the goods to their exit and will include in SYDONIA WORLD all steps that are not processed therein. We will enhance the assessment of imports and control tax exemptions, through improved risk analysis as well as effective and transparent audit and control. We will restrict the use of emergency clearance and will prohibit the use of this procedure for imported goods that have already exceeded the normal clearance period. To address abusive use of transit regimes, we will reduce the stock of pending customs transit cases by 60 percent (structural benchmark June 2018). We will enhance synergies between the tax and customs and indirect tax directorates by improving the exchange of information and exploiting the interconnection of their software and databases (SYDONIA and SGIO).

17. The government will continue to refrain from guaranteeing any new bank prefinancing for public investments (performance criteria). We will adopt a budget for FY 2018 consistent with the Fund-supported program; we will strengthen the preparation and selection of projects through the design and implementation of new methodologies, by end-June 2018; on that basis, we will include in the medium-term budget framework and the annual budgets, starting with the 2019 budget, only investment projects selected through cost-benefit or cost-effectiveness analyses (structural benchmark June 2018).

18. We will enhance the dedicated units to improve the preparation, selection, and the follow-up of the execution of public investment projects in order to lift up their efficiency. The dedicated unit (within the general Directorate of Planning and Development of the Planning Ministry) will prepare and publish a comprehensive multi-year the public investment program (PIP) in line with the resource envelope provided in the medium-term budget framework, showing, for each project, its total cost for its lifecycle, the yearly commitment, and the financing source. The unit will also produce a methodology for preparing and prioritizing investment projects, which will be used for future budgets. The existing directorate tasked with the execution of public investments will ensure that all investment projects follow the procurement process, are fully integrated into all phases of the budget process, and require payments to the private sector after verification of the completion of works. The dedicated directorate will prepare a report providing the outcome of an *ex-ante* assessment and the status of execution of investment projects. At the end of the financial year, the unit will prepare a report for all completed major projects, providing the outcome of an ex-ante and ex-post assessment.

19. While clearing existing arrears, we will put in place a comprehensive system to prevent re-accumulation. An independent audit of domestic arrears was carried out (structural benchmark September 2017). The government will develop an arrears clearance plan, based on prioritization of selected sectors. The end-June 2018 performance criteria on net domestic financing includes an adjustor to allow arrears clearance of up to about 2 percent of GDP. We will issue circulars to the financial services of all government entities providing directives to prevent arrears accumulation (structural benchmark June 2018). At the minimum, the circulars will request a commitment plan, establish a robust reporting of payables, and clarify that contracts signed outside the legal expenditure chain will lead to sanctions against officials who illegally created the liability. The commitment plans of the various government entities will be aggregated and revised at the central level in line with a treasury plan to prevent arrears accumulation.

20. We will strengthen cash management to avoid liquidity-induced (treasury tension) spending bottlenecks, help prevent arrears, and reduce borrowing costs. To this end, we will submit to the Fund by end-December 2017 an annual cash plan for 2018 consistent with the 2018 public procurement plan and the quarterly commitments plan for 2018 (structural benchmark December 2017). We will adopt an annual plan for issuing bonds in 2018 consistent with the related cash plan. Furthermore, we will close 32 accounts of general government entities in commercial banks and transfer the balance to the Treasury Single Account (TSA) while taking into account the impact of these transfers on the banking system (structural benchmark June 2018). To that end, we will sign an agreement establishing the TSA with the central bank (BCEAO), including the accounts of the Togolese Revenue Authority (OTR) and also sign two other agreements for the state cashier function with two financial institutions– the *Union Togolaise des Banques and* the *Centre des Chèques Postaux*.

Borrowing Policies and Debt Management

21. The government remains committed to reducing public debt, including public enterprise debt, to about 70 percent of GDP by 2019, to reduce the risk of overall debt distress. We commit to no new contracting or guaranteeing of nominal external nonconcessional debt (continuous performance criteria) and a ceiling on the contracting or guaranteeing of nominal concessional external debt. Our borrowing plans will seek to reduce debt vulnerabilities and avoid an excessive buildup of short-term debt, as well as consider potential rollover and foreign exchange risks.

22. We ceased indirect bank borrowing under the prefinancing of public investments. Such prefinancing arrangements expanded rapidly in recent years and were the main sources of the soaring public debt. We ended such arrangements since early 2017 and are committed to not providing any guarantees of bank prefinancing of public investments or guarantees of domestic loans to suppliers and contractors (performance criteria).

23. We will bolster debt management. We are operationalizing the decree that was issued to centralize all debt management functions in one entity and organize the debt department unit into front, middle, and back offices; we are strengthening our debt recording/monitoring capacity and are training staff. We are taking the necessary measures to ensure that the budget is in line with the medium-term debt strategy.

Financial Sector Policy

24. We have made important steps toward addressing the financial weaknesses of the last two publicly-owned banks– *Banque Togolaise pour le Commerce et l'Industrie (BTCI)* and *Union Togolaise des Banques (UTB)*– following an independent audit of the two banks by an international firm; we designated the team of experts to lead the merger and restructuring; we officially informed the WAMU Banking Commission and the Boards of the two banks. The independent audit suggested six merger options: (i) merger-acquisition (*fusion absorption*) whereby the strong bank (UTB) takes over the weak one (BTCI); (ii) reverse merger-acquisition (*fusion absorption à l'envers*) whereby BTCI takes over UTB; (iii) typical merger, resulting in the creation of a new entity (*fusion reunion*); (iv) sale of main BTCI assets and debts to UTB, followed by dissolution/ liquidation of BTCI (*cession*); (v) transfer of the BTCI state ownership to UTB (*fusion renonciation*); and (vi) purchase by the government of minority shares in BTCI followed by a merger of the two banks (*fusion simplifiée)*.

25. We will build on the audit findings and initial plan therein to design and implement a comprehensive restructuring plan of the two troubled banks. The cost of the restructuring for the budget is preliminarily estimated at about 2-4 percent of GDP but will need to be refined depending on various parameters, such as the valuation of assets and liabilities. Based on the degree of complexity of each option and the objective of full government ownership, the government is inclined to proceed with the last option, which consists of a purchase by the government of minority shares in BTCI followed by a merger of the two banks (*fusion simplifiée)*.

26. The comprehensive restructuring plan will be based on the following principles: adequate capitalization of the merged and restructured bank; no bailout of minority shareholders; minimization of costs for the state while preserving financial stability; active collection of nonperforming loans by a dedicated unit within the bank; a clear public interest mandate and strengthened governance free from political interference; strengthened management and internal control in the merged bank; elimination of loss-making activities; and improved organizational efficiency. We produced a detailed outline of the restructuring plan, reflecting the above principles (prior action). The full-fledged restructuring plan will be completed by the project manager and approved by us by end-February 2018; if required, an application will be submitted to the WAMU Banking Commission for the creation of the new bank (structural benchmark February 2018). The full-fledged plan should include financial projections demonstrating long-term viability. We will complete by June 2018 the legal transfers required in the restructuring plan at the least cost possible to the government (reset structural benchmark for June 2018). In addition, we commit to strengthen the enforcement of prudential regulations and timely comply with the WAMU Banking commission rulings.

Structural Reforms and Inclusive Growth

27. We will produce a plan to address the key shortcomings identified in the Doing Business Indicators and a plan to enhance competition in some closed sectors of the economy. The former will include actions to improve access to electricity, access to credit, paying taxes, and dealing with construction permits. We will also improve property title registration and the legal framework so that property can be used as collateral in loans to small and medium-sized enterprises. The plan to open key sectors will include the energy, telecom, and mining sectors.

28. We will continue to refocus our policies on sustainable and inclusive growth through targeted social spending and sustainably financed investment under programs such as the Emergency Program for Community Development (*Programme d'Urgence de Développement Communautaire* – PUDC) and Support Program for Vulnerable Populations (*Programme d'Appui aux Populations Vulnérables* – PAPV). We are setting a floor on domestically financed social spending, in particular for projects that have a high impact on poverty reduction (indicative target). The government intends to strengthen the monitoring of social spending and improve the targeting of social programs. A reporting system for social expenditure will be set up to better target the most vulnerable groups of the population.

29. The implementation of the Strategy for Accelerated Growth and for Promoting Employment (2013-17) ends in 2017. Against this backdrop, the government has started the preparation of the National Development Plan (PND) to serve as basis for government and development partners' intervention during 2018-22. The PND is based on the President's social project, the vision Togo 2030, and Togo's regional and international commitments. The PND is built on five pillars: (i) combating poverty and improving social well-being; (ii) promoting sustained and inclusive economic growth; (iii) building the potential of growth sectors; (iv) sustainably managing the environment and reducing spatial inequality; and (v) strengthening governance and peace.

IV. PROGRAM MONITORING AND DATA ISSUES

30. The program will continue to be reviewed semi-annually based on quantitative performance criteria, indicative targets, and structural benchmarks (Tables 1 and 3). Performance criteria are proposed for end-June 2018 and indicative targets for end-March 2018. The performance criteria and indicators are defined in the attached Technical Memorandum of Understanding (TMU) along with the relevant adjustors. The second and third reviews of the program will take place on or after March 15, 2018 and September 15, 2018 respectively.

31. We have made efforts and will continue the strengthening of our institutional capacity to ensure adequate monitoring of the program. The Permanent Secretariat for Reform Policies and

Financial Programs (*Secrétariat permanent chargé des politiques de réformes et des programmes financiers* – SP-PRPF) will provide technical program monitoring, produce quarterly progress reports, and serve as liaison between national entities and technical and financial partners. It will also ensure coordination of technical assistance requirements.

32. We recognize the weaknesses of our statistics and are taking remedial measures. We will reduce lags in the production of national accounts by improving the production of preliminary GDP data, and strengthen staffing within the National Statistics and Accounting Institute (*Institut national de la statistique et des Études économiques et démographiques* – INSEED). We have made progress in compiling and producing fiscal reports, particularly the government financial operations table ("*Tableau des Opérations Financières de l'Etat*"). We will ensure that the budget projections for the following year is based on projection for budget execution in the current year.

33. The government is confident that the policies included in this memorandum are able to achieve the objectives of the economic program. It stands ready, however, to take any further measures that may become necessary to ensure the success of its policies, after consultation with the IMF. During the program period, the government will not introduce or intensify restrictions on payments and transfers for current international transactions or introduce or modify any multiple currency practice without the IMF's prior approval, conclude bilateral payments agreements that are incompatible with Article VIII of the IMF's Articles of Agreement, or introduce or intensify import restrictions for balance of payments reasons.

Table 1. Togo: Quantitative Performance Criteria and Indicative Targets

June 2017 - June 2018 (Billions CFA Francs)

	End-June 2017			End-September 2017[1]	End-December 2017	End-March 2018	End-June 2018
	Performance Criteria			Indicative Target	Performance Criteria	Indicative Target	Performance Criteria
	Target	Outturn	Met/Not Met				
Performance criteria							
Domestic primary fiscal balance (floor)[2]	-19.0	43.0	Met	8.4	13.4	-6.2	-12.4
Non-accumulation of arrears on external public debt[3,4]	0.0	0.0	Met	0.0	0.0	0.0	0.0
Net domestic financing (ceiling)[2,5,6]	80.3	-17.4	Met	157.8	31.6	51.4	75.7
Government contracting or guaranteeing of nominal nonconcessional external debt (ceiling)[3,4]	0.0	0.0	Met	0.0	0.0	0.0	0.0
Government guaranteeing of domestic loans to suppliers and contractors (ceiling)[3,4]	0.0	0.0	Met	0.0	0.0	0.0	0.0
Government guarantees on bank prefinancing for public investments (ceiling)[3,4]	0.0	0.0	Met	0.0	0.0	0.0	0.0
Indicative targets							
Total fiscal revenue (floor)	246.3	246.1	Not Met	398.5	556.3	128.3	256.6
Total domestically financed social spending (floor)	87.4	76.5	Not Met	141.9	218.4	37.3	93.1
Memorandum Item							
Overall primary balance[2,6]	-70.2	39.5		-84.8	-75.6	-36.9	-81.1
Government contracting or guaranteeing of nominal concessional external debt	49.6	14.6		88.8	138.0	21.0	52.7

Sources: Togolese authorities; and IMF staff estimates.

[1] Data for end-September outturns are not yet available.

[2] Performance criterion, indicative targets and memorandum items will be adjusted by the amount spent in banking capitalization. The end-December 2017 test dates reflect adjusted amounts.

[3] Continuous performance criterion.

[4] Cumulated from the approval of the arrangement on May 5, 2017.

[5] According to the TMU, the ceiling on net domestic financing will be adjusted to offset deviations from projected external program financing, subject to a cap of CFAF 10 billion.

[6] The end-March 2018 indicative target on net domestic financing and the memorandum item on the overall primary balance, as well as the end-June 2018 performance criterion on net domestic finanicing and the memorandum item on the overall primary balance, will be adjusted up or down in line with payments of arrears over the course of the year, within the limits of the CFAF 59.3 billion adjustor. The indicative target for end-March 2018 and performance criterion for end-June 2018, as well as the end-March 2018 and end-June mememorandum items, are already adjusted to include partial payments of CFAF 29.7 billion.

Table 2. Togo: Prior Action and Structural Benchmarks for the First Review

Measures	Rationale	Deadline	Status
Produce a detailed outline of the restructuring plan of the two state-owned banks.	Ensure financial stability and prevent future additional cost to the budget.	Prior Action	Met
Revenue administration			
Verify 30 percent of revenue foregone from customs exemptions in 2016 through a post-clearance audit program.	Strengthen import valuation and control of customs exemptions through improved risk analysis, and effective and transparent inspection and audit	End-June 2017	Met
Debt management			
Submit a methodology to identify and verify domestic arrears.	Strengthen debt management	End-June 2017	Met
Strengthen debt management by: (i) centralizing all debt management functions in one entity; and (ii) organizing the debt department unit into front, middle, and back offices.	Strengthen debt management	End-September 2017	Met
Conduct an independent audit of domestic arrears.	Determine the exact amount of arrears to prepare an arrears clearance plan	End-September 2017	Met
Financial sector			
Based on the findings of the independent audit of the two public banks, approve a comprehensive, timebound restructuring plan for the two public banks. If required, submit an application for the creation of a new bank to the WAMU Banking Commission.	Address the situation of nonviable financial entities by implementing least-cost resolution options	End-June 2017	Not met

Table 3. Togo: Structural Benchmarks for the 2nd and 3rd Reviews		
Measures	**Rationale**	**Deadline**
Revenue administration		
Implement controls and other appropriate initiatives to detect and tax inaccurate declarations and potential evasions in the following sectors: phosphate, clinker, cement, and iron.	Broaden the taxpayer base by improving tax compliance	End-December 2017
Reduce by 60 percent the number of pending customs transit cases.	Improve revenue collection	End-June 2018 (proposed structural benchmark)
Public financial management		
Sign a decree reorganizing the Ministry of Economy and Finance.	Improve fiscal policy and management	End-December 2017
Ministry of Economy and Finance to submit, in collaboration with the revenue authority (OTR), an annual cash plan for 2018 consistent with the 2018 procurement plan and quarterly commitments for 2018.	Improve cash management and prevent arrears	End-December 2017
Close 32 accounts of general government entities in commercial banks and transfer the balance to the Treasury Single Account.	Improve cash management	End-June 2018 (proposed structural benchmark)
Debt management		
Prepare an arrears clearance plan and issue circulars to financial services of government entities providing directives to prevent arrears.	Set up a system to prevent accumulation of new arrears	End-June 2018 (proposed structural benchmark)
Public investment management		
Adopt a budget for FY 2018 consistent with the Fund-supported program.	Ensure fiscal sustainability	End-December 2017
Put guidelines in place to include in the 2019 budget only investment projects selected through cost-benefit or cost-effective analyses.	Improve public investment management	End-June 2018 (proposed resetting from end-December 2017)
Financial sector		
Produce and approve by the Ministry of Economy and Finance a comprehensive restructuring plan for the two public banks,	Address the situation of nonviable financial entities	End-February 2018

and if required, submit an application to the WAMU banking commission for the creation of a new bank.	by implementing least-cost resolution options	(proposed structural benchmark)
Complete the legal transfers required in the restructuring plan at the least cost possible to the government.	Address the situation of nonviable financial entities by implementing least-cost resolution options	End-June 2018 (proposed resetting from end-December 2017)

Technical Memorandum of Understanding

1. This Technical Memorandum of Understanding (TMU) defines the structural and quantitative benchmarks and performance criteria to monitor the program supported by the Extended Credit Facility for the period January 1, 2017 through the end of the arrangement. It also specifies the periodicity and the deadlines for the transmission of data to Fund staff for program monitoring purposes.

2. Unless otherwise specified, the government is defined in this TMU as the central administration of the Togolese Republic. It does not include any political subdivisions, the Central Bank of West African States (BCEAO), or any public entity with a separate legal personality.

3. Unless otherwise indicated, public entities are defined in this TMU as majority government-owned companies, and other public entities receiving earmarked tax and quasi-tax revenues.

I. Definition of Terms

For program purposes, the definition of **debt** is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to IMF Executive Board Decision No. 15688-(14/107), adopted on December 5, 2014.[1]

(a) For the purpose of these guidelines, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms; the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected

[1] http://www.imf.org/external/pp/longres.aspx?id=4927.

service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines, the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

4. **Public debt** includes obligations of the central government and public entities.

5. **Domestic debt** is defined as debt contracted or serviced in the franc of the Financial Community of Africa (CFAF), while external debt is defined as debt contracted or serviced in a currency other than the CFAF.

6. A debt is considered contracted for purposes of the program at the time of issuance of a "no objection" opinion by the Supreme Court, where such an opinion is required under domestic law. Otherwise, a debt will be considered contracted when it enters into effect.

II. QUANTITATIVE PERFORMANCE CRITERIA AND INDICATIVE TARGETS

7. For program monitoring purposes, periodic quantitative performance criteria (PCs) and indicative targets (ITs) are set for end-December 2017 and end-June 2018, and the indicative targets for end-March 2018.

The PCs include:

(a) a floor on domestic primary fiscal balance;
(b) a zero ceiling on accumulation of arrears on external public debt;
(c) a ceiling on net domestic financing;
(d) a zero ceiling on government contracting or guaranteeing of nominal nonconcessional external debt;
(e) a zero ceiling on government guaranteeing of domestic loans to suppliers and contractors;
(f) a zero ceiling on government guarantees on bank prefinancing for public investments.

The ITs are:

(a) a floor on total fiscal revenue;
(b) a floor on total domestically financed social spending.

A. Domestic Primary Fiscal Balance

Definition

8. **The domestic primary fiscal balance** is defined as the difference between (i) the government's fiscal revenue and (ii) total fiscal expenses, net of interest and capital spending financed by donors and lenders. The balances for the periods from end-June 2017 to end-December 2017 and to end-June 2018 (performance criteria) and the periods from end-June 2017 to end-March 2018 (indicative targets) must be equal to or greater than the amounts indicated in Table 1 of the attachments to the MEFP. The data are sourced from the Government Financial Operations Table (*Tableau des opérations financières de l'État* – TOFE), prepared monthly by the Directorate of Economy of the Ministry of Economy and Finance (statistical TOFE). The statistical TOFE will be prepared by the Directorate of Economy in close cooperation with revenue offices and the Treasury. The data provided by the Directorate of Economy will take precedence for program purposes.

Reporting deadlines

9. Detailed data concerning the domestic primary fiscal balance will be reported monthly within eight weeks of the end of the month.

B. Arrears on External Public Debt

Definition

10. The government will not accumulate payment arrears on external public debt (continuous performance criterion). This criterion excludes arrears on debts subject to dispute or renegotiation. The source of the data is the Public Debt Directorate.

C. Net Domestic Financing

Definition

11. **Government net domestic financing** is defined as the sum of (i) net credit from the banking sector to the government; (ii) net domestic nonbank financing of the government; and (iii) unidentified financing. Net domestic financing for the periods from end-June 2017 to end-December 2017 and to end-June 2018 (performance criteria) and the periods from end-June 2017 to end-March 2018 (indicative targets) must be equal to or less than the amounts indicated in Table 1 appended to the MEFP. The ceiling on net domestic financing shall be adjusted to make up for gaps in projected external financing for the program, as indicated in the Table above, subject to a cap of CFAF 10 billion. The performance criterion on the ceiling for net domestic financing will also be adjusted up or down in line with payments of arrears over the course of 2018. The total adjustment to net domestic financing for arrears payments over the entirety of 2018 is subject to a ceiling of CFAF 59.3 billion; the end-June performance criterion includes CFAF 29.7 billion as part of the adjustor for arrears payments.

12. **Net credit from the banking sector to the government** is equal to the balance of government claims and debts to national banking institutions in Togo. Government claims include balances in the Togolese Treasury, Treasury deposits in the central bank, Treasury deposits in commercial banks (excluding the deposits of other arms of government, such as deposits from projects financed with external resources and CNSS accounts), and blocked accounts. Government debts to the banking system include assistance from the central bank (excluding BCEAO credits to the government tied to IMF financing), assistance from commercial banks (including government securities denominated in CFA francs held by commercial banks), and deposits in postal checking accounts.

13. **Net domestic nonbank financing of the government** includes: (i) changes in the balance of government securities issued in CFA francs (including on the WAEMU regional financial market) not held by Togolese commercial banks, calculated on the basis of the initial amount underwritten; (ii) changes in the deposit accounts of Treasury correspondents; (iii) changes in various deposit accounts, including trustee accounts (*comptes de consignation*) in the Treasury and accounts in which fines and sentences are deposited pending distribution; (iv) repayment of other domestic public debt (including bank loans to the economy assumed by the government and securitized arrears) to nonbank entities (including nonresidents); and income from privatization. The assumption or securitization of debts and arrears by the government is not included in the definition of net domestic financing, whereas the repayment of that debt by the government is included.

14. **Unidentified financing** is the difference between total financing (net domestic financing plus exceptional financing) and the overall balance on a cash basis (including grants and changes in arrears).

15. **Net credit from the banking sector** to the government is calculated by the BCEAO, whereas Treasury bill and bond amounts are determined by the Agence UMOA-Titres. Net domestic nonbank financing of the government is calculated by the Togolese Treasury. Their data will take precedence for program purposes. Data are reported in the Government Financial Operations Table (statistical TOFE) prepared monthly by the Directorate of Economy of the Ministry of Economy and Finance.

Reporting deadlines

16. Data concerning net domestic financing of the government will be reported monthly within eight weeks of the end of the month.

17. Details concerning any domestic borrowing by the government will be reported every month within six weeks of the end of the month. Data on domestic borrowing will be categorized as short term (less than one year) and long term (one year or more). This rule will also be applied to government-guaranteed domestic loans to government suppliers and contractors.

D. Government or Government-Guaranteed Nominal Nonconcessional External Debt

Definition

18. The government undertakes not to contract or financially guarantee any new nonconcessional external debt at maturities of one year or more (continuous performance criterion). Nonconcessional external debt is defined as all external debt with a grant element of less than 35 percent (http://www.imf.org/external/np/pdr/conc/calculator/default.aspx). The level of concessionality of loans is calculated based on a discount rate of 5 percent. For program purposes, the value in U.S. dollars of new debt is calculated using the average exchange rate for July 2017 in the IMF's International Financial Statistics (IFS) database. This performance criterion applies not only to the debt as defined in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to IMF Executive Board Decision No. 15688-(14/107), adopted on December 5, 2014, but also to any commitment contracted or guaranteed for which no value has been received. However, this criterion does not apply to reschedulings that take the form of new debts, or to bond borrowing, Treasury bills, and Sukuk or other instruments issued in CFA francs on the WAEMU regional financial market. For the purposes of this performance criterion, "government" is understood to cover not only the definition given in paragraph 2 above, but also public institutions of an industrial or commercial nature (*établissements publics à caractère industriel et commercial* – EPIC), public administrative agencies (*établissements publics administratifs* – EPA), public scientific and technical institutions, public professional establishments, public health agencies, local authorities, public enterprises, national corporations (public corporations with financial autonomy, in which the government holds at least 50 percent of the capital), and state agencies.

E. Government-Guaranteed Domestic Loans to Suppliers and Contractors

Definition

19. The government is committed to not providing new financial guarantees for domestic loans to its suppliers or contractors (continuous performance criterion). The concept of "government" used for this performance criterion includes the definition of government in paragraph 2, public institutions of an industrial or commercial nature (EPIC), public administrative agencies (EPA), public scientific and technical institutes, public vocational establishments, public health agencies, local authorities, public enterprises, national corporations (public corporations with financial autonomy, in which the government holds at least 50 percent of the capital), and state agencies.

F. Government Guarantees on Bank Prefinancing for Public Investments

20. The government undertakes not to guarantee new bank prefinancing for public investments (continuous performance criterion). In a typical prefinancing arrangement, a private company granted a public works contract by the government obtains a loan from a domestic commercial bank or a group of commercial banks. The Ministry of Economy and Finance guarantees this loan and, at the same time, signs an unconditional and irrevocable *substitution of debtor* agreement to service all principle and interest, which are paid automatically from the Treasury account at the BCEAO. The concept of "government" used for this performance criterion includes the definition of government in paragraph 2, public institutions of an industrial or commercial nature (EPIC), public administrative agencies (EPA), public scientific and technical institutions, public professional establishments, public health agencies, local authorities, public enterprises, national corporations (public corporations with financial autonomy, in which the government holds at least 50 percent of the capital), and state agencies.

G. Total Fiscal Revenue

Definition

21. Total fiscal revenue includes tax and nontax revenue, and excludes external grants, the revenue of autonomous agencies, and income from privatization. The data are calculated by revenue offices and reported in the Government Financial Operations Table (statistical TOFE) prepared monthly by the Directorate of Economy of the Ministry of Economy and Finance. The revenue is reflected on a cash basis.

22. Revenue collection for the periods from end-June 2017 to end-December 2017, end-March 2018, and end-June 2018 must be equal to or greater than the amounts indicated in Table 1 attached to the MEFP. The revenue floor is an indicative target for the entire duration of the program.

Reporting deadlines

23. This information will be reported monthly to the IMF within four weeks of the end of the month.

H. Domestically Financed Social Spending

Definition

24. Total (current and capital) domestically financed social spending is calculated for each category of current and capital accounts (wages, goods and services, transfers and subsidies, other) and capital accounts financed with domestic resources. In a national context, social spending is considered to be public expenditure targeting the following social sectors: (1) Ministry of Education: primary and secondary education, technical and vocational training, and higher education with respect to scholarships and relief allowances: (i) scholarships are awarded to students in need who are pursuing their undergraduate degree (article 21 of Decree No. 2011-173/PR of November 30, 2011, regarding the reform of the scholarship, internship, and relief allowance system, and article 1 of Decree No. 2011-174/PR of November 30, 2011, establishing the scholarship, internship, and relief allowance rates); (ii) relief allowances are granted to students recognized as belonging to a disadvantaged or vulnerable category (article 31 of Decree No. 2011-173/PR of November 30, 2011, regarding the reform of the scholarship, internship, and relief allowance system, and article 2 of Decree No. 2011-174/PR of November 30, 2011, establishing the scholarship, internship, and relief allowance rates); (2) Ministry of

Health; (3) Ministry of Social Action, Advancement of Women, and Literacy; (4) Ministry of Grassroots Development, Crafts, Youth, and Youth Employment; (5) Ministry of Agriculture, Livestock, and Fisheries; (6) Ministry of Mines and Energy (rural electrification projects); (7) Emergency Program for Community Development (*Programme d'Urgence de Développement Communautaire* – PUDC); involved in financing basic socio-economic development actions through socio-economic projects and infrastructure in rural and semi-urban areas (schools, health centers, drinking water and basic sanitation points, rural roads, hydro-agricultural schemes, infrastructure for storing and processing agricultural products, rural electrification, and more generally access to all sources of energy); (8) Support Program for Vulnerable Populations (*Programme d'Appui aux Populations Vulnérables* –PAPV). Total current and capital social expenditure financed with owner equity covers spending financed with domestic resources, including revenue, domestic financing, and general foreign budgetary support, and excludes all social spending financed with project-specific grants or loans. The source of the data is SIGFiP, from the Budget Directorate (Ministry of Economy and Finance) prepared at monthly intervals.

25. Social spending financed with domestic resources for the periods from end-June 2017 to end-December 2017, end-March 2018, and end-June 2018 must be equal to or greater than the amounts indicated in Table 1 attached to the MEFP. The data provided by the Budget Directorate and the Directorate of Economy will take precedence for program purposes. The floor on (current and capital) social expenditure financed with domestic resources is an indicative target for the entire program period.

Reporting deadlines

26. The data on social expenditure financed with domestic resources will be reported every month within eight weeks of the end of the month.