Togo and the IMF

Press Release:
Press Release: IMF Executive Board Completes Third Review Under PRGF Arrangement with Togo and Approves the Disbursement of US$14 million
November 25, 2009

Country's Policy Intentions Documents

E-Mail Notification
Subscribe or Modify your subscription

Togo: Letter of Intent

October 30, 2009

APPENDIX I—**LETTER OF INTENT**

Lomé
October 30, 2009

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

Dear Sir:

1. Further to our letter of April 1, 2009, the third program review presents the opportunity for us to report on the considerable progress made in implementing the financial program supported by the Poverty Reduction and Growth Facility (PRGF). Despite the serious difficulties our economy has faced since launching this program due notably to the global recession, we have resolutely and vigorously pursued economic reforms with a view to mitigating the effects of the crisis and consolidating our achievements. We have met our objectives under the program and honored our commitments. This socioeconomic program also entails a process of political development and the restoration of a peaceful political environment. The political understanding that paved the way to legislative elections in October 2007 is now being used as the basis of discussions that will culminate in presidential elections in the first quarter of 2010.

Background

2. In light of our country's prolonged sociopolitical and economic crisis, our program for economic recovery and poverty reduction aims to restore macroeconomic stability, improve public finances, and boost economic growth so as to raise the living standards of the population. This program is underpinned by the Poverty Reduction Strategy Paper (PRSP), which the government approved on June 20, 2009 after a broad-based national consultation. Its implementation remains our top priority. Under this program, the Togolese government has begun the process of re-engagement with its development partners. The program has also enabled us to normalize our relations with our external creditors and reach the decision point under the HIPC Initiative in November 2008, thus benefiting from debt relief and considerable financial and technical support. Thanks to sustained efforts for more disciplined and transparent public financial management, Togo has significantly strengthened its financial situation. Furthermore, the government has adopted and launched a plan to clear domestic arrears and succeeded in preventing the accumulation of new arrears, in spite of the economic hardships. The government has also continued its sectoral reforms, in particular in the banking sector. Indeed, the framework defined by the PRGF-supported program has

enabled us to mitigate the impact of the shocks on public finances and improve the macroeconomic situation. While we remain vigilant on our goals of macroeconomic stability and strengthened public finances, the slow recovery leads us to be particularly focused on meeting growth and poverty reduction objectives.

Recent economic developments

3. The recovery of the Togolese economy is likely to be slow, following sluggish economic activity last year, which was mainly the result of the substantial impact of the floods in 2008 and the spike in international food and oil prices. Based on preliminary information, real GDP growth may reach 2.5 percent in 2009, exceeding the rate that was originally forecast six months ago. This modest recovery can be attributed to several factors, notably: an increase in food production owing to various types of government support provided to the sector, including the provision to farmers of fertilizers at subsidized prices; a recovery in the supply of electrical power; and accelerated public investment in infrastructure. However, commercial activity, as well as cotton production and exports have declined significantly. Furthermore re-export and transit activities in the region decreased. Inflation continued to fall in 2009 as a result of the combined effect of falling oil prices and lower domestic food prices after an abundant harvest. Inflation dropped to 2.2 percent over the first eight months of the year (year-on-year), which is in line with the WAEMU convergence criterion of 3 percent.

4. Despite the fact that the external current account deficit in 2008 was higher than in previous years, it is expected to remain stable at 7 percent of GDP in 2009. This is the result on the one hand of the fall in the prices and volumes of cotton and phosphate exports, and, on the other hand, of the fall in oil prices and the increase in volumes of cement and clinker exports. The monetary situation is characterized by an increase in gross foreign assets, with the SDR allocation of September 2009. Credit to the private sector will grow slowly in 2009, reflecting weak economic activity and financial intermediation. Nevertheless, money supply should grow by 13 percent, notably due to an increase in private deposits.

Implementation of the economic program

5. Despite the difficult economic conditions linked to the global recession, the PRGF-supported financial program has been implemented with determination. The government continued to strengthen public finances and to implement structural measures to lay the foundations for strong and lasting growth. All performance criteria and all quantitative indicators, as well as the structural benchmarks, for end-June have been met, with the sole exception of the target pertaining to social and investment expenditures.

6. In the case of public finance, revenue and expenditure performance has been broadly consistent with program objectives. Revenue at end-June amounted to CFAF 124 billion, compared to the original forecast of CFAF 108 billion. Customs and tax collections increased

by about 2 percent and 20 percent, respectively, compared with results at end-June 2008, reflecting the implementation of administrative reforms. Measures were taken at customs to improve the system of verifying imports, in particular with a view to reducing the under-invoicing of used vehicles and the smuggling of oil products. This helped offset the impact of lower imports owing to the weakness of domestic and regional demand. The performance of the tax department is essentially due to the strong collection of corporate and personal income taxes, as well as domestic VAT. This reflects the impact of reducing the rates of these taxes, which resulted in a broadening of the tax base, an expansion of the formal sector, and support for household consumption.

7. Efforts aimed at controlling and redirecting expenditure continue and have helped keep expenditures to budgeted levels. Total expenditure at end-June amounted to CFAF 145 billion compared with an objective of CFAF 155 billion. Current expenditure includes certain emergency spending authorized by the supplementary budget of December 2008. Nevertheless, because of administrative capacity constraints, investment spending could not meet the ambitious objectives, which were set at a level much higher level than the previous year. This spending remained far below end-June forecasts; at CFAF 8.6 billion, it was 34 percent of the forecast of CFAF 25 million. As a result, we did not meet our target for social and investment spending, which reached CFAF 46.6 billion at end-June, falling short of the targeted CFAF 50.4 billion. To remedy this under-performance, in particular during the first quarter of the year, the government took a number of steps to speed up the awarding of government contracts by reducing the lag times and eliminating the duplication in the steps of the expenditure chain. This has considerably reduced the time between expenditure commitment and payment authorization. Thus, at end-August, the number of contracts signed increased considerably and the government expects to end the year with an execution rate of about 70 percent of the initial forecast.

8. The government considered it necessary to increase domestically financed public expenditures in the supplementary budget (*collectif budgétaire),* financed by resources that were not expected under the original budget. The purpose is to help offset the slow recovery of economic activity and the low level of investment during the long social-political crisis that the country experienced. Already envisioned at the time of the second review under the PRGF-supported program, this supplementary budget increased spending authority by an additional 3.3 percent of GDP, primarily to boost domestically financed investment expenditures. Other sources of investment have proven weaker than expected, in particular private foreign direct investment and foreign financed public investment. The supplementary budget also intends to increase the amount of domestic arrears cleared in cash, to alleviate financing constraints to the private sector. The increased outlays would be entirely financed by unexpected increases in non-tax revenue initially estimated at 3.7 percent of GDP (CFAF 50 billion) mainly from the renewal of licenses in the telecommunications sector and dividends from the state-owned phosphate company. Accordingly, this increase in spending would not adversely affect the fiscal balance and the fiscal objectives of the program would be met.

9. However, the implementation of this ambitious budget initiative has met some challenges. While absorptive capacity has somewhat improved, it does not appear to be sufficient for the execution of the full increase envisaged in the supplementary budget. Moreover, the increase in non-tax revenue envisioned will also not be fully achieved. As described below, the government will adjust the execution of expenditures of the supplementary budget depending on the availability of revenues, to preserve the fiscal objectives in the program.

Implementation of structural reforms in 2009

10. Under our PRGF-supported program, the government made good progress overall in implementing essential reforms to achieve program objectives. The advances made since the beginning of the program are as follows:

11. In July 2009, the reorganization of the Treasury General Directorate, consistent with WAEMU directives, was completed with the establishment of the three central accounting structures, as well as regional Treasury accounting structures. The aim of this new organization is to strengthen the Treasury's capacity to control and disseminate reliable information on revenue, expenditure, and the management of government cash flow in real time to avoid the accumulation of payment arrears. The 2008 cash management accounts and June 2009 Treasury balance sheet were produced on time thus meeting the structural performance criterion.

12. We made considerable progress in the areas of debt management and domestic arrears.

- To ensure control over its borrowing policy, the government strengthened the role of the Public Debt Directorate and designated it as the sole payment authorization entity for debt-related expenditure. To ensure the sustainability of our public debt, we will ensure that the financing we receive from our partners to cover our needs will be in the form of grants and/or highly concessional loans. To that end, a National Public Debt Committee was created on September 11 2008 to develop, coordinate, and monitor the implementation of the national public borrowing policy and public debt management.

- After adopting a strategy to clear domestic arrears to government suppliers (November 2008), the government established the National Council for the Clearance of the Domestic Debt (CNADI) in January 2009. The process of making cash payments to small suppliers, which represent about 87 percent or 4,336 of the government's suppliers, started in August 2009, and CFAF 3.5 billion has already been paid out to 672 creditors, of the CFAF 13 billion earmarked in the budget for arrears clearance in cash.

- In November 2008, Togo reached the decision point under the HIPC Initiative, which seeks to reduce the stock of external debt. As part of that process, we contacted the majority of our creditors and are committed to contacting those that have not yet been reached, in order to obtain debt reduction agreements. During the upcoming negotiations, we will seek to obtain debt relief in line with the common factor for debt reduction calculated in the report for the HIPC Initiative decision point.

13. With a view to strengthening oversight structures, the new law providing legal authority to the members of the Audit Court (*Cour des Comptes*) was promulgated, and the government appointed magistrates to the court in June 2009. These magistrates were sworn in on September 16 2009. The cash management accounts and budget review law (*loi de règlement)* for 2007 have been compiled and will be forwarded to the Court shortly.

14. To accelerate implementation of the investment program, particularly as it pertains to the repair of infrastructure destroyed by the 2008 flood, the government has developed an action plan to build capacity in the near term for rapid project execution and to increase the country's aid absorption capacity. In this context, a new law on procurement was passed and enacted in June 2009, while a new procurement code was completed with technical assistance from the World Bank and submitted to the government for approval. At the same time, training is underway for stakeholders (government, civil society, and economic operators) to familiarize them with the new structures and procedures related to the law.

15. Great strides have been made in restructuring the banking system so that it can play its role in financial intermediation and contribute to sustainable growth.

- After the restructuring of the state-owned banks (BTCI, UTB, BTD, and BIA-TOGO) in 2008 through the securitization of nonperforming loans, the banks' solvency ratios improved, thereby meeting the performance criterion for end-March 2009. The government intends to continue and even step up the process of their privatization in the short run. In this context, the hiring process for privatization consultants, financed by the World Bank, started in February 2009 and should be completed by November. After this hiring process is completed, a request for expressions of interest in buying the State's shares in these banks should be published by February 2010 at the latest, thereby meeting a structural benchmark with a probable delay.

- With a view to establishing a structure and a mechanism for managing the nonperforming loans, which were swapped for government securities in October 2008, consulting firms were invited to bid on a contract funded by the World Bank to conduct a feasibility study, but negotiations with the selected firm failed. A new call for bids was issued and the selection process is underway. Given the setbacks and the unexpected complexity of the process, the structure for collecting nonperforming loans should be established no later than December 2010, involving a second change in the timetable for this structural benchmark. In the meantime, the banks that currently manage the nonperforming loans transferred to the government after the restructuring process, have established a mechanism to recover the amounts due in the context of the domestic arrears clearance process, and they are also verifying their commitments with respect to repayment of the loans. The government is working with the banks to facilitate information sharing and clarify the legal basis for these actions. The mechanism will enable the government to recoup some of the cost of restructuring the public banks and reduce the large stock of cross debts, making way for a revival in the flow of the credit.

16. Although the phosphate sector remains a leading sector of the Togolese economy, the SNPT continues to experience difficulties in production. The volume of phosphate production is likely to decrease by over 20 percent in 2009, with a pickup toward the end of the year as investment and repairs bear fruit. As part of our efforts to restructure the sector, a strategic audit, conducted with support from the World Bank, was completed in September 2009 and its findings will be revised following comments received from different stakeholders (the Togolese authorities, SNPT staff, and World Bank experts, among others). In addition, the SNPT administration has engaged the services of an international firm to assist in preparing a three-year business plan for the company, which will be completed around the end of October 2009. Based on the results of the strategic audit and the business plan for the SNPT, the government will adopt a strategy for the sector before the end of December 2009, thereby completing the measures envisioned in a structural benchmark with a small delay.

17. In the cotton sector, following the recommendations of the strategic audit, SOTOCO was liquidated and a new cotton company was set up and resized to ensure its financial viability. The Director General and his deputy were recruited after a selection process, not by decree as in the past. This demonstrates the government's willingness to make the new management structure more efficient. Furthermore, the implementation of the recommendations to set up a cotton pricing mechanism indexed to international prices was validated by sector operators and is operational for the 2009-10 crop year. However, problems with the financing of inputs persist. In addition, the government will take advantage of the potential for agricultural production by continuing its support to the sector and progressively liberalizing the export regime for food production.

18. The electricity sector has experienced a significant increase in production in 2009 compared with previous years. In July 2009, CEET's medium-tension rates were adjusted upward and earlier in the year a study was completed on the implementation of an automatic price adjustment mechanism, which is being discussed with the parties concerned. In the second quarter of 2010 electricity production at Contour Global is likely to begin, thereby alleviating supply constraints. To reduce the need for government subsidies, the CEET, in collaboration with CEB, is committed to negotiating export contracts to ensure that there is sufficient demand for its output. However, new investments are needed in terms of expanding the current distribution network and improving its quality.

19. The telecommunications sector continues to experience robust growth, estimated at over 10 percent in 2009. Nevertheless, the government is in the process of reviewing its regulatory framework for possible reforms.

Macroeconomic Outlook

A. Macroeconomic framework

20. For the rest of 2009 and 2010, the government is determined to carry out actions aimed at mitigating the effects of the global crisis on the Togolese economy and put the economy on the path to strong and sustained growth. To that end, the government intends to give priority to macroeconomic stability, to strengthen economic and social infrastructure by increasing investment spending, and to accelerate the implementation of structural reforms, with the aim of, inter alia, meeting the requirements for reaching decision point under the HIPC initiative in 2010. Under these circumstances, short-run prospects for the Togolese economy continue to be of concern, with a projected real GDP growth rate of only 2.6 percent in 2010. This level is below potential and equivalent to the population growth rate. However, the inflation rate should remain within the limits of WAEMU convergence criteria. The already sizeable current account deficit in 2009 should increase slightly in 2010, reaching 7.2 percent of GDP. This deterioration is mainly the result of an expected increase in oil imports. The government is aware of the risks facing the economy in 2010. In the short run, the weakness of the global economy will continue to have an impact on transit services and on cotton prices and demand. The risks stemming from the economy's absorptive capacity and the pace of structural reforms in the phosphate, electricity, and telecommunications sectors may also affect macroeconomic developments.

B. *Fiscal Policy*

21. Consequently, fiscal policy at end-2009 and 2010 aims to meet two major challenges preserving progress in macroeconomic stability: (i) continue the efforts to mobilize domestic resources; and (ii) contribute to the economic recovery in the context of a weak world economy. For the rest of 2009, the government will take steps to maximize non-tax revenue and investment spending within the constraints mentioned above, while redoubling its efforts to clear arrears in cash to the extent possible. Current expenditures will be maintained within the budgetary envelope and any unused resources will be carried over to 2010 to finance investments.

22. With the implementation of measures to reduce customs and tax exemptions, revenues in 2010 should reach around 16 percent GDP, a level which is consistent with the global environment and the pace of the country's development. The government also intends to strengthen the effectiveness and fairness of the tax system. To that end, it plans to take measures to strengthen customs administration, in particular by providing additional human and material resources. With respect to tax administration, emphasis will be placed on broadening the tax base and further reducing tax rates to draw more activities by individuals and enterprises into the formal economy.

23. Public spending should reach 24 percent of GDP and will be aligned with the priorities defined in the Poverty Reduction Strategy Paper. Compared with the past two years, the composition of expenditures is much more oriented toward growth and poverty reduction, with a particular emphasis on investment spending. The subsidies granted to state enterprises (in particular SOTOCO and CEET) will be gradually rolled back and will better target poverty reduction as these enterprises are restructured. In order to support economic activity and respond to pressing investment needs, the government will seek to maintain the volume of investments financed with domestic resources at a level equivalent to 3.6 percent of GDP. Consequently, the domestic primary budget deficit will be equal to 1.4 percent of GDP in order to alleviate the impact of the financial crisis, and the overall budget deficit (on a commitments basis excluding grants) will further deteriorate to the equivalent of 4.0 percent of GDP. Thus, to support economic growth in an unfavorable global environment, fiscal consolidation will be temporarily relaxed with an increase in infrastructure spending and poverty reduction-related expenditures. This budget framework is consistent with the performance criteria of end-June 2010, as well as the indicative targets of end-December 2010 (see Table 1).

24. To address the impact of the global recession, the government intends to maintain the same level of expenditure even though it has not yet identified all the resources for financing these efforts. It plans to mobilize domestic financing to cover the majority of its needs. However, additional financing equivalent to 1.7 percent of GDP will also be needed. The government will seek additional non-tax revenue and resources from the privatization of

banks after the completion of the domestic arrears clearing process and the repayment of the bank restructuring securities. In this context, the government will also appeal to its partners to obtain additional exceptional assistance. Nonetheless, if the resources available prove insufficient to cover planned expenditure, it will postpone some investment financed by domestic resources in order to maintain the fiscal objectives of the program.

Structural reforms for the rest of 2009 and 2010

25. The government intends to pursue this ambitious structural reform program in order to support growth, and our new commitments are laid out in Table 3. With respect to tax administration, the tax base of the General Directorate of Taxes will be broadened with coverage of the informal sector. To that end, the 2010 budget law plans to reduce for the second consecutive year personal and corporate income tax rates, by 5 and 3 percentage points, respectively. This will bring the maximum rate of the personal income tax to 40 percent and the maximum rate of the corporate tax to 30 percent for commercial firms and 27 percent for industrial firms. The customs administration will strengthen its control by automating the customs valuation process for merchandise. However, the measures taken in the budget law for 2009 with respect to the free economic zone have raised some questions among investors in Togo regarding adherence to established international practices in the area. In this regard, a revision of the tax law on the status of the free zone based on international practices is being prepared and should be completed by end-2009. The authorities are elaborating in parallel a new investment code that will be consistent with the free economic zone law.

26. Concerning the process of clearing domestic arrears, the government intends to use the credit granted by the BCEAO in the context of the additional allocation of SDRs by the IMF, to clear the commercial arrears audited by KPMG (as at the end of 2006) in 2009 and in early 2010 (new structural benchmark for end-March 2010). The total amount, CFAF 39 billion, should enable us to clear the commercial arrears to the private sector. The remainder of the commercial arrears amounting to CFAF 21.7 billion, which is owed to public enterprises, will be treated in an appropriate manner. In collaboration with the banks that are currently managing nonperforming loans and with the tax authorities, the government will implement a cancellation of the cross debts with about thirty large commercial creditors before paying the balance of the arrears. This initiative will create the additional liquidity needed by enterprises and thereby support a recovery in production. Furthermore, given that the BCEAO's lending terms are more favorable than the terms on the regional financial market, this operation will enable us to improve our debt profile and meet the corresponding structural benchmark with a small delay.

27. Recognizing the role that the financial sector can play in the national economy, the government is committed to restoring confidence in this sector by privatizing the state-owned banks. The aim is to reduce the risk of further macroeconomic instability caused by the losses of the large banks and to promote the development of the sector and financial intermediation.

In addition to calling for expressions of interest in its search for strategic investors mentioned above, the government plans to publish a final call for bids by September 2010 (new structural benchmark). Privatization revenue will be used to repay the debts incurred during the bank restructuring process. In collaboration with the supervisory authorities, the government is determined to maintain rigorous control of the management of these banks until the privatization process is completed. The government is also committed to set up the mechanism and its operational support for managing and collecting the nonperforming loans of state-owned banks, by end-December 2010 (revised structural benchmark).

28. With respect to structural reforms in other sectors, the government intends to implement a strategy in the phosphate sector which includes seeking a strategic investor. In connection with CEET, the government recognizes the need to apply cost recovery prices to electricity tariffs and plans to implement an automatic and regular price adjustment mechanism based on trends in electricity import prices and exchange rates. For the telecommunications sector, with the help of technical and financial partners, the government intends to strengthen the regulatory framework, following ECOWAS directives, to guarantee competition and economic efficiency. In order to improve the business climate and stimulate investment, the government has reduced the number of procedures necessary for registering new companies and taken measures to establish a one-stop shop (CFE, *Centre de Formalités des Entreprises*) as well as policies for reducing red tape for exports.

29. The outlook for strengthening the public financial governance reforms underway is favorable for 2010:

- Continue to implement the new enhanced system for tracking budget execution on a monthly basis, in particular to monitor more closely the adherence of monthly execution to the approved budget in order to identify early in the year any delays in the pace of public investment.

- Move towards the establishment of a single treasury account (STA) thereby strengthening the Treasury’s control over government operations (new structural benchmark).

- Simplify and reduce delays in the expenditure chain by removing redundant control points (new structural benchmark) and by unifying the circuits for executing current and capital expenditure in order to accelerate the pace of public investment, especially in roads and basic infrastructure.

- Strengthen monthly monitoring of the balance of outstanding payables to minimize these amounts.

- Introduce in all the priority ministries (health, education, infrastructure, finance and agriculture) the practice of preparing public procurement plans and commitment plans by end-January.

- Strengthen and improve the computerization of the Treasury by completing the integration of accounting module in the SGFIP.

- Conduct a financial and organizational audit of the Togo Retirement Fund (*Caisse de Retraite du Togo--CRT)* and begin an actuarial study of the institution by end-December 2010 (new structural benchmark), which will help establish an overall strategy for repaying the government's social debt.

- Make the oversight of the General Inspectorate of Finance (IGF) and the Audit Court more effective. The government is committed to send the Audit Court the *loi de règlement* for 2007 in 2009 and for 2008 in 2010.

30. With respect to petroleum product prices at the pump, the application of the oil price adjustment mechanism was suspended in 2008 because of the surge in international oil and food prices. This has created a contingent liability for the government, as we indicated in our last review. The government and the oil companies are holding discussions to determine the amount of this liability. The government committed to clearing this liability using the resources from the margins gained on petroleum product prices at the pump, which were to be slightly higher than world market prices. The government recognizes, however, the difficulty of maintaining prices at this level, because it encourages illicit trade in oil products from neighboring countries with lower prices. The government intends to clear the liability agreed upon with oil companies in the next two to three years. To avoid incurring new obligations, the retail price of petroleum products will be adjusted to reflect trends in international prices. The price adjustment mechanism will be reviewed in consultation with the IMF and World Bank with the aim of mitigating fiscal risk and reducing price volatility. This review will be completed and submitted to the Council of Ministers by end of August 2010 (new structural benchmark).

31. To cope with external shocks and revive the economy, Togo needs additional resources immediately (in the form of grants or concessional loans) to finance critical investment in strengthening the economic infrastructure, providing social services, reducing poverty, and generally attaining the MDGs. In Brussels in September 2008, Togo's partners agreed to mobilize resources within the framework of renewed international cooperation and honoring the principles of the Paris declaration and program of action coming out of the Accra Forum. We appreciate the development partners' decision to increase the level of assistance and to develop greater flexibility in their procedures. For its part, Togo is determined to reach the floating completion point triggers under the HIPC initiative as soon as possible in 2010.

32. The process of preparing the full PRSP was completed in June 2009. The participatory approach allowed public and private sector stakeholders to take ownership of the PRSP process and the thematic studies were enhanced with contributions from civil society organizations, technical and financial partners, and various components of Togolese

society. The document provided a more in-depth diagnosis of the country's economic and social situation, while proposing a prioritized list of measures to combat poverty. Government action will be based on four strategic pillars: (i) the strengthening of governance; (ii) the consolidation of the basis for strong and sustainable growth; (iii) the development of human capital; and (iv) the promotion of grassroots development and reduction of regional imbalances.

33. The progress of our PRGF-supported program will be monitored on the basis of revised quantitative performance criteria for end-December 2009 and end-June 2010, which were agreed upon with the IMF mission. We expect that the fifth program review will be completed by end-November 2010.

34. To support our policies and in light of the clear progress made in implementing the program under the PRGF, we request completion of the review and, consequently, the disbursement of the fourth tranche of the loan.

35. The government is convinced that the policy set out in this document will help attain program objectives. It is therefore committed to taking any additional measures that might be necessary toward this end. The Togolese authorities will consult with the IMF concerning these possible additional measures or before proceeding to revise the measures set out 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). The updates and modifications to this Memorandum are attached in an annex.

36. Finally, the government consents to the publication of this Letter of Intent and the IMF Staff Report on the third review.

Sincerely yours,

/s/

Adji Otèth AYASSOR
Minister of Economy and Finance

Table 1. Togo: Quantitative Performance Criteria and Indicative Targets

June 30, 2009 - December 31, 2010

	2009				2010	
	June		Dec.		June	Dec.
	Prog. [1]	Est. Adj.	2nd Rev [1]	Rev. Prog. [2]	Prog.	
	(Billion CFA francs, cumulative from end of preceding year)					
Performance criteria (for end-June, and end-December 2009, and end-June 2010; indicative targets otherwise)						
Domestic primary fiscal balance (floor)	-10.7	3.1	-7.8	-3.8	-0.2	-19.3
Nonaccumulation of external arrears [3]	0.0	0.0	0.0	0.0	0.0	0.0
Net domestic financing (ceiling)	10.0	-0.8	4.0	3.8	37.5	31.4
Central government contracting or guaranteeing of nonconcessional external debt (ceiling)	0.0	0.0	0.0	0.0	0.0	0.0
Indicative Targets						
Total revenue (floor)	108.0	124.8	225.6	255.8	110.6	249.1
Domestic payments arrears, changes in stock (ceiling)	0.0	0.0	-12.6	-12.9	-33.1	-33.1
Domestically financed social and capital spending (floor) [4]	50.4	46.6	120.9	97.7	…	…
Total domestically Financed Investment Spending (floor)	…	…	…	…	14.8	51.0
Total domestically Financed Social Spending (floor)	…	…	…	…	40.7	101.8
Exceptional Financing	24.1	20.5	37.4	41.7	6.2	28.7

[1] Letter of Intent dated April 1, 2009

[2] Letter of Intent dated October 30, 2009

[3] Continuous performance criterion.

[4] To better track the components, this target is disaggregated starting in 2010.

Table 2: Togo: Status of Structural Reforms through 2009

Measures	Date	Macroeconomic Rationale	Status
Fiscal governance			
Reduce tax and customs exemptions and strengthen tax and customs control, including in the Free Economic Zone (FEZ).	Benchmark June 2009	To limit leakage of tax-exempt goods into the domestic economy, which distorts economic incentives and reduces fiscal revenues.	Done. Tax exemption reduction included in the 2009 budget law. Customs and tax administration provided power to conduct inspection in the FEZ.
Make operational a new Treasury structure based on WAEMU directives.	Performance criterion June 2009	To create a functioning Treasury that has adequate control and information over revenues, spending, and cash management to ensure timely payments, avoid arrears, and provide for real-time consistent budget execution data.	Done. The three central structures and the regional Treasury structures were set-up. Treasury balances produced in agreed timeframe.
Start implementing the domestic arrears clearance strategy by securitizing validated arrears to suppliers and setting up a mechanism for monitoring domestic debt.	Benchmark December 2009	To move toward a sustainable debt position and prevent new arrears, as Togo regularizes its large stock of domestic arrears, starts servicing long-term regional bonds, and initiates short-term treasury bill auctions.	Underway with the possibility of a delay in the securitization process due to a strengthening of the strategy for arrears clearance. The process of arrears clearance in cash to small holders started in August 2009.
Financial sector			
Initiate restructuring of BTCI, including by raising its capital through issuance of government securities.	Benchmark March 2009	To support the financial rehabilitation of Togo's largest bank, prepare it for privatization, and set the conditions for sound financial sector development.	Done. BTCI's NPLs have been exchanged against government securities as part of a broader multi-bank recapitalization scheme.
Initiate the process of identifying strategic investors for state-owned banks.	Benchmark December 2009	To reduce risks to macroeconomic stability caused by Togo's large loss-making state-owned banks and support expansion of financial intermediation.	Underway with possibility of delay. The selection of privatization consultants was launched in February and should be completed by November 2009. A call for expressions of interest should be published by February 2010 at the latest.
Set up a structure and mechanism for managing the NPLs that have been exchanged against government securities in the bank restructuring process.	Benchmark December 2009	To recover part of the budgetary cost of securitizing of NPLs and reduce the large stock of enterprise arrears and cross-debts.	Underway with a delay. The initial procurement process for advisory services has failed. A new selection process is ongoing. Due to the complexity of the process, the structure will be created in December 2010 at the latest.
Public enterprises			
Phosphate sector: Prepare a development strategy based on the results of the strategic audit.	Benchmark September 2009	To promote transparency in the restructuring of the phosphate sector, which could generate additional exports of up to 10 percent of GDP at current world prices.	Delayed. The strategic audit supported by the World Bank was completed in September 2009. The strategy will be adopted by the Council of Ministers by December 2009 at the latest.

Table 3: 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 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	The government intends to use the credit granted by the BCEAO to clear all audited arrears to the private sector in early 2010.
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 June 2010	To closely monitor Treasury operations, as this is a key element of controlling the government's cash flow operations.	
Simplify and reduce lag time in the public sector expenditure chain by eliminating redundant control points	Benchmark June 2010	To enhance the capacity for rapid execution of investment projects in the short term and the capacity to absorb foreign aid.	
Financial sector			
Advance on the privatization process for state-owned banks by issuing a final call for bids.	Benchmark 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.	The recruitment of privatization consultants with funding from the World Bank is under way (see Table 2)
Set up the nonperforming loan management mechanism and its operational support (see above)	Benchmark December 2010	To recover a part of the fiscal cost of securitizing NPLs and reduce the large stock of enterprises arrears and cross debts.	See Table 2. A new call for bids was issued to hire a consulting firm to conduct the feasibility study. The recruitment process is under way.
Conduct a financial and organizational audit of the CRT and begin an actuarial study of the institution.	Benchmark December 2010	Establish an overall strategy for clearing the government's social debt of around 7 percent of GDP.	The audit and study are planned as part of the World Bank financial sector project
Real Sector			
Conduct a review of the oil price adjustment mechanism and submit it to the Council of Ministers	Benchmark August 2010	The oil sector accounts for about 7 percent of GDP and has important fiscal implications.	