C. Satisfactory Progress on Structural Reforms but Challenges Remain

6. **Structural reforms to strengthen fiscal governance and promote conditions for growth continued to advance** (Text Table 2, LOI ¶14–22 & Table 2). Of the four structural benchmarks for completion since the last review in June, two were fully observed, one is expected to be completed with a limited delay, and another was significantly delayed. All structural benchmarks for later this year are already met or on track for completion (see Section II.C).

7. **Reforms to strengthen fiscal governance have progressed steadily**. Actions to increase the efficiency of public expenditures and enhance treasury operations were completed, observing two end-June structural benchmarks. Despite the authorities' best efforts, domestic arrears clearance (SB end-March) has advanced more slowly than expected, because many eligible creditors have not come forward to make claims (Box 1). In October, Togo achieved a milestone by reaching candidate status under the EITI, an initiative linked to a HIPC trigger. Togo has also improved public financial management linked to other HIPC triggers, particularly in tracking priority spending, financial controls, debt management, and procurement (Togo: Enhanced Heavily Indebted Poor Countries Initiative Completion Point Document and Multilateral Debt Relief Initiative).

8. **The program's initiatives to address constraints and risks in the real sector are also advancing on or close to schedule**. The authorities are in the process of recruiting consultants to design a roadmap for the one-stop window for import procedures at the Port of Lomé, likely completing the action for this benchmark with a limited delay (SB end-September). This initiative is important for Togo's competitiveness and revenue mobilization. Following TA from FAD, the authorities are also on track to adopt a new adjustment mechanism for retail prices for petroleum products roughly on schedule (SB end-November). In particular, they have established a consultative process, which is important following public and occasionally violent protests after a price increase in June. By combining automatic pass-through of world prices with a smoothing formula, this mechanism will encourage adjustment to price trends, cushion the social impact and protect public finances.

9. **Preparations for bank privatization have advanced, albeit with significant delays owing to the need to renew the legal framework (**Box 2**).** The final call for bids, initially envisioned for the end of September, is now expected by the end of April (revised SB).

Text Table 2. Togo: Structural Benchmarks for 2010

Measures	Type	Date	Status
Fiscal governance			
Complete implementation of the strategy for clearing validated domestic arrears to private suppliers.	Benchmark	end-March 2010	Not met, but satisfactory progress (see Box 1)
Move towards a single treasury account by surveying treasury accounts in the commercial banks and the BCEAO; reduce the number of accounts by at least 30 percent.	Benchmark	end-June 2010	Done. 88 percent of the government accounts in the banking system have been closed
Simplify and reduce lag time in the public sector expenditure chain by eliminating redundant control points.	Benchmark	end-June 2010	Done
Financial sector			
Advance on the privatization process for state-owned banks by issuing a final call for bids.	Benchmark	end-September 2010	Postponed to April 2011
Set up the nonperforming loan management mechanism or structure and its operational support.	Benchmark	end-December 2010	Underway on schedule
Complete a financial and organizational audit of the CRT and begin an actuarial study of the institution.	Benchmark	end-December 2010	Done
Real Sector			
Recruit consultants to elaborate a report on the required steps to create a one-stop window at the Port Autonome de Lomé.	Benchmark	end-September 2010	Not met. Likely to be completed with a limited delay
Approve at the Council of Ministers a new adjustment mechanism for petroleum product prices.	Benchmark	end-November 2010	Underway

II. Laying the Foundations for Sustained Growth: Outlook for 2010 and 2011

A. Gradually Building Recovery

10. **Growth will likely continue to accelerate progressively in late 2010 and 2011.** Supported by important reform efforts, GDP growth in 2011 is projected to rise to 3.7 percent, primarily led by the secondary and tertiary sectors (mainly mining, electricity, communications and banking). Inflation is expected to remain around 2 percent during the year. The money supply, especially credit to the private sector, will continue to expand, fueled by output growth and the completion of the banking sector restructuring.

11. **External pressures will likely persist.** The current account deficit is projected to fall only slightly in 2011 to 7.4 percent of GDP. The trade deficit will likely widen, as rising imports driven by the upturn in growth outpaces continuing weak export growth. Nevertheless, FDI and private medium and long-term capital inflows are expected to begin to recover, as economic confidence benefits from a continuing commitment to economic and political reform.

B. Sustainable and Pro-growth Fiscal Policy

12. **Togo's 2010 budget framework remains appropriate and feasible** (Tables 3a & 3b, LOI ¶27–28)**.** The countercyclical fiscal position remains warranted in light of growth projections. End-year targets for revenue and spending remain valid in light of performance to date. The end-year projections for domestic arrears clearance have been revised downward, due to the difficulties encountered (Box 1), and the ceiling on net domestic financing (PC) has accordingly been lowered. The budget is fully financed on attractive terms that avoid significant debt accumulation, as the European Union and World Bank provided additional grants to complement the IMF program augmentation.

13. **The authorities' 2011 budget framework has an ambitious pro-investment orientation, to promote medium-term growth, while remaining feasible and consistent with debt sustainability** (Tables 3a & 3b, LOI ¶29–34).

- **Domestically financed investment spending is projected to increase to 5.0 percent of GDP, from 3.3 percent in 2010**. The authorities plan to reduce the deficit in basic infrastructure that developed during the domestic crisis, and their planned projects reflect the priorities identified in the PRSP in cooperation with development partners. The feasibility of this increase is supported by the ongoing reforms of budget execution—in particular, better project planning, the streamlining of the expenditure chain, and the installation of an integrated public financial management system (LOI, ¶17)—and the fact that the execution of investment spending in the first half of 2010 met its ambitious target (which was twice the level of the first half of 2009). Current spending will remain stable as a proportion of GDP, preserving fiscal space for investment.

- **Ongoing measures to improve revenue mobilization are expected to bear fruit in 2011, contributing to the financing of this increase in investment**. Revenue targets will rise 2.2 percentage points of GDP in 2010 to reach 19.3 percent of GDP. The projected growth in tax revenue (1.3 percentage points of GDP compared to 2010 projections and 0.9 percentage points compared to 2009) is ambitious but feasible. The authorities are implementing significant and continuing reforms in tax policy and administration, most significantly efforts to widen the tax base[2] and to limit extensive customs exemptions[3] (LOI ¶38). In addition, the sale of a third mobile telephone license, conservatively estimated at 1.2 percent of GDP, is a major, one-off contributing factor. Finally, in the event revenue falls short of targets, the authorities are committed to ensuring that expenditure execution will remain consistent with available resources (LOI ¶33).

- **As a result, fiscal balances would remain consistent with fiscal sustainability and an end to countercyclical expansionary policies, with the removal of fiscal stimulus** (Table 3b). Concerning sustainability, the primary domestic deficit would be 0.4 percent of GDP, compatible with the fiscal anchor of near balance.[4] The deficit on a cash basis excluding grants, an indicator of fiscal stimulus, shows the removal of the expansionary fiscal stance, as the deficit would fall by 1.5 percentage points of GDP.

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[2] Rates for corporate and individual income taxes were reduced by 6 percentage points from 2008–10, while revenue collection as a percentage of GDP remained roughly stable, confirming that the authorities' strategy to bring more activity into the tax net by lowering rates is paying dividends. Since rates will be stable in 2011 for the first time in four years, an improvement in collection as a proportion of GDP is expected. Furthermore, FAD experts have noted significant improvements in tax administration in recent years and have recommended several measures that are planned for 2011 (including those in LOI ¶38). In particular, the transfer of revenue collected is being strengthened by the placement of collectors in the tax administrations. In addition, strong tax collection so far in 2010 (¶4 and Text Table 1) suggests that a higher base for 2011 tax collection is likely.

[3] Since exemptions cover a sizeable proportion of imports (one third in 2009), the enforcement of a recent inter-ministerial circular to limit discretionary, exceptional exemptions and to apply strictly the rules for non-discretionary exemptions should yield significant improvements in customs revenues. Other measures at customs include adoption of a new legal framework, efforts to better value imports (with a pre-shipment inspection company), and progress toward a one-stop window at the Port of Lomé (LOI, ¶30 & 38).

[4] For reference, the primary domestic deficit assumed in the macroeconomic framework behind the LIC DSA (Togo: Enhanced Heavily Indebted Poor Countries Initiative Completion Point Document and Multilateral Debt Relief Initiative) was 0.3 percent of GDP during period 2012–30.

- **The financing situation is manageable, based on past experience, although financing equal to 0.3 percent of GDP still needs to be identified**. External budget support is expected to fall by at least 2.0 percentage points of GDP from the exceptional levels of 2010. The authorities have approached key partners and are considering the possibility of requesting a new ECF program, following the end of the current one in the mid-2011 (LOI ¶34).[5] The authorities are prepared to cut spending if adequate financing is not forthcoming (LOI ¶33). However, staff considers that it would be more desirable, from both a social and macroeconomic a point of view, to obtain additional resources, either externally on concessional terms or from non-debt creating sources (e.g., revenue or privatization).

C. Structural Reforms to Support Growth Acceleration

14. **Important financial sector reform efforts are on track for end-2010.** In addition to bank restructuring discussed above, these primarily concern the establishment of an NPL recovery structure and studies of the public sector workers' pension fund (end-December SBs, the second of which has been completed early). In addition, the government is pursuing efforts to improve the investment climate by revising the investment code, the free zone law, and the customs code, supported by TA from the World Bank and IMF.

15. **In 2011, the authorities will intensify initiatives to strengthen public financial management and to foster competitiveness** (LOI ¶37–38, Table 3). Among other initiatives, they plan to make operational a new framework for treasury cash management (new SB end-January) and adopt a strategy to advance towards a single treasury account (new SB end-March). The authorities also intend to pursue the one-stop window at the Port of Lomé, by adopting in the Council of Ministers the road map for its establishment and taking the initial steps (new SB end-March).

D. Debt Strategy after HIPC

16. **Togo's debt position will improve dramatically following the HIPC completion point, and the authorities are committed to maintaining a sustainable debt strategy** (LOI ¶35 & 36). Staff supports the authorities' request to achieve the completion point at the same time as the conclusion of this review. The post-completion point LIC DSA shows that Togo will be at moderate risk of debt distress, based on conservative assumptions, particularly for the concessionality of new debt in the out years.

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[5] The authorities have also requested an extension of the program to end-August 2011 to ensure adequate time to complete the sixth review in the event of unexpected difficulties.

17. **The key elements of a sustainable debt strategy remain a primary fiscal balance near zero, a high degree of concessionality in external borrowing, and sustained growth of about 4 percent annually.** The authorities intend to develop a medium-term debt strategy next year. In particular, efforts to monitor external borrowing by SOEs are being strengthened, and the definition of external debt in the ECF program's TMU (Attachment to Appendix 1) has been revised to include external borrowing by the SOEs,[6] in compliance with the 2009 decision by the IMF Executive Board.

E. Risks to Program Implementation

18. **Risks to program implementation remain significant and merit continuous attention**. External vulnerability and administrative capacity constraints pose the greatest risks. Nevertheless, the enhanced monitoring established at the fourth review should help alert the authorities promptly to program deviations. While the ambitious targets for revenue and domestically financed investment in 2011 are welcome, they pose risks that will require the authorities' heightened vigilance to ensure full financing of spending and maintain the quality of project selection and execution. Political uncertainty also remains a risk, with local elections planned for 2011. Concerning the safeguards of the BCEAO, the latest assessment completed in March 2010 found controls in place at the operational level.

III. Staff Appraisal

19. **Strong implementation of the ECF-supported program is supporting the modest economic recovery.** The authorities have met all program performance criteria and have made satisfactory progress on other targets and structural benchmarks. The program has helped consolidate macroeconomic stability and sound public finances, as intended. Growth and economic confidence are returning steadily.

20. **The 2010 budget's countercyclical stance remains appropriate, and execution is consistent with the program's framework.** As intended, the countercyclical fiscal stance is supporting economic activity in a weak external environment, and the budget's focus on public investment helps lay the groundwork for sustained growth. Moreover, the authorities have been

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[6] The SOEs' new borrowing will be subject to the 35 percent minimum concessionality required under the ECF-supported program. However, consistent with the debt limits policy, space for nonconcessional borrowing may be considered in future reviews on a case-by case basis, for instance to accommodate loans such as the long-planned BOAD loan negotiated by PAL. This loan has a concessionality close to the requirement (25 percent); it has a strong economic justification with an important role in Togo's development and a good rate of return for the underlying project (19 percent); since the currency of the loan is the CFAF, the currency risk of the loan is reduced; the size of the loan is modest (0.3 percent of GDP); and PAL, the borrower, is a financially stable company run on a commercial basis.

able to implement this policy without weakening Togo's debt position. Staff supports the revision of the PC on domestic financing to reflect lower projected domestic arrears clearance.

21. **The 2011 fiscal framework also supports stronger growth over the medium term, by emphasizing public investment without compromising the debt outlook.** Improved revenue collection and disciplined growth in current spending will enable the authorities to raise domestically financed investment further, while maintaining fiscal balances at sustainable levels. Staff endorses this pro-growth fiscal policy, while noting that ambitious revenue and investment targets will require intensive efforts and careful monitoring of risks. Furthermore, the authorities should be prepared to curtail spending plans if revenue mobilization falls short or adequate financing cannot be identified on concessional terms.

22. **Continued progress on the structural reform agenda is also supporting stronger growth and public finances over the medium term.** Reforms to strengthen public financial management have proceeded as planned; while domestic arrears clearance has advanced, it is not as far along as hoped, for reasons beyond the authorities' control. In the banking sector, restructuring has already begun stimulating activity. Delays had developed in the preparations for the next step—privatizing four banks—because of legislative difficulties, but progress is set to resume following the enactment of a new law. In addition to the operational restructuring of the banking sector, the authorities aim to address other structural impediments to financial sector development.

23. **Reaching the completion point of the HIPC initiative, which is expected in conjunction with the conclusion of this review, will open new opportunities but also pose new challenges**. Togo's greatly improved debt position will boost economic confidence and provide solid public finances. Public expectations for government spending have risen, and pursuing sustainable fiscal policies will call for good discipline and public communication. Raising living standards and maintaining debt sustainability will require higher growth, placing a premium on completing structural reforms underway.

24. **Based on Togo's performance and the strength of the program, staff recommends completion of the fifth review and extension of the program**.

Table 1. Togo: Selected Economic and Financial Indicators, 2009–12 [1]

	2009	2010		2011		2012
	Est.	4th. Rev.	Proj.	4th. Rev.	Proj.	Proj.
	(Percentage growth, unless otherwise indicated)					
National income, prices, and exchange rates						
Real GDP	3.2	3.3	3.4	3.5	3.7	4.0
Real GDP per capita	0.7	0.7	0.8	1.0	1.2	1.4
GDP deflator	1.9	1.8	1.4	2.0	2.2	1.8
Consumer price index	2.0	2.1	2.2	2.1	2.0	1.8
GDP (CFAF billions)	1,491	1,558	1,562	1,646	1,656	1,754
Exchange rate CFAF/US$ (annual average level)	470.7	…	…	…	…	…
Real effective exchange rate	1.2	…	…	…	…	…
Terms of trade (deterioration = –)	-2.3	1.3	3.3	-3.6	-4.0	-3.0
Monetary survey	(Annual change, percent of beginning-of-period broad money)					
Net foreign assets [2]	0.7	3.9	3.0	7.4	3.6	3.9
Credit to government [2]	6.4	5.3	4.0	1.6	-1.0	0.2
Credit to the nongovernment sector	9.7	3.3	7.1	4.7	8.2	6.5
Broad money (M2)	16.2	8.6	14.6	8.9	12.0	10.5
Velocity (GDP/ end-of-period M2)	2.4	2.3	2.2	2.2	2.1	2.0
	(Percent of GDP, unless otherwise indicated)					
Investment and savings						
Gross domestic investment	18.0	16.8	16.7	18.6	20.2	20.5
Government	5.5	6.8	6.7	7.6	9.9	10.0
Nongovernment	12.5	10.0	10.0	11.0	10.3	10.5
Gross national savings	10.9	9.2	9.0	11.9	12.8	13.6
Government	2.7	3.8	3.9	5.5	7.2	7.6
Nongovernment	8.2	5.3	5.1	6.4	5.6	6.0
Government budget						
Total revenue and grants	18.5	19.6	19.6	22.1	22.6	22.7
Revenue	16.9	17.2	17.1	17.8	19.3	18.4
Total expenditure and net lending	21.3	22.6	22.4	24.2	25.3	25.1
Domestic primary expenditure	17.4	17.3	17.2	17.5	19.7	18.7
Overall balance (payment order basis)	-2.8	-2.9	-2.8	-2.1	-2.7	-2.4
Domestic Primary balance [3]	-0.4	-0.1	-0.1	0.3	-0.4	-0.3
Change in domestic arrears	-1.1	-3.7	-3.0	-0.8	-0.8	-0.3
External sector						
Current account balance	-7.1	-7.6	-7.7	-6.7	-7.4	-6.9
Exports (goods and services) [4]	34.4	28.7	34.1	29.5	33.2	33.3
Imports (goods and services) [4]	49.1	45.0	51.4	46.6	51.4	51.5
External public debt [5]	51.8	14.3	14.6	15.7	15.1	15.6
External public debt service (percent of exports) [5]	5.3	3.6	6.0	1.4	3.2	2.6

Sources: Togolese authorities and IMF staff estimates and projections.

[1] The macroeconomic framework assumes that Togo reaches the HIPC completion point in 2010.

[2] Change as a percentage of broad money at the beginning of the period. Impact of SDR allocation in 2009 is included

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

[4] Exports and imports numbers were revised compared to numbers presented in the 4th review to better reflect re-exports and imports for transit trade given improvements in data collection in these areas.

[5] Includes state owned enterprises debt.

Table 2. Togo: Balance of Payments, 2009–12 [1]

	2009	2010	2011	2012
	Prel.	Proj.	Proj.	Proj.
	(Billions of CFA francs)			
Current account balance	-105.9	-120.7	-122.5	-120.6
Trade balance	-179.1	-231.3	-255.9	-267.9
Exports	389.9	408.5	425.3	455.9
Of which: Cotton	7.9	11.4	12.3	12.8
Phosphates	40.3	28.1	33.9	38.3
Cement & clinker	83.8	89.7	95.0	101.2
Reexports	72.5	79.9	82.6	85.7
Imports, f.o.b.	-568.9	-639.8	-681.2	-723.8
Domestic imports	-496.4	-559.9	-598.6	-638.1
Of which: Petroleum products	-58.5	-75.2	-77.7	-80.6
Services (net)	-40.3	-38.6	-46.1	-50.9
Income (net)	-21.9	-12.8	-6.3	-11.0
Current transfers (net)	135.4	162.0	185.9	209.2
Capital and financial account	7.2	58.5	69.2	76.1
Direct investment	15.1	15.6	16.6	26.3
Portfolio investment, incl. bond	5.8	7.5	0.0	0.0
Other investment	-13.7	35.4	52.7	49.8
Banks, net foreign assets [2]	-29.5	-2.4	-2.5	-2.5
Other capital	23.7	26.6	33.5	30.2
Errors and omissions	-11.0	0.0	0.0	0.0
Overall balance	-89.5	-62.2	-53.3	-44.5
Financing	89.5	62.2	53.3	44.5
Central bank net foreign assets [2]	25.9	-16.3	-23.3	-28.3
Arrears, net change	0.9	0.0	0.0	0.0
Flow rescheduling	21.6	25.0	42.4	43.7
Clearance of debt/arrears	4.7	708.9	0.0	0.0
Debt/arrears cancellation	-4.7	-708.7	0.0	0.0
Debt and arrears rescheduling	0.0	-0.2	0.0	0.0
Exceptional financing	41.0	53.5	28.5	0.0
Unidentified financing	0.0	0.0	5.7	29.0
Memorandum items:	(Percent of GDP, unless otherwise indicated)			
Current account balance	-7.1	-7.7	-7.4	-6.9
Trade balance	-12.0	-14.8	-15.5	-15.3
Exports of goods and services	34.4	34.1	33.2	33.3
Imports of goods and services	49.1	51.4	51.4	51.5
Gross International Reserves (imputed in billions of USD)	0.7	0.6	0.6	0.7
Gross International Reserves (as a percentage of M2)	51.6	41.4	39.9	39.4
Gross International Reserves of the WAEMU (in billions of USD)	13.6	…	…	…
Gross International Reserves of the WAEMU (as a percentage of M2)	58.7	…	…	…
Gross International Reserves of the WAEMU (months of imports)	6.9	…	…	…

Sources: Togolese authorities and IMF staff estimates and projections.

[1] The macroeconomic framework assumes that Togo reaches the HIPC completion point in 2010.

[2] Negative sign indicates increase. Includes SDR allocation in 2009.

Table 3a. Togo: Central Government Financial Operations, 2009–12 [1]

	2009	2010		2011		2012
	Act.	4th. Rev.	Proj.	4th. Rev.	Proj.	Proj.
	(In billions of CFA Francs)					
Revenue and grants	275.2	305.8	305.8	363.7	374.9	398.1
Total revenue	252.4	267.6	267.6	292.9	320.2	322.7
Tax revenue	229.0	234.8	234.8	257.1	269.2	288.8
Tax administration (DGI)	105.7	105.8	105.8	115.8	118.5	126.4
Customs administration (DGD)	123.3	129.0	129.0	141.3	150.7	162.4
Nontax revenue	23.4	32.8	32.8	35.9	51.0	33.9
Grants (projects)	22.8	38.3	38.3	70.8	54.7	75.4
Expenditures and net lending	317.3	351.4	349.5	398.8	419.3	440.5
Of which: Dom. primary expenditures	259.1	269.3	269.3	288.3	326.8	328.0
Current expenditures	235.0	246.1	244.3	273.7	256.2	265.1
Domestic primary current spending [2]	221.1	218.3	218.3	242.2	243.3	254.3
Wages and salaries	94.2	91.8	91.8	102.5	97.5	107.0
Goods and services	64.5	64.0	64.0	69.1	70.6	71.4
Transfers and subsidies	51.5	62.6	62.6	67.6	72.2	73.0
Other/unclassified	7.6	0.0	0.0	0.0	3.0	0.0
Foreign-financed current spending	0.0	11.1	11.1	16.5	0.0	0.0
Interest	13.9	16.7	14.9	15.1	12.9	10.8
Domestic debt	9.1	10.5	10.5	10.7	10.6	7.8
External debt	4.8	6.2	4.3	4.4	2.3	3.0
Public investment	82.3	105.2	105.2	125.1	163.1	175.4
Domestically financed	37.9	51.0	51.0	46.1	83.6	73.7
Foreign financed	44.4	54.2	54.2	79.0	79.5	101.7
Current balance	17.4	21.4	23.3	19.2	64.0	57.6
Domestic primary balance	-6.7	-1.8	-1.8	4.7	-6.6	-5.3
Overall balance, payment order basis (incl. grants)	-42.1	-45.6	-43.7	-35.1	-44.4	-42.4
Excluding grants	-64.9	-83.8	-82.0	-105.9	-99.1	-117.8
Change in arrears [3]	-16.8	-58.1	-46.8	-13.2	-13.2	-5.3
Overall balance, cash basis (incl.grants; incl.change in arrears)	-58.9	-103.6	-90.5	-48.3	-57.6	-47.6
Excluding Grants	-81.7	-141.9	-128.8	-119.0	-112.3	-123.0
Financing	16.8	50.5	37.1	8.6	23.5	18.6
Domestic financing (net)	14.0	40.8	26.4	-13.9	1.8	-3.5
Banking system	14.7	35.4	24.5	10.5	-6.8	1.5
Nonbank financing	-0.7	5.3	1.9	-24.4	8.6	-5.0
External financing (net)	2.8	9.8	10.7	22.5	21.6	22.1
Exceptional financing	41.0	38.3	53.5	6.7	28.5	0.0
ECF credit	19.4	13.2	20.2	6.7	6.4	0.0
Other identified financing	21.6	25.1	33.3	0.0	22.1	0.0
Residual/unidentified financing (+ = financing needs)	0.0	14.8	0.0	33.0	5.7	29.0

(cont.)

Table 3a. Togo: Central Government Financial Operations, 2009–12 (concluded)

	2009	2010		2011		2012
	Act.	4th. Rev.	Proj.	4th. Rev.	Proj.	Proj.
	(Percent of GDP)					
Revenue and grants	18.5	19.6	19.6	22.1	22.6	22.7
Total revenue	16.9	17.2	17.1	17.8	19.3	18.4
Tax revenue	15.4	15.1	15.0	15.6	16.3	16.5
Nontax revenue	1.6	2.1	2.1	2.2	3.1	1.9
Grants	1.5	2.5	2.4	4.3	3.3	4.3
Expenditures and net lending	21.3	22.6	22.4	24.2	25.3	25.1
Of which: Dom. primary expenditures	17.4	17.3	17.2	17.5	19.7	18.7
Current expenditures	15.8	15.8	15.6	16.6	15.5	15.1
Domestic primary current spending [2]	14.8	14.0	14.0	14.7	14.7	14.5
Wages and salaries	6.3	5.9	5.9	6.2	5.9	6.1
Goods and services	4.3	4.1	4.1	4.2	4.3	4.1
Transfers and subsidies	3.5	4.0	4.0	4.1	4.4	4.2
Other/unclassified	0.5	0.0	0.0	0.0	0.2	0.0
Foreign-financed current spending	0.0	0.7	0.7	1.0	0.0	0.0
Interest	0.9	1.1	1.0	0.9	0.8	0.6
Public investment	5.5	6.8	6.7	7.6	9.9	10.0
Domestically financed	2.5	3.3	3.3	2.8	5.0	4.2
Foreign financed	3.0	3.5	3.5	4.8	4.8	5.8
Net lending	0.0	0.0	0.0	0.0	0.0	0.0
Current balance	1.2	1.4	1.5	1.2	3.9	3.3
Domestic primary balance	-0.4	-0.1	-0.1	0.3	-0.4	-0.3
Overall balance, payment order basis (incl. grants)	-2.8	-2.9	-2.8	-2.1	-2.7	-2.4
Excluding grants	-4.4	-5.4	-5.2	-6.4	-6.0	-6.7
Change in arrears [3]	-1.1	-3.7	-3.0	-0.8	-0.8	-0.3
Overall balance, cash basis (incl.grants; incl.change in arrears)	-4.0	-6.7	-5.8	-2.9	-3.5	-2.7
Excluding Grants	-5.5	-9.1	-8.2	-7.2	-6.8	-7.0
Financing	1.1	3.2	2.4	0.5	1.4	1.1
Domestic financing (net)	0.9	2.6	1.7	-0.8	0.1	-0.2
Banking system	1.0	2.3	1.6	0.6	-0.4	0.1
Nonbank financing	0.0	0.3	0.1	-1.5	0.5	-0.3
External financing (net)	0.2	0.6	0.7	1.4	1.3	1.3
Exceptional financing	2.8	2.5	3.4	0.4	1.7	0.0
Residual/unidentified financing (+ = financing needs)[4]	0.0	1.0	0.0	2.0	0.3	1.7
Nominal GDP (CFAF billions)	1,491	1,558	1,562	1,646	1,656	1,754

Sources: Togolese authorities and IMF staff estimates and projections.

[1] The macroeconomic framework assumes that Togo reaches the HIPC completion point in 2010.

[2] In 2009, expenditures include social and investment spending committed in January 2009 under the 2008 supplementary budget.

[3] Includes the BCEAO credit for domestic arrears clearance. In 2010 domestic arrears include arrears of non central government administration to electricity company; this operation could be registered as transfer.

[4] In keeping with practice under the program, the 2012 unidentified financing is calculated without assuming any external budget support (exceptional financing).

Table 3b. Togo: Selected Indicators of Fiscal Policy Stance, 2008-2011 [1]

	2008	2009	2010	2011
	Actual	Actual	Proj.	Proj.
	(Percent of GDP)			
Indicators of Fiscal Sustainability				
Domestic primary balance (excl. change in arrears)	0.4	-0.4	-0.1	-0.4
Overall balance, payment order basis (incl. grants, excl. change in arrears)	-0.9	-2.8	-2.8	-2.7
Excluding grants	-2.3	-4.4	-5.2	-6.0
Indicators of Fiscal Stimulus				
Overall balance, cash basis (incl.grants; incl.change in arrears)	-0.8	-4.0	-5.8	-3.5
Excluding Grants	-2.3	-5.5	-8.2	-6.8
Memorandum Item:				
Public investment	3.2	5.5	6.7	9.9
of which: Foreign financed	1.6	3.0	3.5	4.8
	(Change over previous year, percent of GDP)			
Indicators of Fiscal Sustainability				
Domestic primary balance (excl. change in arrears)	0.2	-0.9	0.3	-0.3
Overall balance, payment order basis (incl. grants, excl. change in arrears)	1.0	-2.0	0.0	0.1
Excluding grants	1.3	-2.1	-0.9	-0.7
Indicators of Fiscal Stimulus				
Overall balance, cash basis (incl.grants; incl.change in arrears)	0.1	-3.1	-1.8	2.3
Excluding Grants	0.4	-3.2	-2.8	1.5
Memorandum Item:				
Public investment	1.2	2.4	1.2	0.9
of which: Foreign financed	0.8	1.4	0.5	1.3

Sources: Togolese authorities and IMF staff estimates and projections.

[1] The macroeconomic framework assumes that Togo reaches the HIPC completion point in 2010.

Table 4. Togo: Monetary Survey, 2009–12

	2009	2010	2011	2012
	Actual	Proj.	Proj.	Proj.
	(Billions of CFA Francs)			
Net foreign assets	241.2	259.9	285.6	316.5
BCEAO	161.7	178.0	201.3	229.6
Assets	318.2	292.8	316.1	344.4
Liabilities	156.5	114.8	114.8	114.8
Commercial banks	79.5	81.9	84.3	86.9
Assets	138.2	142.3	146.6	151.0
Liabilities	58.7	60.4	62.3	64.1
Net domestic assets	375.5	447.0	506.2	558.8
Credit to the government (net)	112.2	136.7	130.0	131.4
BCEAO	31.9	47.6	45.1	36.5
Commercial banks	80.4	89.1	84.9	94.9
Credit to the rest of the economy	295.0	338.9	396.5	448.1
Other items (net)	-25.1	-28.7	-22.2	-23.7
Money supply (M2)	616.7	706.8	791.9	875.3
Currency in circulation	140.3	154.3	167.6	177.0
Bank deposits	476.4	552.5	622.4	695.2
	(Annual change, percent of beginning-of-period broad money)			
Net foreign assets	0.7	3.0	3.6	3.9
BCEAO	-4.9	2.6	3.3	3.6
Commercial banks	5.6	0.4	0.3	0.3
Net domestic assets	15.4	10.5	8.1	6.5
Credit to the government (net)	6.4	4.0	-1.0	0.2
Credit to the rest of the economy	9.7	7.1	8.2	6.5
Other items (net)	-0.8	-0.6	0.9	-0.2
Money supply (M2)	16.2	14.6	12.0	10.5
Currency in circulation	2.1	2.3	2.2	1.3
Bank deposits	14.1	12.3	9.9	9.2
Memorandum items				
Velocity (GDP/ end-of-period M2)	2.4	2.2	2.1	2.0

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

Table 5. Togo: Actual and Proposed Schedule of Disbursement Under ECF Arrangement, 2008–11

Amount				Date	Condition for Disbursement [1]
	Total	Original program	Augmentation		
SDR	13,260,000	13,260,000		April 30, 2008	Executive Board approval of the three-year arrangement under the ECF arrangement (April 23, 2008)
SDR	17,975,000	8,800,000	9,175,000	September 22, 2008	Observance of performance criteria for end-June 2008 and other relevant performance criteria, and completion of the first review under the ECF arrangement
SDR	17,975,000	8,800,000	9,175,000	April 30, 2009	Observance of performance criteria for end-December 2008 and other relevant performance criteria, and completion of the second review under the ECF arrangement
SDR	8,800,000	8,800,000		November 11, 2009	Observance of performance criteria for end-June 2009 and other relevant performance criteria, and completion of the third review under the ECF arrangement
SDR	14,300,000	8,800,000	5,500,000	June 30, 2010	Observance of performance criteria for end-December 2009 and other relevant performance criteria, and completion of the fourth review under the ECF arrangement
SDR	14,300,000	8,800,000	5,500,000	October 31, 2010	Observance of performance criteria for end-June 2010 and other relevant performance criteria, and completion of the fifth review under the ECF arrangement
SDR	8,800,000	8,800,000		April 30, 2011	Observance of performance criteria for end-December 2010 and other relevant performance criteria, and completion of the sixth review under the ECF arrangement

[1] Other than the generally applicable conditions for the Extended Credit Facility (ECF).

APPENDIX I—LETTER OF INTENT

Lomé
November 15, 2010

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

Dear Sir:

1. Further to our letter of June 10, 2010, we take the opportunity of the fifth review of the program supported by the Extended Credit Facility (ECF) to report on the progress made in implementing the program. We are satisfactorily pursuing our economic program and structural reforms, to maintain macroeconomic stability and foster stronger, sustained, growth.

2. We have also started discussions on our economic program for the coming years and defined the key areas to be addressed once we reach the completion point under the HIPC Initiative and the MDRI. Those key areas were announced in the Prime Minister's general policy statement and give substance to the policy directions set by the President of the Republic.

3. During this fifth review, we consulted with your staff to ensure the compatibility of the 2011 budget with our medium-term macroeconomic objectives and consolidation of the achievements from the ongoing program.

4. As you know, the past five-year term of the President of the Republic was marked particularly by political reforms that led to the organization of legislative and presidential elections in a calm social climate. The new five-year term will see greater emphasis placed on economic reforms to consolidate further the achievements under the ECF-supported program, accelerate economic growth, and ensure that the benefits of our reform efforts are felt more by the general population. The government intends to implement all the reforms possible to achieve these objectives.

Background

5. The 2010 program is being implemented in a difficult context, marked by the persistent effects of the international economic crisis and Togo's lengthy socio-political crisis. As a result, economic recovery was slower than expected at the start of the program. To mitigate the effects of the crisis and maintain macroeconomic stability, we have carried out a counter-cyclical fiscal policy, with financial support from our development partners.

6. We have also strengthened our structural reforms since the last program review of June 2010, so that the country can benefit as much as possible from the global recovery and the expected return of investor confidence, based on the ongoing reforms.

Recent economic developments

7. Although accelerating, economic growth remains slow in a context of macroeconomic stability. Annual inflation (June 2009–June 2010) averaged 2.1 percent at end-June 2010, and the economic indicators point to real economic growth of about 3.4 percent in 2010, up slightly from 2009. Indeed, the economic data for the first half of the year suggest that, despite a slowdown in agriculture as a result of less favorable rainfall this year, we should achieve our forecasted growth thanks to the secondary sector, especially the extractive industries, which are displaying strong growth trends. The performance in this sector leads us to believe that economic recovery will continue in Togo. However, we expect it to remain modest, partly because of the weaknesses in the international economic environment. This modest recovery can also be seen from the economic data on foreign trade, public finances, and the monetary aggregates.

8. The current account deficit will remain large in 2010 despite the expected improvement in the balance on current transfers. The volume of exports rose slightly, whereas imports, in particular of capital goods, grew considerably. These indicators suggest that our fiscal policy is supporting domestic demand and growth.

9. The monetary survey shows growth in the money supply of nearly 10.9 percent during the period from December 2009 to June 2010 and year-on-year growth (at July 2010 compared with July 2009) of 25.7 percent, with a significant contribution from loans by banks and financial institutions and from net foreign assets. In addition, the increase in credit to the economy was noted in a context of growth in deposits with banks, thus reinforcing the trend, started in 2009, of increased confidence in the banking system, which we restructured in recent years.

10. The fiscal position continues to improve, with expenditures under control and revenue collection performing well, which supports the indications of expanding economic activity. Tax revenue increased by about 10 percent during the first six months, compared with the same period last year, all in a context of price stability. This revenue was generated by domestic taxes as well as by customs revenue. Indeed, the strong upward trend in tax revenue noted between 2007 and 2008, which eased in 2009 as a result of the crisis, has returned even stronger in 2010. Performances in the area of indirect taxes (customs tariffs and VAT) corroborate the data noted in the port, while domestic demand stimulated by our counter-cyclical fiscal policy contributed to revenue from indirect domestic taxes and income tax. The reform and collection efforts of the tax and customs administrations, including the reduction of corporate and personal taxes, have also started to bear fruit. Moreover, in the

first half of the year, we have already collected over 80 percent of our projected non-tax revenue. Of the primary domestic expenditure budgeted, 42 percent was executed in the first half of the year. Domestically financed capital expenditure was slightly below the levels programmed up to June but was twice the level observed for the same period of the previous year. Current and capital social expenditure was less than programmed. However, we note an acceleration as of August, primarily because of the upturn in capital expenditure. This revenue performance, combined with disciplined spending, indicate that public finances will develop positively for the rest of the year, consolidating the gains of previous years.

Implementation of the economic program

11. The ECF-supported economic and financial program has generally been successfully implemented, consistent with its objectives. We have not accumulated any external arrears nor contracted or guaranteed any non-concessional external debt. In addition, the fiscal performance at end-June 2010 meets the performance criteria adopted under the program.

12. Indeed, the basic primary balance at end-June 2010 is largely observed. As a result of sound performances by the above-mentioned revenue-collecting agencies, revenue collection reached CFAF 148.2 billion at end-June 2010, compared with a benchmark of CFAF 140.6 billion. On the expenditure side, domestically financed primary expenditure totaled CFAF 113.8 billion, a level similar to that for the same period last year, but below the programmed forecast of CFAF 136.9 billion. As a result, the basic primary balance stood at CFAF 34.4 billion, compared with a planned floor of CFAF 3.6 billion, thereby meeting this criterion.

13. These results, combined with the current status of implementation of the domestic arrears settlement strategy, enabled us to meet the performance criterion on domestic financing. Indeed, as a result of the basic primary balance criterion being met and interest charges being below the projected ceilings, net credit to the government from the banking system totaled only CFAF 13.3 billion at end-June 2010 half the amount programmed. Because of complications in the implementation of the private sector arrears clearance strategy (see paragraph 15), and taking into account the arrears payments already made in the first quarter to the electricity sector and the oil companies, the net arrears clearance stood at CFAF 31.8 billion at end-June, compared with a programmed ceiling of CFAF 58 billion. The programmed ceiling of CFAF 26.9 billion on domestic financing was therefore observed by a large margin.

Implementation of the structural reforms

14. We continued to make progress in implementing the structural reforms envisaged for meeting the objectives of the ECF-supported program. We have achieved considerable progress since the last review in June 2010 (Table 2).

Fiscal governance

15. The process of clearing domestic arrears with private suppliers **(end-March 2010 benchmark)** continues, making use of the remainder of the loan granted by the BCEAO in the context of the allocation of SDRs by the IMF. However, after considerable progress made up to end-2009, the process slowed in 2010, and the period established for the signing of agreements between the government and the suppliers had to be extended to December 2010. At end-August 2010, 1,984 creditors (from all categories) received a total of approximately CFAF 21 billion, which is 65 percent of the amount initially planned after the discount applied for this operation.

16. As part of the move towards a single treasury account, at least 30 percent of the treasury accounts at the BCEAO and those of government agencies at the commercial banks were closed **(end-June 2010 benchmark)** , and the process is continuing (see paragraph 38). Based on the results of last April's survey of treasury accounts, 1,117 accounts, or over 88 percent of the 1,259 accounts counted, were closed. Currently, 142 accounts remain at the commercial banks and at the BCEAO.

17. We also simplified our budget execution procedures to reduce lag time in the expenditure process **(end-June 2010 benchmark)**. Financial control was strengthened, and installation of the integrated public financial management system (SIGFIP) software enabled us to reduce the period for control from seven to five weeks at most. On June 28, 2010, we adopted an order amending the expenditure process, restricting the processing of commitments to the appropriations manager and the financial controller. This measure, along with others already taken to accelerate capital expenditure execution, led to nearly doubling domestically financed capital expenditure, compared with June 2009; this represents 34 percent of the level programmed for the entire year.

Reform of the financial sector

18. We remain committed to privatizing the public banks, although it will be impossible for us to issue the call for bids by end-September 2010 (**end-September 2010 benchmark**). These delays relative to the initial timeframe result from the difficulties we encountered in updating the legal framework which enables the government to sell its shares in these institutions. After consultation with legislators on the modalities for updating the legal framework, a draft law was prepared with technical support from the privatization advisors

financed by the World Bank and submitted for a vote in the National Assembly at an extraordinary session. This law is a one of the highest legislative priorities for the government. After the law was approved on October 4, the government is in the process of setting up the privatization commission. Our aim is to complete this phase by end-November. The commission will study the various strategic choices for privatization of the banks and will forward recommendations, which will be adopted by the Council of Ministers, authorizing the Minister of Economy and Finance to pursue the process which will culminate in the privatization of the banks. At this time, the process of issuing the call for bids can begin. We expect that the final call for bids will be issued by end-April 2011 (**revised benchmark)**. In addition, the bank privatization proceeds will be used to repay domestic debt, primarily securities issued during the bank restructuring process, which should enable us to improve debt dynamics considerably. In collaboration with the WAMU Banking Commission, the government also remains committed to maintaining strict control over management of these banks until the privatization process is completed.

19. The process leading to the establishment of a structure to recover nonperforming loans acquired by the government in the context of bank restructuring is progressing well **(end-December 2010 benchmark)**. The process is supported by technical and financial assistance from the World Bank and by technical assistance from the IMF. The technical advisors presented their report on the alternatives for the structure during a workshop to validate their provisional report in June 2010, and the government adopted the proposed option of setting up a new debt collection company. In this context, the advisors are preparing a business plan for the company, and we can create the structure as scheduled. However, certain legislative actions may be taken before it is established.

20. The financial and organizational audit of the Togo Retirement Fund (CRT*)* was completed, and the actuarial study began in September. The draft report on the financial and organizational audit is finished. The firm conducting this audit is waiting on the comments of the CRT to complete the final report. Also, with the goal of improving the CRT management, another study, not included in the terms of reference of the firm, was requested on a manual of procedures. Concerning the actuarial study, the firm's work has started, thereby meeting this benchmark in advance **(end-December 2010 benchmark)**.

Real sector

21. Preparations are under way for the adoption, by the end of November, of a new automatic oil product pricing mechanism, which intends to limit budget risks and mitigate the social impact of sharp fluctuations by establishing automatic and frequent adjustments, with a smoothing of retail prices (**end-November 2010 benchmark**). We received technical assistance from the IMF that enabled us to consider several policy options for price adjustments. In September, a newly created committee began studying the new mechanism. The new mechanism will be adopted by presidential decree, once the various alternatives

have been considered by the committee, which will forward its recommendations to the government. In addition, we continue to seek a solution to the matter of the liabilities generated by the former price adjustment mechanism. Terms of reference will be prepared, in collaboration with the oil distribution companies, for a further audit to determine the total amount of those liabilities.

22. A report detailing the measures necessary for establishing a “one-stop window” in the Autonomous Port of Lomé will be commissioned. With support from the World Bank, an expert will be recruited **(end-September 2010 benchmark)** to help the government prepare a road map for setting up the one-stop window. The length of the recruitment process, which took longer than expected, has led to a delay in completing this action. Once the advisor's final report is done, the document will be discussed by the Council of Ministers.

23. Continuing to strengthen the financial position of Togo's electric power company (CEET) is a priority for the government. We are therefore committed to adjusting electricity rates to take new CEET costs into account and help maintain its viability, even though we decided to postpone the electricity rates adjustment that was planned for July 2010. The Contour Global power plant has been constructed, and production began in October; this can help the country become self-sufficient and strengthen the reliability of the supply, thus improving the competitiveness of enterprises from that standpoint.

24. We have made considerable progress toward meeting the eligibility criteria for becoming a candidate to join the Extractive Industries Transparency Initiative (EITI). The membership application file was officially forwarded to the EITI for consideration by the EITI Board at its session of October 2010.

25. The government intends to pursue the efforts under way in the other key sectors of the economy, with World Bank support, to increase the contribution of productivity to growth. The government is implementing the strategy it adopted to revitalize the phosphate sector. An acceleration of phosphate production is expected in 2011. We are also reviewing the World Bank's recommendations for improving the business climate and modernizing the investment code and the laws and regulations governing the free trade area, as well as for reducing the obstacles to growth at the sectoral level. Regarding the draft investment code and the draft law on the free economic zone, we are reviewing the text of the two draft laws, taking account of comments by the World Bank and the IMF, with the assistance of a consultant recruited with World Bank support. Our objective is to ensure that the laws reflect, as far as possible in the current Togolese context, the international best practices. We hope to be able to submit the revised version of these two laws to the October 2010 session of the National Assembly.

Macroeconomic Outlook

Macroeconomic framework

26. For the rest of 2010 and in 2011, the government intends to continue taking actions to keep the Togolese economy on the path of recovery while maintaining macroeconomic stability. To this end, it will continue implementing the investment program, for which the budgetary envelope increased considerably in 2009 and 2010 in the context of the counter-cyclical fiscal policy. The government also plans to implement the structural reforms envisaged for the rest of 2010, and has met the triggers for the achievement of the completion point under the HIPC Initiative in 2010 (see paragraph 36 on the latter point).

Fiscal policy in 2010

27. With exceptional support from our development partners, the government will be able to continue implementing the fiscal policy established during the last review of the program for the rest of 2010. Total revenue for 2010 is projected at CFAF 267.6 billion (17.1 percent of GDP), as forecast during the fourth review. In light of expenditure execution in the first half of 2010, we estimate that expenditures for 2010 will remain within budget and program ceilings. We will continue ensuring strict compliance with the planned expenditure, and budget execution will remain in line with the available financing. We have revised downward the projected amount of audited domestic arrears clearance, given the difficulties encountered, and the end-December ceiling on net domestic financing, a performance criterion, has accordingly been lowered.

28. With the augmentation of access granted by the IMF during the last review and the exceptional assistance from other partners, in particular the European Union (including the V-FLEX facility) and the World Bank with their additional support to counter the effects of the global crisis, we expect that our financing needs for 2010 will be met.

Fiscal policy in 2011

29. In 2011, we intend to maintain fiscal discipline and the direction of expenditure policies, with a view to achieving our objectives stated in the PRSP and continuing to stimulate growth. The current direction of our fiscal policy has lead to a considerable increase in capital expenditure. Indeed, this increase occurred in the context of the response to the effects of the global crisis and the natural disasters that hit our country, and it has had the benefit of supporting growth. We therefore plan to maintain this fiscal policy, so as to make up for the deficit in our basic infrastructure, attributable to the long years of socio-economic crisis. In the same vein, we also aim to achieve a public investment rate above the average for WAEMU countries, which was 7 percent of GDP in 2005–08. Our public investment rate is projected at 6.7 percent of GDP in 2010, and we envision it reaching 9.9 percent in 2011. We also intend to adopt a national aid policy soon that is aimed at encouraging programmatic and budget support, in the spirit of the Paris Declaration, to

mitigate the problems related to the implementation of specific projects. This policy, combined with our commitment to improve tax revenue (see tax reforms in paragraphs 30 and 38) and to control the growth in current expenditure, will enable us to achieve our investment objectives.

30. Our projected revenue reaches 19.3 percent of GDP, 2.2 percent above the level forecast for end-2010. This is mainly attributable to tax revenue collection, programmed at 16.3 percent of GDP and representing a nominal increase of 15 percent, which results from a more positive economic outlook and especially from continuing implementation of the administrative measures taken by the tax-collecting agencies, whose efforts are increasingly evident. The 17 percent increase in customs revenue is attributable not only to a rise in imports but especially to the authorities' firm decision to restrict tax exemptions—which for some years (in 2009, 33 percent of imports placed for domestic consumption) represented a large share of customs revenue—to those strictly allowed, such as diplomatic staff, government imports, etc. (see paragraph 38). We also plan to achieve a significant improvement in non-tax revenue, estimated at 3.1 percent of GDP—to be generated mainly by the third cellular telephony license that should be sold in 2011 and dividends from state enterprises such as those in the areas of mobile telephony and phosphates.

31. We plan to maintain primary current expenditure at about 15 percent of GDP, comparable to its 2009–10 level; we intend to remain strictly within this limit to ensure the financing of our priority capital expenditure. This will enable us to finance investment spending in coordination with the effectiveness of our economic reforms—and consequently with our growth performance. Overall, we have established, in collaboration with IMF staff, a budget framework for 2011 that is compatible with our objectives for growth and for maintaining sustainable public finances. Consistent with the maintenance of long-term debt sustainability, the primary domestic fiscal balance will be close to equilibrium, with a deficit of CFAF 6.6 billion (0.4 percent of GDP). We have also established quarterly benchmarks to monitor budget execution and ensure financing of expenditures (Table 1).

32. In addition, the public financial management reforms that we envisage (see paragraph 38) will lead to greater efficiency in expenditure programming and execution, with the aim of achieving the objectives stated in the PRSP. Technical assistance from the IMF in July 2010 has already enabled us to improve the action plan we prepared in the area of public financial management. We look forward to the technical support of the IMF for the implementation of this action plan, following our request to the Fiscal Affairs Department.

33. The government intends to implement these policies in the context of prudent public financial management, with fiscal balance targets that ensure the maintenance of post-completion point public debt sustainability (see paragraph 36). We will continue ensuring strict observance of the established current and capital expenditure budgets, and budget execution will remain in line with available financing. We also plan to continue building our

public debt management capacity, taking into account the results of the mission performed by the World Bank in August 2010 to assess our capacity in this area.

34. With the above-mentioned macroeconomic objectives, our country may well continue to need external financing at concessional rates to finance the budget and its balance of payments. We have a residual financing requirement for CFAF 5.7 billion in the budget framework for 2011. This possibility, which we discussed with staff during this review, might eventually lead to a financial relationship with the IMF. Within the framework of the next program review, which will mark the end of the current program, we hope to further our thinking on this matter, so as to determine the nature of our future relationship with the IMF after the end of the current ECF-supported program.

Progress toward the Completion Point

35. We are on track hopefully to reach the HIPC Initiative completion point toward end-2010. We are confident that we have met the necessary conditions.

36. Upon reaching the completion point under the HIPC Initiative and benefiting from the MDRI, Togo's debt levels will decline sharply. Togo's external debt would be 12.8 percent of GDP in present value; together with domestic debt representing 17.9 percent of GDP—excluding un-audited arrears—this means that the total public debt in present value would stand at about 30 percent of GDP. To further support our external viability after achieving the completion point, we plan to give priority to concessional loans when borrowing externally, in accordance with our commitments to our external partners and with the pertinent procedures. Moreover, the government intends to conduct a prudent fiscal policy so as to maintain medium-term debt sustainability and to develop a debt strategy with this goal. We appreciate the debt reduction from our partners, which gives us the opportunity to launch a development strategy for our country, free from the burden of unsustainable external debt. We note that the definition of external debt in the program is now explicitly expanded to include public enterprises. Public enterprises will therefore be advised, by the appropriate means, of the need to disclose all information on new loans to the Debt Directorate, so that the latter can monitor their compliance with the program. Systematic arrangements will also be put into place for communications between the public enterprises and the Debt Directorate to facilitate the disclosure of monthly debt service obligations. We welcome the visit of a World Bank team to update our debt management performance assessment (DeMPA).

Structural reforms in 2010 and 2011

37. The government plans to continue implementing its schedule of structural reforms for 2010, as described above, strengthening it and continuing on the same path in 2011, with an ambitious program to achieve our growth objectives. We have therefore agreed with your staff to include the measures below in our schedule of structural reforms for 2010–11.

Public financial management

38. The strengthening of public finances and their management are key aspects of our economic and financial program. We thank the IMF for the technical assistance missions of June–July 2010, especially regarding cash management, reform of the tax and customs administrations, and the public financial management system, which have enabled us to make progress in these areas. Their recommendations also helped us to finalize our draft strategy for the reform of public finances, which was submitted to the development partners in July 2010, and to select the following priority actions in the program, among others, for 2010 and 2011.

Budget programming and expenditure execution

- Formulate a program of work, aimed at implementing the new WAEMU directives on public financial management (end-October 2010).
- Establish a single database for the civil service payroll (2011).

Tax revenue

- Reduce exceptional tax exemptions as much as possible, especially those related to customs. Implement the circular we recently adopted for better monthly monitoring of exemptions.
- Appoint and install the customs and tax collectors, and expand the SIGFIP to include the revenue-collecting agencies.
- Adopt the preliminary draft of the new customs code in the Council of Ministers (end-December 2010).

Treasury Cash management

- Adopt a monthly planning system for treasury cash management, with complete and timely data on tax collection in all the revenue-collecting agencies and on government spending.
- Adopt the draft regulations and decisions creating a new institutional framework for treasury cash management and putting this framework into operation by end-January 2011 (**new end-January 2011 benchmark**). Concerning treasury cash management, we received technical assistance from the IMF in June 2010 and are implementing the recommendations. These relate, in particular, to the compilation of appropriate tables for tracking all revenue received from the tax-collecting agencies, especially at the General Directorate of Customs (DGD) and at the General Directorate of Taxes (DGI), as well as all government spending. Accordingly, we have already appointed

collectors at the DGI and are now doing the same at the DGD. In addition, a technical forecasting secretariat will be set up to assist the treasury committee to improve treasury cash management. The establishment of an accounting network in the two principal revenue-collecting agencies will facilitate the transfer of resources collected to the treasury and so help improve treasury cash management.

- Strengthen treasury cash management by adopting a strategy (**new end-March 2011 benchmark**) that should lead over time to the establishment of a single treasury account, after consultation with the sectoral ministries and development partners. The achievement of this objective could require targeted technical assistance from the partners, including the IMF, considering the challenges faced by the treasury administration for achieving the objective in question over time.

- Strengthen public debt management by developing a debt strategy that takes account of the 2011–15 budget objectives (end-March 2011).

Reform of the financial sector

- Prepare a strategy in the coming year for developing the financial sector, to promote the expansion of financial intermediation while minimizing the risks to the stability of the sector and the economy. Following the recommendations of an IMF technical assistance mission of May 2010, we intend to launch the process of preparing this strategy for developing the financial sector. We are exploring various options for technical and financial support from our development partners for this effort.

Real sector

- Adopt the road map for the establishment of a one-stop window in the Autonomous Port of Lomé in the Council of Ministers, and begin implementing the initial steps identified by the technical advisors as needed for that establishment (**new end-March 2011 benchmark**). The establishment of a one-stop window in the Autonomous Port of Lomé will foster the competitiveness of Togo as a commercial hub and help increase customs revenue.

Conclusion

39. Togo appreciates the constant and growing support that its development partners are providing in its efforts to deal with exogenous shocks and to restart its economy. It continues to need resources (in the form of grants or concessional loans) urgently to finance its economic and social development.

40. The progress of our ECF-supported program will be monitored on the basis of the quantitative performance criteria for end-December 2010, other relevant criteria and the indicative targets for end-September 2010 (Table 1). We established all these performance

criteria and targets in consultation with and with the agreement of IMF staff, including the modification of the end-December 2010 PC on net domestic financing. We expect to meet the requirements for fulfilling the floating completion point triggers, so that a decision concerning the completion point under the HIPC Initiative can be taken with the conclusion of the fifth review under the ECF arrangement. We would like the sixth review to be completed as soon as possible after end-April 2011. To ensure there will be enough time to complete the review and deal with contingencies, we request an extension of the program to end-August 2011.

41. As already stated, the ECF-supported program is progressing with determination toward its objectives, despite the exogenous shocks and administrative capacity constraints. We request the completion of the fifth review under the ECF-supported program and approval of the sixth disbursement. We also request a decision that we have reached the completion point under the HIPC Initiative, leading to the related debt relief.

42. The government reaffirms its commitment to taking any additional measures necessary for proper implementation of the program. The Togolese authorities will consult with the IMF about those possible additional measures before revising any of those described in this document. To facilitate program monitoring and evaluation, the government will regularly report all information to IMF staff within the required time frames stated in the Technical Memorandum of Understanding (TMU). We have also updated the TMU and revised it to clarify the scope of the ceilings on external debt.

43. Finally, the government consents to the publication of this Letter of Intent and its attachments, as well as the IMF Staff Report on the fifth review.

Yours sincerely,

/s/

Adji Otèth AYASSOR
Minister of Economy and Finance

Table 1. Togo: Quantitative Performance Criteria and Indicative Targets

June 30, 2010 - December 31, 2011

	2010					2011			
	June		Sep.	Dec.		March	June	Sep.	Dec.
	Program[1]	Actual[2]	Rev. Prog. [3]	4th Review[1]	Rev. Prog.[2]	Proj.[3]	Proj.[3]	Proj.[3]	Proj.[3]
			Ind. Targets			Indicative Targets			
Performance criteria (for end-June, and end-December 2010; indicative targets otherwise)									
Domestic primary fiscal balance (floor)	3.6	34.4	26.1	-1.8	-1.8	5.2	20.5	16.7	-6.6
Non-accumulation of external arrears [4]	0	0	0	0	0	0	0	0	0
Net domestic financing (ceiling)	26.9	13.3	-9.7	40.8	26.4	-0.5	1.3	0.9	1.8
Net domestic financing (ceiling adjusted) [5]	29.6								
Central governement contracting or guaranteeing of nonconcessional external debt (ceiling)[4]	0	0	0	0	0	0	0	0	0
Indicative Targets									
Total revenue (floor)	140.6	148.2	218.0	267.6	267.6	78.5	158.1	241.0	320.2
Domestic payments arrears, changes in stock (ceiling)	-58.1	-31.8		-58.1	-46.8	0.0	-13.2	-13.2	-13.2
Total domestically financed investment spending (floor)	19.3	17.2		51.0	51.0	12.5	24.2	47.6	83.6
Total domestically financed social spending (floor)	35.1	19.4		87.7	87.7	16.0	42.6	74.6	106.5
Exceptional Financing	6.2	3.5	18.5	38.5	53.5	0.0	13.2	21.6	34.2

[1] Letter of Intent dated June 10, 2010.

[2] Letter of Intent dated November 15, 2010.

[3] Indicative targets.

[4] Continuous performance criterion.

[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.

Table 2. Togo: Structural Conditionality for 2010

Measures	Date	Macroeconomic Rationale	Status
Fiscal governance			
Complete implementation of the strategy for clearing validated domestic arrears to private suppliers	Benchmark end-March 2010	To restore the confidence of suppliers and make it possible to reduce the substantial balance of domestic payments arrears owed by the government. To support aggregate demand in the period of economic slowdown.	Satisfactory progress. By August 2010, over 1,900 suppliers had already been paid. The completion of the implementation was delayed because of the slow response of some suppliers. A new phase has started on June 23 2010 that will continue until December 2010. See text paragraph 15.
Move towards a single Treasury account by surveying Treasury accounts in the commercial banks and the BCEAO; reduce the number of accounts by at least 30 percent.	Benchmark end-June 2010	To closely monitor Treasury operations, as this is a key element of controlling the government's cash flow operations.	Done. The survey of Treasury accounts suggested the existence of about 1259 accounts. The number of accounts was reduced to 142, thus exceeding the minimum reduction of 30 percent.
Simplify and reduce lag time in the public sector expenditure chain by eliminating redundant control points	Benchmark end-June 2010	To increase speed of implementation of investment projects in the short term and the capacity to absorb foreign aid.	Done. The financial auditing was strengthened by the implementation of the SIGFIP software that permitted to reduce the delays linked to control from a maximum of 7 to a maximum of 5 weeks. The decree no. 172/MEF/SP-PRPF dated June 28 2010 modified the expenditure chain limiting the treatment of the commitment to the credit administrator and the financial auditor.
Financial sector			
Advance on the privatization process for state-owned banks by issuing a final call for bids.	Benchmark end-September 2010	To restore confidence in Togo's financial sector, reduce risks of recurrence of macroeconomic instability linked to Togo's large loss-making state-owned banks, promote financial sector development and expand financial intermediation.	Delayed to April 2011. A new privatization law was voted in parliament in October 2010. The call for bids process could start once the privatization commission has examined the different strategic choices and has transmitted its recommendations to the Council of Ministers.
Set up the nonperforming loan management mechanism or structure and its operational support.	Benchmark December 2010	To recover a part of the fiscal cost of securitizing NPLs and restore sound financial relationships between banks and firms.	Underway. In the context of the approach followed by the government, the advisors are preparing a business plan for the loan recovery corporation. Nevertheless, it is possible that certain legal measures will have to be taken before establishing the loan recovery corporation.
Complete a financial and organizational audit of the CRT (State pension fund) and begin an actuarial study of the institution.	Benchmark end-December 2010	Establish an overall strategy for clearing the government's social debt of around 7 percent of GDP.	Done. The audit and study are planned as part of the World Bank financial sector project. See paragraph 20 in the text.
Real Sector			
Recruit consultants to elaborate a report on the required steps to create a one-stop window at the Port Autonome de Lomé.	Benchmark end-September 2010	Foster Togo's competitiveness as a commercial hub and facilitate all administrative procedures for exports and imports and contribute to increase customs revenues.	Underway, expected to be completed with a limted delay. The one-stop window at the Port Autonome de Lomé is part of a World Bank project aiming to promote regional integration. See paragraph 21 in the text.
Approve at the Council of Ministers a new adjustment mechanism for petroleum product prices.	Benchmark end-November 2010	Implement a mechanism that limits fiscal risks by institutionalizing frequent and automatic adjustments of prices at the pump.	Underway. A technical assistance report by FAD was completed in August 2010. A commission was created in September to recommend reforms to the price adjustment mechanism based on the recommendations of the report.

Table 3. Togo: Structural Conditionality for the ECF program in 2011

Measures	Date	Macroeconomic Rationale	Status
Fiscal governance			
Adopt the draft laws creating a new institutional framework for treasury cash management and putting this framework into operation.	Benchmark end-January 2011	Strengthen treasury cash management.	Underway. An IMF technical assistance mission made recommendations that are being implemented.
Adopt a strategy that should lead over time to the establishment of a single treasury account after consultation with the sectoral ministries and development partners.	Benchmark end-March 2011	Strengthen treasury cash management. To closely monitor Treasury operations.	Underway. It might be necessary to obtain technical assistance from development partners to achieve this objective.
Financial sector			
Make progress in the privatization of public banks by issuing a final call for bids.	Benchmark end-April 2011 (revised)	Restore confidence in the Togolese financial sector, reduce the risks of new macroeconomic instability linked to the large loss-making state-owned banks and promote financial sector development and the expansion of financial intermediation.	Underway. The call for bids process could start once the privatization commission has examined the different strategic choices and has transmitted its recommendations to the Council of Ministers.
Real Sector			
Adopt in the Council of Ministers the roadmap for the creation of a one-stop window at the Port of Lome and start the implementation of first required steps identified by the technical consultants to achieve this objective.	Benchmark end-March 2011	Foster Togo's competitiveness as a regional commercial hub facilitate the administrative procedures for exporting and importing and contribute to increase customs revenues.	Underway. The one-stop window at the Port of Lome is part of a World Bank project to promote regional integration.

Attachment to Appendix I:
AMENDMENTS TO TECHNICAL MEMORANDUM OF UNDERSTANDING

Paragraphs 1, 3, 5, 11, 13, 19, 20, 21, 22 and 25 of the Technical Memorandum of Understanding dated March 28, 2008 and modified September 12, 2008 and November 18, 2009 have been modified to reflect the new test dates for the quantitative performance criteria and indicative targets through end-2011 shown in Table 1 above and to clarify the coverage of the limits on nonconcessional external borrowing. 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 August 31, 2011. Table 1 of the above Letter of Intent shows quantitative performance criteria and indicative targets for end-December 2010 (based on cumulative changes from January 1, 2010), and indicative targets for end-September 2010 (based on cumulative changes from January 1, 2010), and indicative targets for end-March 2011 and end-June 2011 (based on cumulative changes from January 1, 2011). Tables 2 and 3 above show structural benchmarks for 2010 and 2011. 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 2009 to end-December 2010 (performance criteria), and in the periods from end-December 2009 to end-September 2010 and from end-December 2010 to end-March 2011 and to end-June 2011 (indicative targets) 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 2009 to end-December 2010 (performance criteria), and in the periods from end-December 2009 to end-September 2010 and from end-December 2010 to end-March 2011 and to end-June 2011 (indicative targets) 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 10 billion.

11. The collection of revenue in the periods from end-December 2009 to end-December 2010 (indicative target), and in the periods from end-December 2009 to end-September 2010

and from end-December 2010 to end-March 2011 and to end-June 2011 (indicative targets) 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.

Definition

13. **Domestic arrears during a given period are defined as** (i) accounts payables (*restes-à-payer*; i.e., payment authorizations (*ordonnancés* but not yet paid) submitted to the treasury and which have not been settled (i.e., paid) within one month after the end of that period in the case of wages and salaries (including pensions) and within three months after that given period in the case of goods and services and transfers; (ii) it also includes any arrears on domestic government debt, including bonds issued in CFA franc on the WAEMU regional market. The change in the stock of domestic payments arrears for a given period includes both the net accumulation of domestic payment arrears during that period (which shall be zero for the duration of the program) and the reduction of domestic payment arrears from previous periods. The change in the stock of domestic payments arrears for the periods from end-December 2009 to end-December 2010 (indicative target), and in the periods from end-December 2009 to end-September 2010 (indicative target) and from end-December 2010 to end-March 2011 and to end-June 2011 (indicative targets) respectively, should be equal to or lower than the amounts shown in Table 1 above. The source of the data on the stock of domestic arrears is the Treasury for the accumulation of arrears during any given period and the Economic Directorate for other arrears. Data will be reported in the TOFE prepared monthly by the Economic Directorate of the Ministry of Finance. The ceiling on net change in the stock of domestic payments arrears is an indicative target throughout the program period.

F. Central government contracting or guaranteeing of nonconcessional external debt

Definition

18. The government undertakes not to contract or issue a financial guarantee for any external debt (defined on the basis of the residency of the creditor) with an initial term of one year or more that has a grant element of less than 35 percent (continuous performance criterion). 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 performance criterion 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, as modified on August 31, 2009, effective December 1, 2009, but also to any obligation contracted or guaranteed for which no value has been received. However, this performance criterion does not apply to reschedulings in the form of

new debt, or to Treasury bills or bonds in CFA francs issued on the WAEMU regional financial market. For purposes of this performance criterion, government is understood to include not only the government as defined in paragraph 2 above, but also public institutions of an industrial and commercial nature (EPIC), public administrative institutions (EPA), public institutions of a scientific and technical nature, public institutions of a professional nature, public health institutions, local administrations, public enterprises, and government-owned or controlled independent companies (*sociétés nationales*) (i.e., public enterprises with financial autonomy where the government holds at least 50 percent of the capital), and government agencies.

Reporting deadlines

20. The government will seek the advice of IMF staff in advance of revisions to external borrowing plans, which will be communicated to IMF staff. The details on all new government external loans contracted during a month will be reported within six weeks of the end of that month. This rule will also apply to guarantees granted by the government.

G. Domestically financed social spending

Definition

21. Total domestically financed social spending (current and capital) is calculated, for each category of the current account (wages, goods and services, transfers and subsidies, other) and capital account as (1) expenditure executed by the Minister of Health (under "health"); (2) expenditure executed by the Minister of Education and National Research and, the National Institute for Professional Education , and the Minster of Advanced Education and Research (under education), and (3) expenditure executed by the (4) the Minister of Environment and Forestry and the Minister of Agriculture ("other social spending", and limited to subsidies and transfers). Domestically financed social spending is classified according to the above categories (health, education, other social spending) based on a classification of each projects presented in the 2010 and 2011 budgets into health, education, other social spending. Total domestically financed current and capital social spending includes social spending financed by domestic resources, including revenues, domestic financing, and general external budget support, and excludes all social spending financed by project-specific foreign grants and/or loans. The source of the data is the fiscal reporting table (TOFE) prepared monthly by the Economic Directorate of the Ministry of Finance.

22. Total domestically financed social spending for the periods from end-December 2009 to end-December 2010 (indicative target), and in the periods from end-December 2009 to end-September 2010 (indicative target) and from end-December 2010 to end-March 2011 and end-June 2011 (indicative targets) 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 (current and capital) is an indicative target throughout the program period.

H. Total domestically financed capital spending

Definition

25. Total domestically financed capital spending, for the periods from end-December 2009 to end-September 2010 and to end-December 2010 and from end-December 2010 to end-March 2011 and to end-June 2011 (indicative targets) 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 capital spending is indicative target throughout the program period.

Statement by the IMF Staff Representative
December 10, 2010

This statement provides information that has become available since the staff report was finalized on November 23, 2010. The new information does not alter the thrust of the staff appraisal.

1. On November 26, the Council of Ministers approved a new adjustment mechanism for petroleum product prices (end-November structural benchmark; Staff Report ¶8 and Letter of Intent ¶21). This mechanism allows for the automatic pass-through of import prices with a smoothing formula.

2. The procurement process to select the consultants that will help establish the "one-stop window" at the Port of Lomé, (end-September structural benchmark; paragraph 8 of the Staff Report ¶8 and Letter of Intent ¶22) is well advanced but not yet concluded. The call for bids was issued in October. The procedures of the World Bank, which is financing the consultants, require selecting from among at least three respondents, but only two companies responded. The authorities and the World Bank are examining options for moving ahead.

3. The Port of Lomé contracted a long-planned loan from the West African Development Bank (*BOAD*) on December 8 (Staff Report ¶17). In a letter to BOAD, the authorities clarified that the government's support for the project does not constitute a state guarantee. Since external borrowing by state-owned enterprises is not currently covered by the external debt definition, the loan does not breach the conditionality under the ECF-supported program.

4. On November 11, the authorities signed, but did not ratify, a loan from the Eximbank of China amounting to $26 million (0.8 percent of GDP) for the modernization of the public administration's computer and communication systems. The authorities learned that the loan's financing terms narrowly failed to meet the concessionality requirements under the program, and they have decided to postpone ratification of the loan agreement until the loan's terms are renegotiated to be consistent with the minimum level of concessionality under the ECF-supported program.

5. On November 26, the authorities approved an increase in electricity prices to take place in January 2011 (Letter of Intent ¶23). This increase, initially intended for July, is an important step to strengthen the financial position of Togo's electric distribution company.

INTERNATIONAL MONETARY FUND
EXTERNAL RELATIONS DEPARTMENT

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FOR IMMEDIATE RELEASE
December 10, 2010

International Monetary Fund
Washington, D.C. 20431 USA

IMF Executive Board Completes Fifth Review Under the Extended Credit Facility for Togo and Approves US$22 Million Disbursement

The Executive Board of the International Monetary Fund (IMF) today completed the fifth review of Togo's economic performance under a program supported by the three-year arrangement under the Extended Credit Facility (ECF). The Executive Board approved a request for a modification of a performance criterion related to net domestic financing and an extension of the program to end-August 2011. Completion of the review enables the immediate disbursement of an amount equivalent to SDR 14.3 million (about US$22 million), bringing total disbursements under the arrangement to SDR 86.61 million (about US$133.24 million).

The Executive Board approved a three-year SDR ECF arrangement with an access amount equivalent to SDR 66.06 million (about US$101.62 million) for Togo on April 21, 2008 to support the government's economic program (about see Press Release No. 08/90). The Board later approved two augmentations on September 22, 2008 and June 25, 2010 totaling SDR 29.35 million (about US$45.15 million)

The Executive Board also agreed that Togo has taken the steps necessary to reach its completion point under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative. This decision on the HIPC completion point is contingent upon the Executive Board of the World Bank reaching a similar decision, after which a joint press release will be issued.

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

"The Togolese authorities are to be commended for continued strong implementation of their economic reform program under the ECF arrangement, which has contributed to strengthened public finances and macroeconomic stability. Countercyclical fiscal policy in 2010 has helped support a modest economic recovery.

"The 2011 budget appropriately emphasizes increasing public investment to support medium-term growth and poverty reduction, to be financed largely by raising domestic revenue. The authorities are committed to limiting growth in current spending and to curtailing lower priority spending in case of shortfalls in revenue or available concessional financing. Continued strong budget execution, including in priority social spending, will be key.

"Enhancing growth prospects will also depend on sustaining the momentum of reforms, particularly in public finance, debt management, and the investment climate. The clearance of domestic arrears is expected to be completed. Implementation of the recently adopted automatic pricing mechanism for petroleum products will minimize distortions, cushion the social impact of price shocks, and safeguard public finances. It will be important to proceed with the privatization process for state-owned banks.

"Togo has taken the steps necessary to reach completion point under the enhanced HIPC Initiative. To reap lasting benefits from the considerable debt relief, judicious use of opportunities is important. The authorities will need to increase investment in physical and human capital and pursue growth-enhancing structural reforms while maintaining prudent fiscal and debt policies. Continued support from donors will be crucial," Mr. Portugal added.

Statement by Kossi Assimaidou, Executive Director for Togo
December 10, 2010

On behalf of my Togolese authorities, I thank Management and the Executive Board for their continued support to Togo's ongoing economic and structural reform efforts. This support has been instrumental to the important achievements made by the Togolese authorities since 2006, culminating in the meeting of the HIPC completion point requirements. I also thank staff for their dedicated and relentless efforts in providing my authorities with pertinent advice and technical assistance throughout these years.

The profound political and economic reforms on which Togo has embarked since 2006 have helped the country reengage with the international community and lay the ground for stronger economic growth and poverty reduction. Strong policy and reform implementation, including under the current ECF-supported program which was approved in April 2008, contributed to reaching the decision point in November 2008.

My authorities have made significant progress in establishing and preserving macroeconomic stability and launching structural measures. The latter include reforms in the areas of public financial management; fiscal governance (clearance of domestic arrears, move towards a single treasury account, and simplification of the expenditure chain); financial, energy and phosphate sector restructuring; and improvements in the operations of the *Port Autonome de Lomé* (PAL). These achievements, which have led to satisfactory and timely completion of the first four reviews under the ECF, including the third review on a lapse-of-time basis, have been made in a very challenging environment, characterized by a series of exogenous shocks. These shocks include notably the food crisis; the oil price hikes; energy supply shocks; catastrophic floods in 2008 which destroyed roads and bridges and put a halt to the traffic of goods between the PAL and the hinterland countries; and, last but not least, the global economic crisis, which has led to persistently weak global economic conditions. The commitment of my authorities to the program reforms has remained strong all along.

My authorities share the thrust of staff papers on the fifth review under the ECF and the Enhanced HIPC completion point document. Based on the assessment made by staff on the continued good performance of Togo under its Fund-supported program and the authorities' unwavering commitment to their policy and reform agenda going forward, **we seek the support of the Executive Board in favor of the completion of the fifth review of Togo's program under the ECF arrangement**.

Furthermore, in addition to maintaining macroeconomic stability, Togo has fully met all the other requirements for the HIPC completion point. These include the PRSP implementation and its monitoring; the tracking and transparency of expenditure operations; the functioning of the Court of Accounts and the Procurement Regulatory Authority; compliance with regular public reporting of payments to, and revenues received by the government for the phosphates sector; enhancement of debt management and reporting of external and domestic public debt data; adoption of health development plans; and implementation of the national education sector plan. **Therefore, we call on the Board to support the completion point and debt relief for Togo under the Enhanced HIPC Initiative and the MDRI**.

POLICY TRACK RECORD

My Togolese authorities continue to build a strong record of policy and reform implementation. The objectives, including all the fiscal performance criteria set forth in their ECF-supported program since the fourth review, have been met. In particular, despite a challenging external and financing environment, they have not accumulated any external arrears nor contracted or guaranteed any non-concessional external debt. They are working to complete the implementation of the domestic arrears settlement strategy, with the assistance of the employers' association to contact potential creditors who have not applied for settlement yet. Regarding the external debt, my authorities remain committed to contracting or guaranteeing external borrowing on concessional terms and will continue to consult with Fund staff when questions arise. In particular, these consultations revealed that a recently signed loan had unexpectedly and narrowly failed to meet the minimum concessionality. This loan is not yet effective, as it must undergo a legal ratification process, and my authorities are committed to not proceeding with ratification until they obtain terms that meet the minimum concessionality requirements under their program commitments.

On structural reforms, significant progress has continued to be made since the last review in June. As presented in their new Letter of Intent (LoI), the authorities have pushed forward measures to move towards a single treasury account, simplify budget execution procedures and strengthen financial control.

On the financial sector, despite the delays due to the unexpected need to update the legal framework for the privatization of public banks, the envisaged reforms are proceeding. The members of the privatization commission that will recommend options for the privatization of state-owned banks have been selected, and the commission will be formally established soon. The authorities now expect that the final bids will be issued by end-April 2011. In the meantime, the authorities, in collaboration with the regional Banking Commission will continue to maintain a strict control over the management of the banks to be privatized. Furthermore, the process of establishing a debt collection structure for the recovery of NPLs acquired by the government—with the assistance of the IMF and the World Bank—is proceeding well.

Following technical assistance from Fund staff, the Council of Ministers has approved on November 26, 2010 a new adjustment mechanism for petroleum product prices, which allows for the automatic pass-through of import prices with a smoothing formula. This mechanism aims at limiting budget risks while mitigating the social impact of sharp oil price fluctuations. At the same time, the government is seeking a solution to the problem of the liabilities generated by the former price adjustment mechanism, in collaboration with the oil distribution companies concerned.

Other structural reforms that have been launched recently by the Togolese authorities include the establishment of a "one-stop window" in the *Port Autonome de Lomé*. While not concluded yet, the procurement process to select the consultants that will help establish the "one-stop window" is well advanced. Thus far, only two consultant companies, instead of three, have responded, and the authorities and the World Bank which is financing the consultants are examining options for moving ahead. Reforms also include increasing the *power supply* with the start of electricity production by a new power plant while preserving the commitment to adjust the power company (CEET)'s electricity rates at cost-recovery levels. In this regard, the authorities approved an increase in electricity prices to take place in January 2011. Among other reforms, we note the implementation of *EITI requirements* and the submission of Togo's membership application; as well as the ongoing implementation of the phosphate sector revitalization strategy.

Moreover, the Togolese authorities have been very receptive of the World Bank's recommendations for improving the business climate, and they are modernizing the investment code and the laws and regulations governing the free trade areas, with the view to reflect as much as possible the international best practices.

PURSUING THE REFORM AGENDA

My Togolese authorities view the completion point as an important milestone to create the necessary space for economic development and poverty reduction. In the same vein, they intend to pursue, beyond the completion point, their reform agenda to improve the economy's productivity and competitiveness while ensuring that the benefits of those reforms are felt more by the population. Building on the reforms already implemented and the strong macroeconomic framework going forward (fiscal discipline, prudent public financial and debt management), the authorities plan to continue implementing in 2011 and beyond, their ambitious structural reforms, in a context of future relations with the Fund. **The authorities have, with Fund staff, fine-tuned the measures to be implemented in the context of the current ECF-supported program, of which they are requesting an extension to provide them with the timeframe necessary to ensure they meet their immediate structural reform objectives**.

The proposed 2011 budget favors investment in infrastructure to begin addressing the severe underinvestment during the prolonged domestic crisis in Togo. The fiscal balance nevertheless remains prudent and fully consistent with debt sustainability. The increased investment is largely financed by improved mobilization of domestic revenue, while the growth in current spending remains disciplined, to preserve fiscal space for investment. To accompany these significant domestic investment efforts, my authorities encourage donors to support infrastructure development.

Strengthening public financial management remains a key aspect of the authorities' agenda in 2011. As highlighted in their LoI, the authorities will establish a single database for the civil service payroll in efforts to improve budget programming and expenditure execution; increase domestic revenue through the streamlining of tax and customs exemptions, enhancing tax and customs collections, and make progress toward the adoption of a new customs code. They will also make further progress to improve treasury cash management, with notably the adoption of a monthly planning system, the preparation of regulations and decisions to create a new institutional framework for treasury cash management, the adoption of a strategy to establish a single treasury account, and the incorporation of medium-term budget objectives into a debt strategy to better public debt management. My authorities hope that they can continue to rely on Fund technical assistance when needed to advance these fiscal reforms.

Regarding the financial sector, as indicated above, steps towards the privatization of public bank will be taken. Furthermore, the authorities will prepare a strategy to develop the sector and improve financial intermediation while ensuring financial stability. My authorities expect to benefit from the technical and financial support of development partners in designing and conducting such strategy.

The competitiveness of Togo as a regional commercial hub will be enhanced by the envisaged establishment of the one-stop window in the PAL. This will also contribute to raising customs revenue.

DEBT SUSTAINABILITY

Upon reaching the completion point, Togo will benefit from substantial debt relief from multilateral and bilateral creditors accounting for almost all total HIPC eligible debt. The authorities are working towards obtaining the participation of all the remaining few creditors. They also look forward to their negotiations with the Paris Club on the treatment of the Togolese debt, scheduled in December 2010. The country will also benefit from additional debt relief under the MDRI. In total, full delivery of HIPC, MDRI and additional assistance at the completion point would reduce Togo's external debt burden substantially, as indicated in the updated debt sustainability analysis.

To further improve debt dynamics, the authorities intend to use the bank privatization proceeds to repay domestic debt. Nevertheless, the sustainability of the total public debt in the long term will continue to depend on the availability of grants and concessional loans for Togo, as debt indicators show sensitivity to the terms of new external financing and other macroeconomic assumptions such as permanently lower GDP growth or export growth. On their part, my authorities will continue to rely on concessional loans for external financing and will consult with Fund staff when a high-return investment does not find a sufficiently concessional financing. They will also continue their efforts to diversify the economy and address the private sector bottlenecks, in order to increase its resilience to exogenous shocks.

CONCLUSION

Togo continues to make solid progress to put the economy on a sustained path of stronger growth and poverty reduction. Based on the strong track record of policy and reform implementation and the authorities' renewed commitment to sound reforms, we call on the Executive Board to support the completion of the fifth review under the ECF and the authorities' request for an extension of the arrangement.

Furthermore, having met all requirements for the completion point under the HIPC, we request for the Executive Board to grant Togo the completion point that will allow this country to create the financial space towards the acceleration of its reform agenda, its economic development and its meeting of the MDGs.