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**Togo:** Staff-Monitored Program: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

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December 21, 2006

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December 21, 2006

Mr. Rodrigo de Rato  
Managing Director  
International Monetary Fund  
Washington, D.C. 20431

Dear Mr. de Rato,

Following a decade of economic stagnation and political instability, Togo has embarked on momentous political and economic changes. The political agreement signed by all major political parties in August 2006 has strengthened the framework for holding free and fair elections in 2007. A national unity government was formed in September 2006. Over the last year, we have initiated important economic reforms, in particular in public finance, the cotton sector, and banking.

The government requests that our economic policies be supported by a nine-month Staff-Monitored Program (SMP) for the period October 1, 2006 through June 30, 2007. Our policies are specified in the attached Memorandum of Economic and Financial Policies and Technical Memorandum of Understanding. The SMP's main purpose will be to support our efforts to maintain macroeconomic stability and improve governance, especially in the fiscal area, but also in banking and public enterprises. During the SMP period, we will intensify our efforts to set the conditions necessary for restarting external assistance programs with other international partners, including the World Bank, the AfDB, and the European Union.

If the SMP targets through end-June 2007 are met and we reach understandings on program financing and external arrears clearance, we would like to request the approval of a PRGF arrangement in the second half of 2007. Such an arrangement would help maintain macroeconomic stability and support a medium-term reform strategy aimed at raising economic growth and reducing poverty. In preparation, we are updating our Interim Poverty Reduction and Growth Strategy in a broad consultative effort. A PRGF arrangement would also open the way for debt relief under the HIPC initiative and MDRI.

Throughout the SMP, the government will consult with the Managing Director and Fund staff, at its own initiative or at your request, on Togo's economic and financial policies. We will provide Fund staff with the information it requests for monitoring program implementation.

Sincerely yours,

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Minister of Finance, Budget and Privatization

## TOGO: MEMORANDUM OF ECONOMIC AND FINANCIAL POLICIES

### I. BACKGROUND

1. Following a decade of political and social instability, economic stagnation, and suspension of donor assistance, a national consensus has been reached to reform Togo's political and institutional framework and normalize relations with the international community. In August 2006, all political parties signed a historic agreement defining a roadmap for holding free and fair legislative elections in 2007. A government of national unity was formed in September, including the ruling party, opposition parties, and members of civil society. An independent national electoral commission was formed in October 2006.

2. In parallel with the political reform process, Togo will have to address its protracted economic problems. After a favorable economic environment and rising living standards in the 1970s and 1980s, real per capita income declined significantly between 1990 and 2005. Togo's main donors and lenders suspended assistance in the mid-1990s as political conflict contributed to a weakening of economic policies and reform. A relaxation of fiscal discipline, combined with a sharp drop in foreign aid, led to a rapid accumulation of arrears. Adverse terms of trade, poor internal pricing policies, and weak management caused mounting losses of public enterprises, in particular in the cotton and phosphate sectors, which accumulated large arrears to farmers, suppliers, and banks. As a result, Togo's large state-owned banks are burdened by high nonperforming loans, and some are highly undercapitalized.

3. The economic decline has reduced living standards for large segments of the population. Poverty has deepened in rural areas, and pockets of extreme poverty exist in urban areas, including the capital. The weakness of public finances has eroded resources for vital public services such as health and education, where there is a significant backlog in maintaining hospitals and schools, while hiring and wage freezes have led to serious bottlenecks in staffing schools and health facilities.

4. In this difficult economic environment, Togo's membership in the West African Economic and Monetary Union (WAEMU) has been an anchor of macroeconomic stability. Inflation has remained moderate, supported by the monetary policy of the regional central bank (BCEAO) and anchored by WAEMU fiscal policy targets. External imbalances have widened in recent years due to the problems in key export sectors, higher oil prices, and an appreciation of the real effective exchange rate. International reserves have, however, remained stable, as inflows private transfers and capital have largely offset the increase in the trade deficit.

5. Implementation of fiscal policy has been constrained by severe weaknesses in expenditure management and budgetary transparency. There were frequent expenditure overruns and large expenditures through off-budget operations and exceptional procedures, resulting in the accumulation of substantial domestic and external arrears. As a result, budget execution deviated frequently from budget provisions, and the budget process ceased to be an effective instrument of economic policy.

6. Since 2005, we have taken important reform measures to restore sound economic policies. Several of these were coordinated with IMF staff as prior actions for the SMP. In particular:

- Reforms have been launched in the **cotton sector**. Domestic producer and input prices were adjusted to reflect international price levels. An audit of arrears to cotton farmers by the state-owned cotton company SOTOCO was completed in June 2006. The government paid a quarter of these arrears in July and adopted a repayment schedule for the remaining tranches in 2006 and 2007. A financial and strategic audit of SOTOCO was initiated to examine the reasons for past arrears and provide a basis for a sector reform strategy.
- Important measures have been taken to strengthen **fiscal governance**. The management of the customs and tax administration was replaced and all bank accounts of the tax and customs administration outside the control of the treasury were closed. All tax and customs revenues are now transferred, at least once a week, to the treasury's account at the central bank (BCEAO). The proceeds of the 2006 regional bond issue were also deposited at the BCEAO. The treasury now reviews once a month whether reported tax and customs revenues match inflows to the treasury account. A review of bank accounts of autonomous public agencies was completed.
- The government has made efforts to address the difficulties of state-owned **banks**. The state took over in early 2006 CFAF 23 billion of bad loans of SOTOCO, in recognition that the company had undertaken infrastructure work in rural areas and that its losses largely reflected the state's pricing policies that kept producer prices above (and input prices below) market prices. The government has intensified its monitoring of the liquidity situation of state-owned banks and considered the general principles of contingency plans.

## **II. STAFF-MONITORED PROGRAM**

### **Objectives**

7. The main purpose of our Staff-Monitored Program (SMP) is to safeguard economic stability and make progress on economic reform in a period of political reconciliation and reform. To this end, we will focus on improving governance and transparency in the fiscal area, the banking sector, and public enterprises. Strong performance under the SMP through June 2007 should provide the necessary track record for a PRGF arrangement, which could open the way for eventual debt relief under the HIPC initiative and MDRI.

### **Economic outlook for the remainder of 2006 and for 2007**

8. Real GDP growth is projected to pick up moderately in 2006, driven by trade and transport services related to Togo's increasing role as a hub for regional trade. Dynamism in these services, but also in construction, is expected to offset the effect of declining production of cotton and other cash crops. After a spike in 2005, inflation is on course to return to the low single digits in 2006. The trade deficit is expected to widen significantly in

2006 due to higher oil prices and declining exports. The impact on the current account deficit is likely to be partly mitigated by strong growth in remittances. Despite the higher current account deficit, international reserves are expected to remain broadly stable reflecting rising capital inflows, including a five-year government bond issue on the regional market, which was oversubscribed. Direct investment and trade related short-term capital flows are projected to increase alongside growing regional trade.

9. The outlook for 2007 points to continued economic recovery, with real GDP growth conservatively estimated at 3 percent. Inflation is expected to remain subdued, as oil prices stabilize and food prices remain contained. We will remain vigilant about growing external imbalances and adjust our policies if necessary.

### **Fiscal policy**

10. Updated projections for 2006 show a moderate domestic primary fiscal deficit, somewhat above the small deficit in 2005. The revenue-to-GDP ratio is expected to remain broadly unchanged, with relatively strong customs collection due to higher imports and efforts of the tax administration to recover tax arrears. The wage bill is expected to grow strongly in 2006 and 2007, as the long-lasting wage freeze for civil servants is lifted and as teachers who were employed as contractuels during a long hiring freeze are converted into civil servants and their salaries gradually adjusted to reflect those of other teachers. At the same time, unclassified and off-budget spending is projected to fall in 2006. Capital expenditure financed by our recent regional bond is supporting the upgrading of critical infrastructure, hospitals, water, sanitation, and schools. We also paid a first installment to clear SOTOCO's arrears to cotton farmers and will pay another CFAF 6 billion before the end of 2006. Following years of substantial arrears accumulation, we expect that domestic arrears of the central government will decrease somewhat in 2006. Moreover, we plan to carry over a substantial cushion of deposits into 2007 to continue our capital program and transfers for arrears clearance to cotton farmers.

11. We have submitted to parliament a conservative draft 2007 budget law that supports macroeconomic stability in an election year and avoids the accumulation of domestic arrears. The primary deficit will need to be reduced significantly, as we will not issue any further debt on the regional market, and we will need to retain sufficient contingent resources for possible bank restructuring and external arrears clearance. Tax revenues are expected to grow somewhat faster than nominal GDP, based on our recent and planned reforms of tax and customs. Total domestic expenditures will decline modestly in nominal terms as unclassified spending is cut strongly. Civil servants wages will be increased in line with nominal GDP growth following a 10-year wage freeze. The regularization of contractual teachers will continue to contribute to a rising wage bill, although the total wage bill will remain below the ceiling set by the WAEMU conversion criterion of 35 percent of tax revenue. We intend to settle in full all of SOTOCO's arrears to cotton farmers, with payments in April and September 2007, although the latter payment would be contingent on identifying donor financing.

12. Budget implementation in 2006 and 2007 will require that we take measures to enhance budget transparency, bolster revenue collection, and control expenditure based on

technical assistance recommendations from the IMF, the World Bank, the AfDB, and the UNDP. We have specified several structural benchmarks under the SMP (Table 2) to this end.

- Regarding revenues, we are bolstering administration through internal and external audit units in both tax and customs, while proceeding with the computerization of customs. Moreover, the state inspector general will conduct a review to certify that after the closure of special bank accounts outside the treasury on May 8, 2006, all revenues collected through September 2006 were transferred to the treasury.
- Regarding expenditure control, we recognize that there is an urgent need to return to orderly procedures for committing, verifying, and paying expenditures in order to avoid arrears and make sure that budget allocations are respected. To this end, after eliminating off-budget spending and significantly reducing unclassified spending, we aim to achieve another large reduction in unclassified spending and the use of exceptional procedures in 2007. To that end, we have included in the draft 2007 budget the necessary lines for all expenditures and we will request IMF technical assistance for public financial management. An international auditor will complete an audit of all domestic debt and arrears, with a view to preparing a strategy for regularizing valid arrears over the medium term (Table 2).
- We aim to strengthen the monitoring of budget execution, where a number of weaknesses exist, partly due to lack of funding and technical capacity. To this end, we will seek additional technical and financial assistance to strengthen capacity and computer systems. We are also working on establishing as soon as possible the national audit court (*cour des comptes*) as required by WAEMU in order to provide for a regular review of budget execution and the treasury accounts. We have established a coordination unit reporting to the Minister of Finance charged with monitoring the implementation of the SMP and other programs with international institutions in order to facilitate the exchange of information and the coordination of the policy dialogue.

13. As noted above, the precarious situation of the banking sector has required repeated intervention by the government. We recognize that as the main shareholder of large state-owned banks, it is critical for the government to monitor closely their liquidity situation in close coordination with the BCEAO and the regional Banking Commission. We will inform Fund staff in case of liquidity pressures and provide data on a regular basis (Table 2). We are committed to preparing a comprehensive bank restructuring plan during the SMP period, in close consultation with IMF, World Bank, BCEAO, and the regional Banking Commission. The ultimate objective is to find strong private strategic investors and strengthen the banks' balance sheet in line with the requirements of the Banking Commission.

14. Regarding public enterprise, we recognize the importance of addressing the problems of the cotton and phosphate sectors. Financial and strategic audits are expected to be completed in early 2007 (Table 2), which would allow us to launch a sector reform strategy. We will seek financial and technical support from donors and the World Bank for the preparation and implementation of this strategy. For the phosphate sector, we intend to

conduct a financial and strategic audit, with the ultimate objective of ensuring that the company is managed by a strong strategic investor and can return to production and exports at full capacity. We are also working toward improving the investment climate. To that end, we are working on a new investment code in line with work done at the regional level. We will also explore avenues for cutting the cost of doing business and streamlining taxation. To this end, we will seek IMF technical assistance on tax policy.

### **Preparation of a medium-term strategy for economic growth and poverty alleviation**

15. A medium-term strategy that enjoys broad popular support is needed to guide Togo's policymakers in defining and implementing pro-growth and poverty-reducing macroeconomic policies. We are therefore updating Togo's Interim Poverty Reduction Strategy Paper (I-PRSP)—adopted by the government in November 2004—in a broad consultative process with members of the unity government, members of civil society, and international organizations. It will describe priority structural and social programs for the next three years and specify external financing needs. It will contain an updated assessment of the dimensions and causes of poverty in Togo, and discuss potential sources of economic growth.

16. The implementation of the medium-term strategy will require extensive support from donors and multilaterals. During the SMP period, we intend to reengage with our development partners, with an initial focus on technical assistance and capacity building. We will also initiate discussions with creditors on mechanisms for clearing Togo's large external arrears ahead of a possible resumption of financial assistance. Starting a new PRGF arrangement is a strategic priority for the country, as we strive to restore confidence in sound governance and macroeconomic management, which could help attract investment and set conditions for sustained economic growth. It would also open the way for urgently needed comprehensive debt relief.

### **Program monitoring**

17. The SMP covers nine months from October 1, 2006, through June 30, 2007. Quantitative and structural benchmarks are shown in Tables 1 and 2, based on definitions in the attached Technical Memorandum of Understanding. Structural benchmarks focus on budget reform, revenue administration, expenditure management, banking sector reform, and public enterprise reform. Quarterly quantitative benchmarks are based on cumulative changes from year-end 2005 (since end-September 2006 data have not yet been confirmed with Fund staff) and include:

- a floor on the domestic primary fiscal balance;
- a floor on fiscal revenues;
- a ceiling on net domestic financing to government;
- a zero ceiling on the accumulation of domestic arrears;
- a ceiling on the accumulation of external arrears to official creditors; and
- a zero ceiling on new nonconcessional external debt contracted or guaranteed by the government.

18. A first review of the SMP will assess performance relative to year-end 2006 quantitative targets and relative to structural benchmarks through end-February 2007. A second review of the SMP will assess performance relative to end-June 2007 quantitative and structural benchmarks.

19. We intend to request approval of a PRGF arrangement in the second half of 2007 contingent on: (i) meeting the SMP targets through end-June 2007; (ii) obtaining financing assurances from donors; and (iii) reaching understandings on external arrears clearance with official creditors.

Table 1. Togo: Quantitative Benchmarks Under the Staff-Monitored Program  
October 1, 2006—June 30, 2007  
(Billions of CFA francs; cumulative changes from Dec. 31, 2005)

	Dec. 2006	Mar. 2007	June 2007	Dec. 2007
	SMP targets			Indicative targets
Domestic primary balance (floor) 1/	-19.3	-21.8	-26.3	-24.5
Total revenue (floor)	185.9	230.9	280.9	386.0
Arrears on external debt to official creditors (ceiling)	30.0	35.4	45.8	62.3
Domestic payments arrears (ceiling) 2/	0.0	0.0	0.0	0.0
Net domestic financing (ceiling) 3/	27.9	31.3	37.6	23.0
Central government contracting or guaranteeing of nonconcessional external debt (ceiling)	0.0	0.0	0.0	0.0

1/ Excluding grants and foreign-financed project spending.

2/ Changes in the stock.

3/ Including financing through the regional market.

Table 2. Structural Benchmarks Under the Staff-Monitored Program  
October 1, 2006—June 30, 2007

Category	Structural benchmarks	Date
Budget reform and transparency	• Submit to IMF staff the preliminary audit report of domestic government debt and arrears, and review the findings.	Feb. 2007
	• Close expenditure commitments for 2006 budget by end-November 2006 and finish issuance of payment authorizations by end-December 2006.	Dec. 2006
Expenditure management	• Provide monthly data on expenditure based on exceptional payment orders and limit those without prior budgetary line indication for the period Jan-June 2007 at 6 percent of total expenditure.	June 2007
Revenue administration	• Issue decree on tax administration that sets up an external tax audit service and an internal audit unit.	Feb. 2007
	• Make advanced computer software ( <i>SYDONIA++</i> ) operational in customs administration.	April 2007
Banking sector	• Establish a mechanism for the Minister of Finance to monitor liquidity of state-owned BTCl and UTB on a daily basis. Alert staff about any liquidity pressures. Provide staff with disaggregated liquidity data on a regular basis, as indicated in the TMU.	Continuous from Dec. 2006
	• Design a comprehensive time-bound restructuring plan for BTCl and UTB in coordination with Fund banking experts, the World Bank, and the regional banking commission.	June 2007
Public enterprise reforms	• Complete financial audit of SOTOCO by February 2007 and the strategic audits by April 2007.	April 2007
	• Launch financial and strategic audit of phosphate sector.	June 2007

## TECHNICAL MEMORANDUM OF UNDERSTANDING

December 21, 2006

1. This Technical Memorandum of Understanding (TMU) defines the quantitative benchmarks for Togo's staff-monitored program from October 1, 2006 to June 30, 2007. The benchmarks for end-December 2006, end-March 2007, and end-June 2007 are presented in Table 1 of the Memorandum of Economic and Financial Policies (MEFP) dated December 21, 2006, attached. This TMU also sets the deadlines for reporting data to IMF staff for program-monitoring purposes.

### I. DEFINITION OF TERMS

2. For the purpose of this technical memorandum, the following definitions of "debt," "government," "payments arrears," and "government obligations" will be used:

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

- (b) **Government** refers to the central government of the Republic of Togo; it does not include any political subdivision, the central bank, or any government-owned entity with a separate legal personality.
- (c) **External payments arrears** are external payments due but not paid.
- (d) **Domestic payments arrears** consist of (i) the Treasury float, including short-term notes outstanding; (ii) utility invoices for which the payment order has not yet been issued; (iii) arrears on wages and pensions for which the payment order has not yet been issued.
- (e) **Government obligation** is any financial obligation of the government verified as such by the government (including any government debt that is covered by an agreement with its creditors).

## II. QUANTITATIVE BENCHMARKS

### A. Domestic Primary Balance

#### Definition

3. The **domestic primary fiscal balance** is defined as the difference between (i) the government's fiscal revenue and (ii) total fiscal expenditure, net of interest and current and capital expenditure financed by donors. The deficit in the periods from end-December 2005 to end-December 2006, end-March 2007, and end-June 2007, respectively, will not exceed the amounts indicated in Table 1 attached to the MEFP. The source of the data is the fiscal reporting table (TOFE) prepared monthly by the Economic Directorate of the Ministry of Finance. The data provided by the Economic Directorate will be considered authoritative in the context of the program.

#### Reporting deadlines

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

### B. Net Domestic Financing

#### Definition

5. **Net domestic financing of the government** is defined as the sum of (i) **net bank credit to the government** and (ii) **net nonbank domestic financing of the government**, including government securities issued in CFA francs on the WAEMU regional financial market that are not held by Togolese commercial banks. Domestic financing in the periods from end-December 2005 to (i) end-December 2006, (ii) end-March 2007, and (iii) end-June 2007, respectively, will not exceed the amounts indicated in Table 1 of the MEFP.

6. **Net bank credit to the government** is equal to the balance of claims and debts of the government vis-à-vis national banking institutions. Claims of the government include balances of the Togolese Treasury, deposits of the Treasury with the central bank, deposits of the Treasury with commercial banks (excluding deposits of other government entities, such as autonomous agencies and projects), escrow accounts, and CNSS deposits with commercial banks. Government debt to the banking system includes central bank financing, commercial bank lending (including government securities held by commercial banks), and deposits held with the CCP.

7. The target for end-December 2006 is based on the change in the stock of net bank credit to the government from December 31, 2005; the quarterly targets for end-March and end-June 2007 are based on the cumulative change from end-December 2005.

8. **Net nonbank domestic financing** includes: (i) the change in the stock of government securities issued in CFA francs on the WAEMU regional financial market not held by Togolese commercial banks; (ii) the change in the deposit accounts of Treasury correspondents; and (iii) the change in miscellaneous deposit accounts at the Treasury and accounts for fines and penalties pending distribution.

9. Net bank credit to the government and the amount of Treasury bill and bond issues in CFA francs on the WAEMU regional financial market are calculated by the BCEAO and net nonbank financing of the government is calculated by the Togolese Treasury. Their figures will be considered authoritative in the context of the program. The data are reported in the TOFE prepared monthly by the Economic Directorate of the Ministry of Finance. The assumption by the government of bank claims on the economy during the program period is excluded from the definition of net domestic financing, while the amortization by the government of such claims is included.

### **Reporting deadlines**

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

## **C. Total Revenue**

### **Definition**

11. Total fiscal revenue includes tax and nontax revenue, and the revenue of the special accounts and autonomous agencies. The data are calculated by the revenue collection agencies (*régies financières*) and are reported in the TOFE prepared monthly by the Economic Directorate of the Ministry of Finance.

12. The increase in revenue in the periods from end-December 2005 to (i) end-December 2006, (ii) end-March 2007, and (iii) end-June 2007, respectively, will be at least equal to the amounts indicated in Table 1 of the MEFP.

### **Reporting deadlines**

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

## **D. Domestic Payments Arrears**

### **Definition**

14. The net accumulation of **domestic payments arrears**, defined in paragraph 2(d) above, for the periods from end-December 2005 to (i) end-December 2006, (ii) end-March 2007, and (iii) end-June 2007, respectively, will not exceed the cumulative amounts indicated in Table 1 attached to the MEFP. The government undertakes to accumulate no further domestic payments arrears on the government financial debt, as defined in paragraph 2(e) above. The source of the data on domestic payments arrears is the Treasury for the Treasury float and the Economic Directorate for other arrears. Data on the change in arrears will be reported in the TOFE prepared monthly by the Economic Directorate of the Ministry of Finance.

### **Reporting deadlines**

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

## **E. Arrears on External Debt to Official Creditors**

### **Definition**

16. **Government debt** consists of the stock of debt held or guaranteed by the government. Under the program, accumulation of external payments arrears on the government debt will not exceed the amounts indicated in Table 1 of the MEFP for the periods from end-December 2005 to (i) end-December 2006, (ii) end-March 2007, and (iii) end-June 2007, respectively. No payments arrears will be incurred on Treasury bills and bonds issued in CFA francs on the WAEMU regional financial market, or on debt covered by agreements between the government and its creditors. The data source will be the Directorate of Public Debt.

## Reporting deadlines

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

### F. Nonconcessional External Debt Contracted or Guaranteed by the Government

#### Definition

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

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

#### Reporting deadlines

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

### III. STRUCTURAL BENCHMARKS

21. This section elaborates on the structural benchmarks shown in Table 2 of the MEFP.
- a. *Submit to IMF staff the preliminary audit report of domestic government debt and arrears, and review the findings (February 2007).* The report should indicate the amounts of domestic debt and arrears broken down by main categories. The authorities should coordinate with Fund staff to provide comments on the draft report to the auditor and to identify any follow-up actions.
  - b. *Close expenditure commitments for 2006 budget by end-November 2006 and finish issuance of payment authorizations by end-December 2006 (December 2006).* All expenditure commitments (*engagements*) should be terminated by end-November 2006 (except for salaries, project spending, and debt service) and all 2006 budget payment authorizations (*ordonnancements*) should be sent to the Treasury by end-December 2006. The actual payments (*réglements*) by the Treasury related to the 2006 budget

commitments should be completed by the end of the complementary period (*période complémentaire*), by end-February 2007.

- c. *Provide monthly data on expenditure based on exceptional payment orders and limit those without prior budgetary line indication for the period Jan.-June 2007 at 6 percent of total expenditure (June 2007).* Exceptional payments orders include all payment orders sent directly to the Treasury without a payment authorization or express payment order sent to the directorate of finance (*ordres de paiements sans télégramme lettre*). Total expenditure includes all domestically financed spending. Data requirements are in paragraph 23 e of the TMU. Fund technical assistance staff have recommended several measures that could be considered to help achieve the intended reduction in exceptional payments: (i) for all spending lines (*allocation budgétaire*) a credit of 25 percent of the annual budget allocation should be opened at the beginning of each quarter; (ii) payment orders (*ordres de paiements*) should be executed through simplified procedure (*procédure simplifiée*), including ex-ante authorization (*visa*) of the department of financial control (*control financier*), and should normally be executed within three days from the reception of the payment order; (iii) emergency procedures (*procédures d'urgence*) should be avoided and petty cash funds (*regies d'avances*) used instead; and (iv) the directorate of finance (*direction générale des finances*) should be informed on a monthly basis by the Treasury on payments authorization and orders received and settled, and those not yet settled under the current budget.
- d. *Issue decree on tax administration that sets up an external tax audit service and an internal audit unit (February 2007).* The external audit unit should be in charge of conducting controls to ensure that the tax declarations follow the tax code. The internal audit unit should be in charge of ensuring that amount paid by the taxpayers to the collecting agent and the tax receipts deposited with the customs and tax administration are reconcilable. The deadline relates to the signing of the decree.
- e. *Make advanced computer software (SYDONIA++) operational in customs administration (April 2007).* The computer software should be usable in the main five customs offices (headquarters, the offices at the port and airport, and the two main border offices). Adequate human and financial resources should be available for the operation of the system.
- f. *Establish a mechanism for the Minister of Finance to monitor liquidity of state-owned BTCI and UTB on a daily basis. Alert staff about any liquidity pressures. Provide staff with disaggregated liquidity data on a regular basis, as indicated in the TMU (continuous from December 2006).* The monitoring mechanism should ensure that the Minister of Finance has access to daily information and is alerted in case of liquidity pressures, while the day-to-day monitoring could be delegated to others, including the national branch of the BCEAO. See paragraph 27 of the TMU for reporting requirements.
- g. *Design a comprehensive time-bound restructuring plan for BTCI and UTB in coordination with Fund banking experts, the World Bank, and the regional banking commission (June 2007).* The restructuring of the banking sector should take into account recommendations of a forthcoming IMF technical assistance mission, which will assess

the soundness of the banking sector and provide recommendations and options for restructuring BTCI and UTB. The plan should be discussed with IMF staff, World Bank staff, and the regional supervisor. The plan should include a time table for its implementation. The deadline refers to the submission of a draft strategy paper to IMF staff.

- h. *Complete financial audit of SOTOCO by February 2007 and the strategic audits by April 2007 (April 2007).* The financial audit should be based on the terms of reference for the study on the cotton sector in Togo titled "*Stratégie de réforme sectorielle de la filière cotonnière du Togo, Audit des dettes et créances de la SOTOCO vis-à-vis de tous es fournisseurs : diagnostic organisationnel et proposition de reformes institutionnelles*", Part 1 titled: "*Audit de la situation financière de la filière coton au 31 décembre 2005 et analyse détaillée des comptes de résultats et flux de campagne*". The auditor's preliminary report on this part should be sent to IMF staff by end-February 2007. The final report of the financial audit and a draft report for the second part of the study on the restructuring of the cotton sector ("*Plan de restructuration progressive de la filière*"), should be sent to IMF staff by end-April 2007.
- i. *Launch financial and strategic audit of phosphate sector (June 2007).* This includes preparing terms of reference in consultation with Fund staff and World Bank staff and publishing a competitive tender by end-June 2007.

#### IV. ADDITIONAL INFORMATION FOR PROGRAM MONITORING

##### A. Real Sector

22. The government will report to Fund staff:
- a. the monthly disaggregated consumer price indices, within four weeks of the end of each month;
  - b. the national accounts, within six months of the end of the year;
  - c. any revision to the national accounts.

##### B. Government Finance

23. The government will report to Fund staff:
- a. tax and nontax revenue collected by the General Directorate of Taxes: (1) assessments and collections (*émissions et recouvrements*) of tax revenues; (2) assessments and collections of nontax revenues; (3) a breakdown of collections of taxes and levies in previous years (*recouvrements sur exercices antérieurs des impôts et taxes*); and (4) a detailed table of payments and offsetting transactions (*apurements et compensations*); these data will be reported on a monthly basis within four weeks of the end of the month;
  - b. the statement of direct and indirect taxes assessed and collected by the Customs Administration; these data will be reported on a monthly basis within four weeks of the end of the reference month;
  - c. monthly data on execution of the general budget/statement of commitments (*engagements*) and payment authorizations (*ordonnancements*): current expenditure on goods and services (*dépenses de matériels*) of ministries and units; these data will be reported on a monthly basis within four weeks of the end of the month;
  - d. monthly data on the statement of personnel commitments (*engagements*) and payment authorizations (*ordonnancements*); these data will be reported on a monthly basis within four weeks of the end of the month;
  - e. monthly data on payment orders (*ordres de paiements*) with or without an express payment order sent to the directorate of finance (*télégramme lettre*) issued by the Treasury, broken down by category of expenditure, within four weeks of the end of the reference month;
  - f. monthly data on the general balance of the Treasury accounts (*balance générale des comptes du Trésor*); these data will be reported on a monthly basis within eight weeks of the end of the month;
  - g. detailed monthly data on revenue and expenditure, and on domestic and external financing, including payments of domestic and external arrears (TOFE); these data will be reported monthly within eight weeks of the end of the month;
  - h. monthly statement of Treasury payments, cumulative summary statements of monthly payments, and monthly statements of Treasury outstanding balances (*restes à payer*) (*settlement section –section règlement*); these data will be reported on a monthly basis within four weeks of the end of the reference month;

- i. detailed monthly statement of the deposit accounts of Treasury correspondents (*dépôts des correspondants au Trésor*);

### **C. Public Investment Program**

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

### **D. Public Debt**

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

### **E. Money and Banking**

26. Each month the authorities will report to IMF staff, within eight weeks of the end of each month:
  - a. comprehensive survey of monetary institutions, central bank survey, survey of depositary corporations, and net government position vis-à-vis the banking system;
  - b. average lending and borrowing rates of the banking sector.
27. The authorities will send to IMF staff, within four weeks of the end of each month:
  - a. a table on the change in the required and constituted reserves of the BTCI and UTB held with the BCEAO, on the basis of daily data;
  - b. the monthly balance sheet (report form DEC 2000) of the BTCI, UTB, and BIA;
  - c. monthly change in deposits of the BTCI and UTB, by customer type (private and public).

### **F. Balance of Payments**

28. The government will report to Fund staff:

- a. partial and preliminary annual balance of payments data, within six months of the end of the year in question, and annual balance of payments data within 12 months of the end of the year in question;
- b. any revision to the balance of payments data (including services, private transfers, official transfers, capital transactions) as soon as they are revised;
- c. monthly data on private transfers, including assessments of rapid funds transfer activities.

**G. Structural Reforms and Other Data**

29. The government will report to Fund staff:
- a. any study or official report on the economy of Togo, within two weeks of its publication;
  - b. any decision, order, law, decree, ordinance, or circular with economic or financial implications, as soon as it is published or, at the very latest, once it takes effect.