

International Monetary Fund

[Togo](#) and the IMF

Togo: Letter of Intent, and Technical Memorandum of Understanding

Press Release:

[IMF Executive Board
Completes First
Review Under Togo's
PRGF Arrangement,
and Approves
Increase in Financial
Support by US\\$29
million](#)

September 22, 2008

[Country's Policy
Intentions Documents](#)

E-Mail Notification

[Subscribe](#) or [Modify](#)
your subscription

September 12, 2008

The following item is a Letter of Intent of the government of Togo, which describes the policies that Togo intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Togo, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

LETTER OF INTENT

Lomé, Republic of Togo
September 12, 2008

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

Dear Mr. Strauss-Kahn:

Further to my letter dated March 28, 2008, and the accompanying Memorandum of Economic and Financial policies (MEFP), I am pleased to report on the good progress the Togolese authorities have made in implementing our three-year economic program supported by the IMF's Poverty Reduction and Growth Facility (PRGF), notwithstanding the severe shocks that have affected Togo's economy this year. I would also like to set out our policy commitments for the remainder of this year and for 2009, including measures to address the surge in global food and fuel prices and the devastating flooding in late July/early August, for which we are seeking additional financial support from the IMF and other development partners.

The profound political and economic reforms undertaken since 2006 have helped Togo overcome its long-lasting socio-political crisis and reengage with the international community, two critical preconditions for reviving the economy and improving the living conditions of our people. The important economic reforms we advanced in the context of the IMF's Staff-Monitored Program helped stabilize the economy, restore fiscal discipline, raise transparency of economic management, and initiate the restructuring of state-owned banks and enterprises.

Building on these early successes, we have started implementing our PRGF-supported economic program rooted in Togo's Interim Poverty Reduction Strategy Paper (I-PRSP). In the first half of this year, we have significantly strengthened the financial position of the state and advanced important structural reforms.

All quantitative performance criteria at end-June 2008 and all other relevant performance criteria were met (Table 1). The primary fiscal surplus far exceeded the program floor, reflecting good revenue collection, sharply reduced use of accelerated spending procedures, slow implementation of domestic investment projects, and fiscal prudence. As a result, we were able to clear wage arrears and accumulate substantial deposits. External debt service to multilaterals has been resumed, and the government has not contracted or guaranteed any nonconcessional external debt.

We have also made significant progress on structural reforms (Table 2). The structural performance criterion on setting up a General Inspectorate of Finance was met. This new institution will conduct regular ex-post inspections of all agencies handling public funds to ensure the efficiency and transparency of spending. The structural benchmark on implementing a new framework for monitoring budget execution was also met. This framework, based on a template and procedures developed with IMF technical support, allows us to monitor monthly budget execution with minimal lags and make well-founded policy decisions. The structural benchmark on initiating an audit of the phosphate sector is expected to be implemented about two months later than originally envisaged, as the World Bank, which is financing the audit, requested an additional call for expression of interest after only two companies responded initially. At the same time, we have implemented the benchmark on adopting an action plan for introducing regular treasury bill auctions more than three months early, and have already launched the first auction. Progress on preparing other structural reforms envisaged for December 2008 has been good: the comprehensive strategy for clearing Togo's large domestic arrears, prepared in close cooperation with IMF staff, is nearly complete; an audit of our local electricity company CEET is underway; and preparations on the complex task of strengthening the financial position BTCI have advanced significantly, alongside similar plans for other state-owned banks.

The PRGF-supported program has also allowed us to make major progress in normalizing relations with external creditors. On May 29, 2008, the World Bank's Board approved an exceptional IDA allocation of US\$146 million to help clear all of Togo's arrears as well as US\$17.6 million in budget support. On June 12, 2008, the Paris Club agreed to reschedule Togolese debt on Naples terms, cancelling US\$347 million of arrears and debt service due during the consolidation period and rescheduling US\$392 million. The AfDB's Board approved on July 22, 2008, the clearance of Togo's arrears (US\$24 million) through its Fragile States Facility, while also consolidating all 2008 debt service. The EU has committed to use part of its grant envelope to clear Togo's arrears to the EIB, with all 2008 debt service consolidated into the operation. China has already delivered its share of HIPC relief through debt cancellation in 2007. We are continuing our discussions on arrears clearance and debt relief with other multilateral and non-Paris Club bilateral creditors in the context of the HIPC Initiative. We hope to reach the decision point later this year.

Unfortunately, the combination of the global food and oil price shocks and the recent severe flooding has taken a heavy toll on our economy and people this year. The surge in world oil prices has widened the current account deficit significantly and eroded the profitability of Togo's vital transport sector. The food price shock has pushed up inflation and sharply reduced real incomes. The flooding displaced thousands, destroyed roads and bridges, paralyzed trade and transport, and damaged food crops. As a result of these shocks, economic growth has come to a halt this year and large new financing gaps have emerged in the balance of payments and the budget in 2008 and 2009. While we expect real GDP growth to recover to 3 percent in 2009, the large financing gaps in the balance of payments and budget will persist

as world commodity prices remain high and the rebuilding of destroyed infrastructure will stretch out well into next year.

To address the global food price surge, we have taken a number of measures to help vulnerable segments of the population while promoting local production. These policies have been supported by a social dialogue initiated by the President of Togo. To support subsistence farmers, we also sold fertilizer and seeds at subsidized prices, effectively keeping prices at the 2007 level. We have also sold grain stocks to in some local markets where shortages led to excessive price surges. To mitigate the social impact, we have cleared wage and pension arrears to public sector workers, most of which live in urban areas where the food price shock has been particularly severe. We have avoided introducing price controls, export bans, and unilateral tax exemptions that are not coordinated with other WAEMU members. Over the medium run, our main objective is to boost productivity in local agriculture by investing in rural infrastructure, improving stock and distribution systems, enhancing competition, and reducing trade barriers.

The surge in world fuel prices made the existing retail price structure unsustainable, and we thus agreed with the private oil companies on a retail price increase for gasoline and diesel in August to a level comparable with neighboring countries. We maintained tax collection on fuel products at historical levels to avoid an even larger retail price increase. To mitigate the economic and social impact (for both the food and fuel price shocks), we introduced lump-sum transfers to civil servants for the last five months of 2008. This temporary measure will be replaced by a reduction in income taxes. Moreover, we raised the minimum wage on August 1, 2008. We also decided to reduce Togo's corporate income tax rate by 7 percentage points, with a new top rate of 33 percent.

To address the devastation caused by the flooding, we have worked with donors to provide immediate emergency humanitarian relief. We are now making emergency repairs to roads and bridges to restore the vital transport links to the north, which is vital for Togo's economy as these routes support both domestic and regional trade. We have also started discussions with our development partners on the reconstruction of major bridges and roads over the next year.

For 2008, we are reallocating spending to address the adverse impact of the price shocks and the flooding while limiting the deterioration of the primary fiscal balance to $\frac{1}{2}$ percent of GDP. The shocks are projected to reduce tax revenues by about $\frac{1}{2}$ percent of GDP in 2008. The total cost of fertilizer and seed subsidies, grain distribution, temporary lump-sum transfers to employees, wage and pension arrears clearance, fuel support to the electricity sector, and emergency flood repairs is expected at about $1\frac{3}{4}$ percent of GDP. The resulting increase in spending will be partly covered by contingency lines, including some that were originally earmarked for bank and enterprise restructuring. We will also be able to realize savings from the postponement of local elections and the relatively slow implementation of some domestic investment projects. We will seek to implement all other

2008 budget allocations to counterbalance the economic downturn and safeguard essential social services. We are requesting additional project financing and budget support to cover the remaining gap.

Our draft 2009 budget aims to restore a balanced domestic primary fiscal position, implying a primary fiscal adjustment of $\frac{1}{2}$ percent of GDP. We are targeting an increase in the tax-GDP ratio by $\frac{3}{4}$ percent of GDP, supported by continued tax administration reforms and tax policy measures, including reduction of tax and customs exemptions as well as increases in alcohol and tobacco excises. These measures should more than offset the corporate tax losses resulting from the recent shocks and the reduction in the tax rate. We will reduce untargeted nonwage spending to create room for higher health and education spending, rehabilitation of infrastructure (especially reconstruction of vital roads and bridges), the implementation of the domestic arrears clearance strategy, and state-owned bank and enterprise restructuring. As Togo resumes full cooperation with development partners and implements the I-PRSP, we expect a significant increase in foreign-financed project spending. The budget will also include contingencies for exogenous shocks and shortfalls in projected external disbursements. We will submit the draft 2009 budget to parliament in November 2008.

We will press ahead with our structural reform efforts (Table 2). Strengthening of fiscal governance will remain a central goal. Following the steps that are already envisaged for 2008, we have elaborated a set of key reforms for next year. To strengthen revenue collection, we plan to eliminate several tax exemptions and give the tax and customs administrations the authority and means to conduct onsite inspections in the free economic zone. To regularize Togo's large domestic arrears, we will implement the domestic arrears strategy by issuing tradable bonds (and cash for small amounts) to suppliers whose claims have been verified by the recent external audit and validated by the government. This will help restore supplier confidence and liquidity, while stretching the budget cost over several years. We will also introduce a mechanism for monitoring domestic debt. We will strengthen treasury and cash management by introducing regular short-term treasury bill auctions and by reorganizing and strengthening the treasury based on WAEMU directives. We are seeking technical assistance to support some of these reforms, in particular on debt and treasury management. As part of the ongoing WAEMU reforms, Togo will adopt a new organic budget law and a transparency code for public financial management.

Another high priority will be to continue our efforts to strengthen the financial position of Togo's state-owned banks and attract strategic investors to ensure the health of the financial sector. Much progress has been made in preparing the exchange of nonperforming loans (NPLs) held by three state-owned banks for government securities. We will ensure that these securities are tradable so that the banks can manage their liquidity and gradually rebalance their portfolios. We intend to set up a structure and mechanism for recovering, settling, and restructuring NPLs, and to support the development of a secondary market for securities. We are aiming to attract strategic investors for all three banks and are confident that at least two

should be identified next year. These reform efforts are being supported by IMF and World Bank technical assistance.

To revive economic growth, it will be critical to rehabilitate the phosphate sector. Decrepit mining equipment, the bankruptcy of the joint venture company OTP/IFG, and power shortages have led to a worrisome decline in the extraction of Togo's high-quality phosphate, to less than a quarter of potential capacity. Moreover, the company has not been able to ensure a stable supply and its negotiated export prices have been well below world market prices. More recently, the implementation of a new commercial policy has allowed Togo to benefit from the recent surge in world phosphate prices. Investment in new equipment, for which we are seeking a strategic partner that can provide concessional financing, will be critical for economic growth, exports, and fiscal revenues. The World Bank-financed phosphate audit will help us formulate a long-term reform strategy. To support an economic recovery, we have taken measures to address the energy crisis by purchasing and rehabilitating generators, transmission lines, and transformers. We are preparing a performance contract with CEET, to become effective in 2009, and we intend to elaborate an energy sector development strategy. To improve the business environment, we intend to streamline regulations and procedures for the private sector.

Strong cooperation with our development partners will be critical for implementing these reforms, revive economic growth, and reduce poverty. In the September 2008 donor conference in Brussels, we will request additional financial and technical support from all our partners to help us implement our economic reform strategy, in particular by supporting priority sectors such as health, education, vital infrastructure (transport and energy), and agriculture. We are also in the process of preparing the full PRSP, which should be ready in early 2009.

To support our policies and in view of the good progress on implementing the PRGF-supported program, we request the completion of the first review and an augmentation of access to PRGF resources by an amount equivalent to SDR18.35 million (equivalent to 25 percent of quota), which will help us mitigate the adverse impact of the price shocks and the flooding on the balance of payments in 2008 and 2009. We request that the augmentation be disbursed in two equal amounts with the completion of the first and second reviews by the Executive Board of the IMF.

To monitor progress under our PRGF-supported economic program, we have specified performance criteria, indicative targets, and benchmarks through the end of 2009 in Tables 1 and 2 below. This includes a modification of the end-December 2008 performance criterion on the primary fiscal balance to reflect the impact of the recent shocks. The first review is now scheduled to be completed by September 22, 2008, instead of October 31, 2008. The second and third reviews planned for April 30 and October 31, 2009, would be based on performance relative to these targets. To that end, Togo will provide the Fund with all data required to monitor the program on a timely basis, in line with IMF policy and the Technical

Memorandum of Understanding (TMU) dated March 28, 2008. Updates and amendments to this TMU are attached below.

The government considers these policies and actions sufficient to achieve the program objectives, and stands ready to take other steps as needed. Togo will continue to consult closely with the IMF staff on the adoption of such steps, and in advance of any revisions to the policies discussed here and in the March 2008 MEFP. To keep the public informed, the government will publish this letter of intent and will regularly report on its progress under the program.

We are determined to see these efforts through, in collaboration with the IMF and our other partners, and bring about a much hoped-for economic revival and improvement in the livelihoods of our people.

Sincerely yours,

/s/

Adji Otèth AYASSOR
Minister of Economy and Finance

Table 1. Togo: Quantitative Performance Criteria and Indicative Targets
December 31, 2007—December 31, 2009

	2008						2009		
	June		Act.	Sep.	Dec.		Mar.	June	Dec.
	Prog. ¹	Adj. ²		Rev. ³	Prog. ¹	Rev. ³	Prog.		
(Billion CFA francs, cumulative from end of preceding year)									
Performance criteria (for end-June and end-December 2008, and end-June 2009; indicative targets otherwise)									
Domestic primary fiscal balance (floor)	-4.5	-4.5	28.3	19.7	0.0	-7.6	9.6	1.3	0.0
Nonaccumulation of external arrears ⁴
Net domestic financing (ceiling) ²	1.9	-3.1	-31.5	-18.9	-7.5	-7.5	-4.3	-5.6	-6.5
Central government contracting or guaranteeing of nonconcessional external debt (ceiling) ⁴	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Targets									
Total revenue (floor)	103.6	103.6	109.6	160.7	214.6	209.8	51.5	108.0	228.4
Domestic payments arrears, changes in stock (ceiling)	0.0	0.0	-3.1	-3.1	0.0	-3.1	-1.5	-3.0	-6.0
Domestically financed social and capital spending (floor)	48.9	48.9	34.7	65.0	97.8	99.7	23.7	47.4	114.9
Projected program financing	9.6	...	16.4	16.4	24.7	32.3	0.0	18.0	33.4

¹ Letter of Intent dated March 28, 2008.

² The ceiling on net domestic financing is adjusted to reflect deviations from projected external program financing, subject to a cap of CFAF 5 billion.

³ Reflects the impact of the oil and food price surges and the recent flooding compared with the original program (Country Report No. 08/146).

⁴ Continuous performance criterion.

Table 2: Structural Conditionality for 2008

Measures	Date	Macroeconomic Rationale	Status
Fiscal governance			
Submit 2008 budget law to parliament in line with understandings with the mission.	Prior action for PRGF approval	To provide the basis for a transparent and consistent fiscal policy that aims for a balanced primary position, avoidance of new arrears, and higher growth-oriented and social spending.	Done: December 2007.
Implement a new framework for monthly monitoring of budget execution, and report data for April-June 2008 based on a new template.	Benchmark August 2008	To provide policymakers with a tool for making timely and informed spending decisions as they seek to achieve the budget objectives and mitigate the risk of fiscal slippages.	Done: July 2007.
Create a General Inspectorate of Finance under the responsibility of the Minister of Finance.	Performance criterion August 2008	To strengthen fiscal governance by introducing oversight, control, and transparency for all units handling public resources.	Done. Decree adopted on July 23. The Inspector General was appointed on August 29.
Adopt a strategy and timetable for clearing domestic arrears.	Performance criterion December 2008	To restore supplier confidence, facilitate the return to regular spending procedures, and allow a gradual reduction in the government's large stock of domestic arrears.	On track. The authorities have prepared a draft in close cooperation with IMF staff.
Financial sector			
Change management and oversight of BTCI based on terms of reference prepared in consultation with the WAMU Banking Commission.	Prior action for PRGF approval	To prevent further erosion of BTCI's capital and liquidity, to restore confidence in Togo's largest bank, and in the financial sector more broadly.	Done: February 2008.
Adopt an action plan for introducing regular Treasury bill auctions in 2009.	Benchmark December 2008	To develop the domestic securities market, promote financial sector development, improve treasury management, and avoid new budgetary arrears.	Done. The Treasury has agreed with the BCEAO on a framework for issuing t-bills on a regular basis in 2009, following one initial issue this year.
Public enterprises			
Initiate an audit of the phosphate sector, based on the competitive selection of an audit company, in consultation with the World Bank.	Benchmark October 2008 (revised from August)	To prepare the restructuring of Togo's traditionally largest export sector (currently operating at only one third of capacity), including by providing options for attracting a strategic investor.	A minor delay occurred after only two firms responded to the initial call for expression of interest. At the request of the World Bank, which is financing the audit, an additional call for expressions of interest was issued, and firms were asked to submit proposals in September.
Prepare a review of the finances of the national electricity company (CEET), in consultation with the World Bank.	Benchmark December 2008	To provide the information necessary for preparing energy sector reforms and deciding on 2009 budget allocations, as rising oil prices and regionwide electricity shortages have dampened economic growth and led to increasing demands for budget support to the energy sector.	On track. The auditor has started the review and a draft report is expected in September.

Table 2 (continued): Structural Conditionality for 2009

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

AMENDMENTS TO TECHNICAL MEMORANDUM OF UNDERSTANDINGS

Paragraphs 1, 3, 5, 11, 13, and 22 of the Technical Memorandum of Understanding dated March 28, 2008 have been modified to reflect the new test dates for the quantitative performance criteria and indicative targets through end-2009 shown in Table 1 above. Paragraph 24 has been expanded with definitions for the new structural benchmarks and performance criteria shown in Table 2 above. These changes are incorporated below.

1. This Technical Memorandum of Understanding (TMU) defines the quantitative and structural benchmarks and performance criteria a three-year arrangement under the Poverty Reduction and Growth Facility covering the period January 1, 2008 to December 31, 2010. Table 1 of the above Letter of Intent shows quantitative performance criteria and indicative targets for end-September 2008 and end-December 2008 (based on cumulative changes from January 1, 2008), and for end-March 2009, end-June 2009, and end-December 2009 (based on cumulative changes from January 1, 2009). Table 2 above shows structural performance criteria and benchmarks for 2008 and 2009. This TMU also sets out the data reporting requirements for program-monitoring purposes.

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 balances in the periods from end-December 2007 to end-September 2008 (indicative target) and end-December 2008 (performance criteria), and in the periods from end-December 2008 to end-March 2009 (indicative target), end-June 2009 (performance criteria), and end-December 2009 (indicative target) respectively, should be equal to or higher than the amounts shown in Table 1 above. 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.

5. **Net domestic financing of the government** is defined as the sum of (i) **net banking sector credit to the government** and (ii) **net nonbank domestic financing of the government**. Net domestic financing in the periods from end-December 2007 end-September 2008 (indicative target) and end-December 2008 (performance criteria), and in the periods from end-December 2008 to end-March 2009 (indicative target), end-June 2009 (performance criteria), and end-December 2009 (indicative target) respectively, should be equal to or lower than the amounts shown in Table 1 above. The ceiling on net domestic financing will be adjusted to offset deviations from projected external program financing as shown in Table 1 above, subject to a cap of CFAF 5 billion.

11. The collection of revenue in the periods from end-December 2007 to end-September 2008 (indicative target) and end-December 2008 (indicative target), and in the periods from end-December 2008 to end-March 2009 (indicative target), end-June 2009 (indicative target), and end-December 2009 (indicative target) respectively, should be equal to or higher than the

amounts shown in Table 1 above. The floor on revenue will be an indicative target throughout the program period.

13. **Domestic payments arrears** includes (i) the Treasury float (payment authorizations (*ordonnancements*) issued to the Treasury but not yet settled); (ii) utility invoices for which the payment order has not yet been issued; (iii) arrears on wages and pensions for which the payment authorization has not yet been issued; and (iv) any arrears on domestic government debt, including bonds issued in CFA franc on the WAEMU regional market. The net accumulation of domestic payments arrears for the periods from end-December 2007 to end-September 2008 (indicative target) and end-December 2008 (indicative target), and in the periods from end-December 2008 to end-March 2009 (indicative target), end-June 2009 (indicative target), and end-December 2009 (indicative target) respectively, should be equal to or lower than the amounts shown in Table 1 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. The ceiling on net accumulation of domestic payments arrears is an indicative target throughout the program period.

22. Total domestically financed social spending, for the periods from end-December 2007 to end-September 2008 (indicative target) and end-December 2008 (indicative target), and in the periods from end-December 2008 to end-March 2009 (indicative target), end-June 2009 (indicative target), and end-December 2009 (indicative target) respectively, should be equal to or higher than the amounts shown in Table 1 above. The data provided by the Economic Directorate will be considered authoritative in the context of the program. The floor on domestically financed social spending is an indicative target throughout the program period.

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

h. *Make operational a new Treasury structure based on WAEMU directives.* Following the adoption of the decree that sets up the new treasury structure, this performance criterion includes (i) the appointment of the general treasury managers in line with WAEMU directives (*Agent Comptable Central du Trésor, Receveur Général du Trésor, Payeur Général du Trésor*), and (ii) the production of the final monthly treasury balances for the months of April, May, and June 2009, including the validated entry balance for 2009, within five weeks after the end of the reference month.

i. *Reduce tax and customs exemptions and strengthen tax and customs control, including in the Free Economic Zone.* The benchmark includes the specification in the 2009 budget law of tax exemptions that are eliminated and the adoption of a decree that reduces customs exemptions. The benchmark also includes a revision of the laws and regulations governing the Free Economic Zone (FEZ) in order to ensure

regular data provision by the companies established under the FEZ and to secure the legal basis for conducting onsite inspections by the tax and customs administrations.

j. *Start implementing the domestic arrears clearance strategy by securitizing validated arrears to suppliers and setting up a mechanism for monitoring domestic debt.* Under this benchmark, arrears to suppliers verified by the KPMG audit and validated by the government should be regularized through securitization and other methods (such as cash payments for smaller amounts). The regularization of arrears should include a discount and the securities should pay an interest rate that reflects market conditions. To monitor domestic debt, the Directorate of Public Debt should (i) obtain the necessary information on an ongoing basis (e.g. loan contracts, copies of creditors' invoices, data from the treasury and BCEAO, information from audits) to be able to report past debt service and project future debt service and have up-to-date outstanding stock and arrears figures, (ii) integrate all domestic debt information into an electronic database and update it on a monthly basis (including with information on new loan contracts), and (iii) produce monthly reports on paid and projected debt service, as well as outstanding stock and arrears by creditor category. The reports should include a description on any new loan, restructuring, or cancellation agreements when applicable.

k. *Set up a structure and mechanism for managing the NPLs that have been exchanged against government securities in the bank restructuring process.* The benchmark includes the establishment of a structure and mechanism for recovering, settling, and restructuring nonperforming loans. While not required for the completion of the benchmark, the structure should ideally: (i) have a steering committee with representatives of the Treasury, the BCEAO and the Justice Ministry for monitoring its operations, (ii) be designed based on the results of a feasibility study, prepared in consultation with the IMF and World Bank, (iii) establish a deadline to finalize the recovery, settling, and restructuring process, (iv) recruit a few qualified professionals in charge of the operation, and (v) have the specific power of the treasury to recover claims.

l. *Initiate the process of identifying strategic investors for state-owned banks.* This benchmark includes: (i) the issuance of a call for expression of interest for all state-owned banks included in the securitization process, (ii) the support of a privatization expert, and (iii) the preparation of a prospectus and a data room for the selected investors. While not required for the benchmark, these actions could be supported by World Bank technical assistance.

m. *Phosphate sector: Prepare a development strategy based on the results of the strategic audit.* The benchmark includes the preparation of a strategy in consultation with World Bank and IMF staff and its adoption by the Council of Ministers. While not required for the benchmark, the strategy should include specific actions aimed at improving

investment levels, as well as managerial, marketing, and technical capacity. The strategy should also include specific deadlines for implementation, with the ultimate objective of bringing phosphate production and exports close to their potential levels. The strategy should also discuss options for attracting strategic investors.