

**Togo: Joint Staff Advisory Note on the Interim Poverty Reduction Strategy Paper**

The attached Joint Staff Advisory Note (JSAN) on the Interim Poverty Reduction Strategy Paper for Togo, prepared jointly by the staffs of the World Bank and the IMF, was distributed with the member country's Interim Poverty Reduction Strategy Paper (IPRSP) to the Executive Boards of the two institutions. The objective of the JSAN is to provide focused, frank, and constructive feedback to the country on progress in implementing its Poverty Reduction Strategy (PRS).

Copies of this report are available to the public from

International Monetary Fund • Publication Services  
700 19<sup>th</sup> Street, N.W. • Washington, D.C. 20431  
Telephone: (202) 623-7430 • Telefax: (202) 623-7201  
E-mail: [publications@imf.org](mailto:publications@imf.org) • Internet: <http://www.imf.org>

**International Monetary Fund  
Washington, D.C.**



INTERNATIONAL MONETARY FUND AND  
INTERNATIONAL DEVELOPMENT ASSOCIATION

TOGO

**Joint Staff Advisory Note on the Interim Poverty Reduction Strategy Paper**

Prepared by the Staffs of the International Monetary Fund (IMF)  
and the International Development Association (IDA)

Approved by Robert Sharer and Adnan Mazarei (IMF)  
and Obiageli K. Ezekwesili (IDA)

April 17, 2008

**I. OVERVIEW**

- 1. This Joint Staff Advisory Note (JSAN) reviews the Interim Poverty Reduction Strategy Paper (I-PRSP) prepared by the Government of Togo.** The I-PRSP sets out an ambitious three-year program to strengthen political and economic governance, support economic recovery and reduce poverty. It was adopted by the Government of Togo on March 7, 2008 and submitted to IDA and the IMF on March 19, 2008.
- 2. Work on the I-PRSP began in 2001, but was interrupted by political tensions in 2005.** The process resumed in August 2006 and was concluded in March 2008. In both phases, the preparation of the I-PRSP was inclusive and involved both government and civil society organizations (unions, religious organizations, private sector and NGOs). Donors engaged at the beginning of the second phase and have since played an important role advising the authorities and helping to carry out a number of quantitative and qualitative poverty surveys.
- 3. In the second phase of preparing the I-PRSP, emphasis was placed on priority measures, notably in the areas of public finance management and governance of key public enterprises and banks.** The authorities have started implementing these priority measures supported by an IMF Staff-Monitored Program, paving the way for a Poverty Reduction and Growth Facility (PRGF), for IMF Board consideration in April 2008; a development policy operation to support economic governance reforms for consideration by the World Bank Board in May 2008; an operation to clear arrears to the African Development Fund; resumption of EU financial support; and increased interest by other donors in resuming normal relations with Togo after a decade and a half of modest activity.
- 4. The I-PRSP sets out an ambitious poverty reduction strategy (PRS) to revive economic growth and improve basic living conditions along three strategic axes:** (i) strengthening political and economic governance, with a focus on institutional reform and

fiscal governance; (ii) promoting economic recovery and sustainable development, with measures to reform state-owned enterprises and financial institutions, improve the business environment, strengthen regional integration and trade, revive agricultural production, rehabilitate infrastructure, and improve management of natural resources and the environment; and (iii) developing social sectors, human resources and employment, with a focus on improving access to and the quality of basic education and health services. The I-PRSP presents the ongoing policy reforms, which remain a priority in the near term, and outlines an expanded reform agenda going forward.

5. **The staffs note that the I-PRSP contains most of the elements typically contained in a full PRSP and agree with the thrust of its macroeconomic policy scenarios and economic and social objectives.** The I-PRSP provides an in-depth poverty diagnosis and presents the macroeconomic framework, sectoral plans, reform policy measures, costing, and a policy matrix for 2008-10. It also outlines the institutional framework for the I-PRSP implementation, monitoring and evaluation, and planned timeline and participatory process for the preparation of the full PRSP.

6. **The JSAN provides feedback from the staffs of the IMF and IDA on the I-PRSP with a view toward the preparation of the full PRSP.** The JSAN presents the staffs' views on priority areas for strengthening the full PRSP, which the Government plans to complete by early 2009. In particular, the JSAN comments on: (i) the poverty diagnosis; (ii) sector policies and reform priorities; and (iii) the strategy's implementation and monitoring and evaluation framework, and implementation risks.

## II. POVERTY TRENDS AND DIAGNOSIS

7. **The I-PRSP provides an adequate analysis of basic living conditions and poverty,** drawing on the comprehensive household survey conducted in 2006 and several sector surveys carried out between 2000 and 2006. According to the 2006 household survey, about 62 percent of the population lives below the poverty line, with rural areas accounting for the majority of the poor (74 percent versus 37 percent in urban areas). Wide disparities in poverty between regions also exist.

8. **As a result of the political situation and the weak economic performance, Togo's Human Development Index, as measured by the UNDP, failed to improve in recent years,** in contrast with a gradual increase experienced in sub-Saharan Africa. Indeed, the I-PRSP notes that, because of the socio-political crisis, Togo has not been able to design and implement programs for moving toward the Millennium Development Goals (MDGs), although considerable efforts have been made in education, maternal health and HIV/AIDS. Also, although a difference in methodology between the 2006 household survey and the previous 1995 survey prevents a comparative analysis of poverty over time, the 2006 household survey revealed that respondents perceived a worsening of living conditions

between 2000 and 2006, mainly due to economic difficulties and health problems. Public spending on basic services was constrained and favored urban rather than rural areas; infrastructure investment in the rural areas was limited; and high unemployment has persisted in the urban areas.

9. **While the determinants of poverty outcomes are adequately identified in the I-PRSP, staffs recommend that growth and the distributional impacts of sectoral programs and expenditures be better assessed as part of the preparation of the full PRSP.** The staffs encourage the Government to adopt a coding to track pro-poor expenditures in the budgetary nomenclature, monitor closely the execution of the budget and publish regular reports on the expenditures in the priority sectors. The staffs urge the authorities to also deepen the analysis on the links between growth policies and sectoral programs and expenditures, and their impact on poverty reduction. It is recommended that this analysis include food security considerations and be reflected in the policies formulated in the full poverty reduction strategy.

### III. SECTOR POLICIES AND REFORM PRIORITIES

10. **The I-PRSP macroeconomic framework projects an increase in real GDP growth to 4 percent (about 2 percent per capita) during 2008-10 which staffs believe is realistic** given the low capacity level at which the economy is operating and the reform policies planned by the Government. The macroeconomic framework is also based on prudent projections on tax revenue growth and assumes that Togo's external financing will reach the regional average. The medium-term budget framework is well-developed, targeting a modest primary fiscal adjustment combined with an increase in external assistance and HIPC debt relief, which would allow a significant increase in spending on infrastructure and basic social services. The authorities have identified non-priority spending which could be reduced in the event of a shortfall in revenue or external financing, to safeguard the social sectors and public infrastructures. The I-PRSP also provides a clear link between the programs under the strategic axes and the medium-term budget, with most spending going toward health, education and infrastructure. Despite the projected significant increase in external assistance and spending, the resources would still be insufficient for Togo to meet the MDGs.

11. **Given Togo's relatively limited institutional capacity and the complexity of the reforms, the time frame envisaged for several reforms contained in the policy matrix appears ambitious and frontloaded.** The staffs recommend that the authorities sequence future reforms appropriately and set realistic deadlines. For example, some of the public finance management measures are critical in the short term to ensure that the additional resources from reengagement with donors and debt relief are spent in a transparent and effective manner, and are channeled to priority areas aimed at raising growth and reducing poverty. Similarly, efforts to strengthen governance and halt the decline of fragile state banks

and key public enterprises are both urgent and critical for strengthening the foundations of Togo's nascent economic recovery. Other reforms, including deeper structural reforms to strengthen performance of public enterprises and promote private sector growth, will require more time to implement and yield results, given the need for adequate analytical underpinnings and complex implementation issues. The staffs recommend that the PRSP outline a growth agenda based on Togo's regional connection, notably by exploiting its transit corridor and deep port facilities at Lomé, leveraging its past reputation as a strong regional financial center, and promoting the services sectors.

12. **The staffs agree that the scope and direction of the I-PRSP policy measures are broadly consistent with the stated objectives.** They recommend that the full PRSP provide additional specificity on the key elements of the more complex reforms, in particular in:

- **Cotton sector.** Since finalization of the I-PRSP, the Government has decided, based on recent financial, institutional and strategic audits, to liquidate the loss-making cotton company and create a new company partly owned by producers as an interim step toward investment of a strategic private partner. Additional clarity on the specific steps planned by the Government to strengthen governance and performance of the cotton company, as well as looking at the social impact of the reforms, would be useful, including management, accounting and financial control systems. Clarity would also be useful on sector reform measures, including on farmer productivity enhancement measures, input credit and supply mechanisms, pricing issues, rural infrastructure, and transition issues until entry of a strategic partner.
- **Phosphates.** The staffs recommend that, further to the investment program to modernize phosphate sector equipment, the PRSP set out more clearly the strategic vision for the sector and, thereby, the implications for the future sector reform agenda. In view of the currently low level of capacity utilization, the staffs recommend that the sector strategic vision clearly specify the critical role of the investment program for restoring and boosting the sector's production capacity in the medium term. The staffs also encourage the Government to pursue the process toward membership in the Extractive Industries Transparency Initiative (EITI).
- **Financial sector.** While confidentiality issues prevent too detailed a discussion, it would be useful to elaborate both on the near term restructuring plan of banks with negative net worth and the long-term strategic objective of the financial sector, inclusive of microfinance and non-bank financial institutions (e.g., social security, insurance companies). In addition, staffs recommend that the PRSP outline measures to secure a stable pension system and strengthen the financial sector so as to restore its prior role as an important regional financial center.
- **Energy.** The region-wide energy crisis is a complex problem and Togo as an importer of most of its electricity consumption has limited options, particularly in a non-

- regional context. In view of the sector's critical links to Togo's growth prospects, staffs urge the authorities to articulate in the full PRSP an integrated strategy for the development of the energy sector that reflects a better balance between national and regional solutions to energy generation. The strategy would also need to clearly distinguish between near-term steps to improve energy supply as well as the key elements of a long-term strategy comprising, among others, investments, new sources of electricity imports, pricing and demand management, and institutional questions related to the partnership with Benin. The strategy could also clearly articulate a linkage with the West Africa regional power pool.
- **Education sector.** The staffs recommend that, in preparing the full PRSP, the results of recently completed analytical work prepared under the Country Status Report on Education are fully considered. This should lead to the preparation and adoption of a credible and financially viable education sector plan, which would be the basis for Togo to apply to the Education For All – Fast Track Initiative. The Initiative is expected to become the major multilateral financial mechanism to support primary education in Togo.
  - **Health sector.** The staffs note that overall the strategic goals for the health sector in the I-PRSP are relevant and respond to the serious human development crisis affecting Togo. However, the strategy's objective of achieving the MDGs by 2015 is very ambitious, and the staffs recommend listing these as overall programmatic goals rather than specific targets. In terms of policies, the staffs recommend that the full PRSP put emphasis on the development of pro-poor health policies: these may include the transfer of substantial financial and human resources to rural remote areas, the promotion of access to primary health care centers, and the strengthening of decentralized health services to ensure quality.
  - **Community development.** The staffs note that the I-PRSP gives appropriate emphasis to the role that civil society organizations may play in education, training, health and other basic services, and welcome the Government's approach to facilitating development activities at the community level. In this context, the staffs recommend that the authorities identify development partners that could support specific community programs in addition to those discussed under the Millennium Village initiative, and in particular programs that will support community development as part of the on-going decentralization process.
13. **The I-PRSP provides a clear and consistent linkage between the reform agenda and the medium-term budget at the aggregate level.** Staffs recommend that these estimates be regularly updated as specific reforms and projects take shape and enter the implementation phase. In addition, staffs urge the authorities to elaborate in the full PRSP the costs of key sector programs through sector medium term expenditure frameworks that are consistent with the medium-term budget framework.

14. **With respect to external assistance, the staffs urge the authorities to identify, where possible, the development partners that could support specific reforms identified in the I-PRSP**, given the need for both technical and financial assistance in many areas. It would also be helpful to prioritize the investment program and specify mechanisms for coordination with development partners to ensure that donor financing and technical assistance is aligned with the Government's PRS priorities. The staffs recommend that the full PRSP emphasize the importance of maintaining debt sustainability after debt relief by relying on highly concessional financing (mainly grants) and improving external debt management. It should also provide an estimate of how much external assistance would be required beyond 2010.

15. **The staffs note that in some areas more analysis is needed to develop the details of the required policies.** In particular, this would be helpful in (i) the energy sector, to review the strategic role of Togo's energy development in the context of the regional power pool; (ii) agriculture, to reassess selected sub-sector support or reform programs in the context of options for enhancing competitiveness of the product supply chains; (iii) phosphate sector, a financial and strategic audit would provide elements for articulating a vision and reform program for the sector; (iv) trade, notably a diagnostic trade integrated study (DTIS) as contribution to the growth and diversification agenda; (v) health sector, primarily to identify the demand for health services, the public and private health services supply capacity and existing gaps; (vi) transport and telecommunications, notably a strategic review of the port's future in a regional integration context to assess strategic links of the transport and sector programs; and (vii) microfinance and pensions, primarily to conduct actuarial reviews to enable articulation of pension reform measures.

#### IV. IMPLEMENTATION, MONITORING AND EVALUATION

16. **The institutional mechanism to be established for PRS monitoring and evaluation comprises several components** involving representatives of all branches of government and non-government stakeholders. The lead entity will be the National Council for the PSRP Monitoring chaired by the Prime Minister and with representatives from the legislative branch, civil society and the private sector, charged with coordinating the implementation of the poverty reduction strategy. Other existing entities include an inter-ministerial committee, technical steering committee, permanent technical secretariat and sectoral committees. The Government aims to establish local and regional participatory monitoring committees subsequent to installation of local elected officials. A Government-Donor committee is also envisioned once the priority national entities are in place and consolidated. While acknowledging the inclusive nature of this institutional framework, the staffs note the current limited capacity of civil society to fully engage in national policy discussions. In this regard, the staffs encourage the Togolese authorities to explore, with the donor community, options for strengthening civil society capacity.



17. **The I-PRSP includes a set of economic and social indicators to track progress,** and notes that the information system for monitoring the PRSP and MDGs will be based partly on existing sectoral information systems, particularly those in health, education, HIV/AIDS, finance and rural development. The staffs concur with the I-PRSP's view of the need to strengthen the national statistics system as regards both the production and the use of statistical information.

18. **While the economic and poverty data are adequate for preparing a full PRSP, there will still be a need to build statistical capacity in key economic sectors,** notably agriculture and services, to inform policymakers as they implement the strategy. The monitoring system relies on relatively comprehensive indicators and staffs recommend that the authorities focus it on a limited number of indicators to facilitate global monitoring of PRS implementation progress. For the full PRSP, the staffs encourage the authorities to elaborate the program for strengthening the statistical information system and a practical monitoring and evaluation framework that takes full account of existing systems and capacity levels.

19. **Capacity constraints, political tensions, and adverse economic shocks are key risks that could slow down implementation of the PRS.** To mitigate these risks, it will be important to: (i) continue reaching out to local stakeholders, in particular in preparing the full PRSP; (ii) coordinate closely with donors to ensure sufficient technical and financial assistance is forthcoming for the country's identified priority needs; (iii) incorporate analysis and measures to strengthen social protection, including food security and disaster risk management considerations; and (iv) maintain sound fiscal policies and continue and deepen governance reforms to increase the efficiency, effectiveness and transparency of public resource use. In addition, the full PRSP could further develop the scenario analysis by assessing the potential impact of lower (and higher) external assistance and of economic shocks, including impact of further oil and food price increases.

## V. ISSUES FOR DISCUSSION BY THE EXECUTIVE DIRECTORS

20. **The I-PRSP clearly identifies the major obstacles to poverty reduction in Togo and outlines a reasonable framework for implementing the Government's growth and poverty reduction agenda over the period 2008-10.** It recognizes the considerable challenges to achieve the MDGs and the risks to its implementation. It also adequately outlines the institutional framework for the I-PRSP implementation, monitoring and evaluation, and planned timeline and participatory process for the preparation of the full PRSP.

21. **In considering the authorities' I-PRSP and associated JSAN, Executive Directors' views are sought** on whether they agree with the main areas identified by staffs as priorities for strengthening the PRS and its implementation. Director's views are also

sought on whether they concur with the areas identified by staffs (i.e. public financial management, financial sector, cotton, phosphate and energy) where additional specificity could be added for the preparation of the full PRSP and the key implementation risks, notably capacity constraints, political tensions and adverse economic shocks.