Togo and the IMF

Press Release:
IMF Executive Board Completes Fourth Review Under ECF Arrangement for Togo and Approves US$16.2 Million Increase in Financial Support
June 25, 2010

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Togo: Letter of Intent

June 10, 2010

LETTER OF INTENT

Lomé
June 10, 2010

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

Dear Sir:

1. Further to our letter of October 30, 2009, the fourth program review is an opportunity for us to report on the progress made in implementing the financial program supported by the Extended Credit Facility (ECF). We have pursued the economic reforms outlined in the program, to mitigate the effects of the global recession and accelerate our economic recovery. We have broadly met our objectives in the program, although there have been some deviations from its performance criteria. We are resolutely committed to redoubling our efforts to ensure rigorous implementation of the program.

2. At the same time as these economic reforms are advancing, an equally important process of political reform has progressed considerably. The organization of presidential elections in a peaceful setting marked an important milestone in this process. The next step concerns the legislative elections expected later this year.

Background

3. Our ECF-supported program aims to raise the living standards of the population, through recovery from the country's prolonged sociopolitical and economic crisis. The pursuit of our goals is guided by the implementation of our first full Poverty Reduction Strategy Paper (PRSP), adopted in June 2009. The ECF-supported program advances this strategy by promoting economic growth and stability, while increasing the resources devoted to priority sectors. Under this program, the Togolese government has also normalized relations with external creditors, re-engaged with development partners, and reached the decision point under the HIPC Initiative in November 2008. These accomplishments have enabled us to benefit from debt relief and considerable financial and technical support from our development partners.

4. On the economic front, our main objectives, embedded in our ECF-supported program, are strengthening public finances, consolidating macroeconomic stability, and boosting economic growth. Our economic recovery and program implementation have encountered considerable obstacles, however, including the global price shocks in 2007–08,

damage from severe flooding in late 2008, and most recently the persistent impact of the global recession. While these shocks have delayed the recovery in growth, we have nevertheless achieved considerable progress in strengthening public finances and maintaining macroeconomic stability.

5. Since the launch of its ECF-supported program, Togo has continuously strengthened the health of its public finances. The government has re-established budget discipline and progressively improved public financial management. In addition, since the last program review in November, we have made significant progress in the clearance of domestic payment arrears to private sector suppliers that had accumulated over many years. The government has also advanced in its growth-enhancing structural reforms, in particular in the banking sector.

6. Indeed, the framework defined by the ECF-supported program has enabled us to mitigate the impact of the economic shocks, notably through counter-cyclical fiscal measures. However, the slow recovery and stagnating income per capita levels—even as the program approaches its third year—have increasingly focused our attention on meeting our growth and poverty reduction objectives. Nevertheless, we remain vigilant on our goals of macroeconomic stability and strengthened public finances, which we stress are necessary for a sustained recovery.

Recent economic developments

7. The recovery of the Togolese economy from the domestic socio-political crisis has continued to be slow, owing to the persistent impact of the global recession, yet macroeconomic stability continues to be preserved. Real GDP growth reached an estimated 3.1 percent in 2009, slightly exceeding the rate of population growth. This modest recovery relative to 2008 can be attributed to several factors, notably: an increase in food production owing in part to government support provided to the sector, such as the provision to farmers of supplies of fertilizers at subsidized prices; an increase in clinker production; an improvement in electric power supplies; and accelerated public investment in infrastructure. However, commercial activity, as well as the production and export of cotton and phosphate, have declined significantly. Furthermore, re-export and transit activities have declined following the impact of the global recession on the subregion. 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 an average of 1.9 percent, which is in line with the WAEMU convergence criterion of 3 percent or less.

8. In 2009, the external current account deficit is estimated to have remained high, at 7.0 percent of GDP, compared to 6.4 percent of GDP in 2008. Imports have increased, largely as a result of public infrastructure projects, even if the oil import bill was contracting under the impact of falling prices and volumes. A slight increase in direct exports was observed. This was largely accounted for by the rise in clinker exports, but was offset by the

world recession which served to lower cotton and phosphate export prices and volumes, while worker remittances declined by 2.5 percent.

9. The monetary situation is characterized mainly by an increase in gross foreign assets, associated with the SDR allocation of September 2009. In fact, credit to the economy recorded an increase of 21.3 percent in 2009 in contrast to a 4.6 percent decline in 2008. The money supply has grown by 16.1 percent, notably due to an increase in deposits, which reflects increased confidence in the banking sector fostered by the state exchanging securities for the banks' nonperforming loans in 2008 and ongoing restructuring efforts.

Implementation of the economic program

10. Despite the difficulties linked to the global recession and slow growth, the ECF-supported financial program has been implemented broadly in line with its objectives. Despite some modest deviations from program targets and timetables, the government has continued to further improve public finances and to advance on structural measures that will lay the foundations for strong and lasting growth. As explained below, the execution of the 2009 fiscal framework led to a primary domestic fiscal balance that was lower than the projected floor and resulted in an overshooting of the ceiling on net domestic financing, two important performance criteria for end-December 2009 (Table 1). Moreover, in February 2010, the government contracted some financing from a supplier that was not consistent with the continuous performance criterion (PC) on the minimum concessionality of external borrowing (see paragraph 14). The PC on the non-accumulation of external arrears was observed, as were indicative targets on domestic arrears clearance and domestically financed social and investment spending. The implementation of the four structural benchmarks for the second half of 2009 was broadly satisfactory even if delays were observed for certain benchmarks. We are determined to address these deviations from the ECF-supported program, as explained below.

11. Despite a good performance of tax revenue collection, total revenue did not achieve the objectives set in the program. Tax revenue collection did meet the ambitious targets in the program, reaching CFAF 229 billion at end-December (15.4 percent of GDP), instead of the CFAF 220 billion initially forecast. Customs collections benefitted from an improved system of verifying imports, computerization of the customs clearance procedure, and efforts to combat smuggling of oil products, which helped offset the impact of weak import growth. Tax revenue benefitted from enhanced collection efforts combined with a reduction in tax rates, which helped broaden the tax base and expand the formal sector. However, non-tax revenue collection did not meet the government's ambitious targets. In particular, fees for licenses in the telecommunications sector and dividends from state-owned enterprises did not materialize as expected.

12. Concerning fiscal policy, expenditures stayed within the overall program envelope. At end-December 2009, current primary expenditure exceeded the budgeted level by CFAF

15.4 billion, i.e., 1.1 percent of GDP. The higher level of these current expenditures is largely attributable to the higher-than-expected increase in the wage bill. In fact, a substantial recruitment drive was implemented in 2009, in particular for the security forces in connection with the presidential election and for the social sectors—specifically, education and health. Furthermore, regarding education, the revision of the status of auxiliary teachers that were integrated into the civil service had a significant impact. Domestically financed investment spending fell short of the ambitious program targets, because of administrative capacity constraints. Moreover, government measures to speed up this investment spending were partly successful in the second half of the year. These efforts also yielded an improvement in the execution of foreign-financed investment spending, which virtually doubled compared to 2008 to reach 3.0 percent of GDP. The under-execution of domestically financed investment spending entirely offset the overshooting observed in the execution of current expenditure.

13. The domestic primary fiscal balance exceeded the PC in the program by CFAF 3 billion (equivalent to 0.2 percent of GDP) as a result of nontax receipts that were lower than anticipated. Moreover, financing needed for domestic arrears clearance and debt service exceeded projections in the program. Combined with the higher fiscal deficit, these factors led to net domestic financing exceeding the PC by CFAF 10 billion (equivalent to 0.7 percent of GDP). We note that the higher-than-expected settlement of arrears to the private sector, which is to be welcomed, means that the process is gathering speed and that it will help to reduce necessary payments in 2010, which will also have a neutralizing effect.

14. Concerning the nonobservance of the criterion regarding nonconcessional external debt, the Togolese government is committed to corrective action concerning the supplier's credit, in the form of promissory notes, which did not respect the requirements of minimal concessionality under the program. Contracted in February 2010, the credit was intended to help finance a project for rehabilitating the infrastructure of the television network and extending television coverage to encompass the entire national territory, which we consider pressing due to government commitments to the public and the risks of the network breaking down. To remedy this situation, we have cancelled the promissory notes and the project by mutual agreement with the supplier. We now have a better understanding of the requirements of our commitments with our development partners. The rehabilitation and extension of the TV network will be undertaken in the future in cooperation with these partners.

Implementation of structural reforms in 2009 and 2010

15. Under our PRGF-supported program, we have continued to make considerable progress overall in implementing essential reforms to achieve program objectives. The progress achieved since the last program review in November is significant, even though observance of the timetables for structural benchmarks was mixed (Table 2).

16. Progress in the area of clearing domestic arrears and public financial management has been substantial:

- The process of clearing domestic payment arrears, accumulated over several years, as we noted previously, has advanced significantly (structural benchmark for end-March 2010). At end-February 2010, more than 1,600 creditors (all categories taken together) had been paid for the sum of CFAF 18.7 billion. At this time, there are only 246 medium and large-scale unpaid creditors. Of the 25 largest creditors, 21 have been paid, the amount for which is estimated at CFAF 8.1 billion after discount. Discussions are in progress with the four others. With respect to small holders, 1,342 have been paid and approximately 4,000 creditors remain unpaid. For this group of creditors, the government intends to resume signing agreements—a process that had ended in December 2009—with the aim of settling the accounts on a permanent basis. With financing of CFAF 29 billion, the government expects to settle in full the commercial debt owed to the private sector in 2010 slightly behind the initial timetable envisaged for the structural benchmark, which is due to the slow pace at which claimants have come forward to participate in the process. This wide-ranging program has been partly financed by the credit granted by the BCEAO in the context of the additional SDR allocation by the IMF; the BCEAO's lending terms are significantly more favorable than those prevailing on the regional financial market. The arrears clearance process has improved liquidity conditions for enterprises and thereby supported a recovery in production.

- To improve treasury cash management, the government is also undertaking the measures necessary to move toward a single treasury account and reduce the number of accounts by 30 percent. When a survey of treasury accounts was completed in 2008, we identified around 801 accounts; of which 606 have already been closed. A new survey of treasury accounts was completed at the end of April 2010. We are currently closing at least 30 percent of the surveyed accounts, and this process will be completed by end-June 2010. We will thus achieve the structural benchmark.

- We have strengthened our public spending capacity and its quality. We have also taken measures to enhance investment project execution by simplifying and reducing lag time in the public sector expenditure chain. Controls have been strengthened and the implementation of the SIGFIP software will help to reduce control periods from 7 weeks to a maximum of 5 weeks. Redundant control points, which result in an abnormally long public expenditure chain (as found by the July 2009 IMF TA report on government expenditure management), will be eliminated by end-June, thereby enabling us to meet the structural benchmark. All the priority ministries (health, education, infrastructure, finance and agriculture) prepared public procurement plans and commitment plans by end-January.

- The newly established Audit Court (*Cour des Comptes*) has now become operational, with staff, resources, and materials. With the support of our development partners, we intend to support training activities to enhance the court's effectiveness. The treasury accounts (*comptes de gestion de la trésorerie*) and budget review law (*loi de* *règlement)* for 2007 were forwarded to the court on January 5, 2010.The draft budget-review law for 2008 was transmitted on April 23, 2010.

- 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 negotiations, we will seek to obtain debt relief in line with the level calculated in the report for the HIPC Initiative decision point.

17. The restructuring of the banking sector is advancing and should enable it to play its role in financial intermediation and contribute to sustainable growth. This process is benefitting from intensive technical assistance from the World Bank and IMF.

- In accordance with the reports of the privatization advisors, hired with the assistance of the World Bank, we launched the privatization process by publishing a public information notice in December 2009. We are completing prior actions, which should lead to publication of a call for expressions of interest as we had envisaged earlier in the process. Furthermore, we are working toward resolving the remaining legal issues regarding the completion of privatization process.

- The advisers for recovery of nonperforming loans, also hired with assistance from the World Bank, are going to finish a feasibility study by mid-June. The study will provide recommendations on the most appropriate alternatives regarding the form of the structure/mechanism for collecting nonperforming loans.

18. As far as the phosphate sector is concerned, a strategic audit, conducted with support from the World Bank, was completed in September 2009, and its findings were validated in a workshop gathering the various stakeholders (the Togolese authorities, SNPT-*Société Nouvelle des Phosphates du Togo* staff, and World Bank experts, among others) in December 2009. Based on this report, the government has laid out a strategy for the long-term development of the sector, which will include the participation of a strategic partner in the years ahead. The Council of Ministers approved the strategy on March 30, 2010. Accordingly, the policy action under the structural benchmark was completed with a delay. However, the volume of production declined 13.9 percent in 2009. In light of the investments executed in the second half of last year, we expect a recovery in production volumes in 2010.

19. Efforts intended to promote food production have yielded good results with a plentiful harvest and a considerable surplus. Togo has pursued an incremental increase in food exports. However, recovery in the cotton sector continues to be hampered by world market conditions and structural problems, despite our efforts in terms of institutional reforms. We are considering different policy alternatives to restore adequate financing to small producers and to establish trust once again between producers and the NSCT (*Nouvelle*

Société Cotonnière du Togo). We are currently reorganizing the sector with assistance from our development partners, in particular the World Bank, should help to improve the performance of the cotton sector.

20. The electricity sector has experienced a significant increase in production in 2009 and early 2010 compared to previous years. Electricity production at the independent power producer plant of Contour Global is expected to begin by end-June 2010, thereby alleviating supply constraints of the region.

Macroeconomic Outlook

A. Macroeconomic Framework

21. For the rest of 2010 and for 2011, government policy aims to mitigate the lingering 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, inter alia, of meeting the requirements for reaching the completion 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 3.3 percent in 2010 and 3.5 percent for 2011. This level remains below potential and barely exceeds the population growth rate. However, the inflation rate should remain within the limits of WAEMU convergence criteria (3 percent).

22. The already sizeable current account deficit in 2009 should increase slightly in 2010, reaching 7.6 percent of GDP, as growth in exports and remittances remains subdued owing to global economic conditions and countercyclical fiscal measures support import demand. The current account deficit is expected to fall back somewhat to 6.7 percent of GDP by 2011. This improvement would reflect a partial recovery in the growth of exports and migrant workers' remittances, as well as the effect of a modest tightening of the fiscal stance to ensure fiscal sustainability in the medium term.

23. The government is preoccupied by 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, remittances, and on prices and demand for cotton and phosphate.

B. Fiscal Policy

24. In this difficult economic context, we are convinced that our spending plans for 2010 remain warranted, provided we can mobilize the necessary financial resources, both domestic and external, with the exceptional support of Togo's development partners. The government is also taking steps that will enable it to increase both tax and non-tax revenues beyond original projections, helping to offset the slight underperformance in 2009 that limited the

scope for using treasury deposits in 2010. Owing to strengthened spending controls, expenditures will be maintained within the budgetary envelope, particularly current primary spending. Given our efforts to mitigate the impact of the global recession and to mobilize domestic resources, we hope to benefit from additional exceptional financial assistance from our partners.

25. With the combination of improved tax collection already observed in 2009 and more effective mobilization of non-tax revenue, we now project that revenue collection will reach CFAF 267.7 billion (17.2 percent GDP), compared to CFAF 249 billion originally targeted. Projected tax revenue will increase to CFAF 234.8 billion (15.1 percent GDP), compared to CFAF 224.5 billion originally targeted. Collection of non-tax revenue has already reached 85 percent of the annual target, allowing us to raise the target—which was already ambitious by historical standards—to CFAF 32.8 billion (2.1 percent GDP).

26. Our spending plans in 2010 give priority to maintaining the increase in expenditures oriented toward growth and poverty reduction, consistent with the priorities defined in the Poverty Reduction Strategy Paper. Thus, the composition of spending is well adapted to offsetting the macroeconomic and social impacts of the global recession. In light of the overspending in some areas in 2009, we will heighten our vigilance in controlling spending levels, relying on the new measures outlined below; and if necessary, we will make expenditure savings in order to offset any overruns.

27. The revised plans for execution of the 2010 budget will yield a reduction in the domestic primary budget deficit to CFAF 1.8 billion (0.1 percent GDP), compared to CFAF 19.3 billion originally projected. This improvement will enable us to mitigate financing requirements. The overall budget deficit (on a commitments basis excluding grants) will also improve to 5.4 percent of GDP. Nonetheless, the policy of reducing arrears to the private sector (already included in the budget), to oil companies, and more recently in order to improve the financial situation of CEET, will raise the costs of arrears clearance to 3.7 percent GDP (compared to 2.3 percent initially targeted); these operations have required an increase in the net level of government securities issued of 1.1 percent GDP between January and April 2010. Arrears to the energy sector were handled by two issuances of government securities: (i) one involving the arrears of CEET and the former OTP vis-à-vis CEB in the amount of CFAF 17.1 billion; and (ii) the other operation focusing on the arrears of the central government, local governments and government agencies vis-à-vis CEET in the amount of CFAF 16.5 billion. Following an agreement between the government and CEET, the securities issued in the second operation were returned to the government as compensation for having taken over CEET's debt in the first operation. This approach is dictated by the urgent need to improve the financial situation of CEET. This new revised fiscal framework has led us to propose revising the performance criteria previously established for end-June 2010, as well as the new performance criteria established for end-December 2010 (see Table 1). In order to strengthen the monitoring of the budget program, we have also decided on indicative targets for the third quarter of the year.

28. Our need for exceptional external financing remains unchanged from the original fiscal framework. The residual unidentified financing amounts to CFAF 15 billion (equivalent to 1 percent of GDP). In this context, the government appeals to the IMF and its other partners for additional exceptional assistance. On the understanding that the European Union, above and beyond the disbursement of the general budgetary assistance tranche of up to CFAF 5 billion, is also providing an additional CFAF 8 billion via the V-Flex instrument and CFAF 5 billion through the Food Facility instrument, we request an augmentation of the financing under the ECF by SDR 11 million, equivalent to CFAF 7 billion. This augmentation could be disbursed in two equal portions at the completion of the fourth and fifth reviews. If these resources were not to become available, we would be forced to cut lower-priority current spending and/or postpone some investment financed by domestic resources, to ensure financing for the government budget and to maintain the fiscal objectives of our program.

29. The government remains committed to strengthening debt dynamics. Achieving debt reduction under the HIPC and MDRI initiatives would lead to a major improvement in the situation, and constitutes one of the highest priorities of economic policy. In addition to this debt reduction, the government is determined to maintain the ongoing improvement in debt dynamics through higher growth, relying on concessional external financing, and strengthening public finances. With respect to domestic debt, the government's securities and bonds issue program is continuing in the context of the debt management process discussed with development partners. On the subject of arrears reduction, we intend to continue settling the outstanding arrears balance in a strategy planned and negotiated with our partners with due regard for our budgetary objectives and public debt sustainability criteria. Over the medium term, the government's fiscal stance will be guided by a target of a domestic primary fiscal balance in equilibrium or better, yielding improved debt sustainability indicators. This fiscal stance will involve a gradual tightening of the fiscal balance starting in 2011 and continuing for the following three years.

Structural reforms for the rest of 2010

30. The government intends to pursue this ambitious structural reform program in order to support growth. Our updated and strengthened commitments are laid out below and in Table 3.

31. Recognizing the role that the financial sector needs to play in promoting growth, the government is committed to restoring confidence and dynamism in this sector by privatizing the state-owned banks. The government plans to clarify the legal framework for privatization in a transparent and expeditious manner and maintain the plans to publish a final call for bids by September 2010 (structural benchmark). Privatization revenue will be used to repay the debts incurred during the bank restructuring process, thereby yielding a potentially significant improvement in debt dynamics. In collaboration with the supervisory authorities, the government is also determined to maintain rigorous control of the management of these

banks until the privatization process is completed. The government also remains committed to setting up the mechanism or structure and its operational support for managing and collecting the nonperforming loans of state-owned banks by end-December 2010 (structural benchmark). The mechanism or structure will enable the government to recoup some of the cost of restructuring the state-owned banks and resolve nonperforming loans, making way for a stronger revival in the flow of credit.

32. The government also intends to accelerate structural reforms in other sectors to enhance growth potential.

- The strategy for the phosphates sector will be implemented in accordance with the strategic audit.

- As far as the electricity sector is concerned, the government has decided to undertake a financial rehabilitation of CEET and to increase the supply of energy at an affordable cost. The government is mindful of the importance of ensuring the financial viability of CEET. Accordingly, the government is following the general principle whereby the pricing system should allow for full recovery of the costs of energy production and distribution. With these objectives, we have decided to adjust prices by 13 percent on average in July 2010, while minimizing the impact of this adjustment on the poorest households. Discussions are continuing among stakeholders (CEET, CEB, and the government of the Beninese Republic) on the study on the implementation of an automatic and periodic price adjustment mechanism. In addition, the government intends to mitigate any additional costs potentially incurred as a result of the launching of the new private producer (Contour Global), for example, by selling any production surpluses exceeding domestic demand to other countries in the subregion and to the CEB.

- 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. The third mobile telephony license will be awarded to a private operator with BOAD (West African Development Bank) support. With the help of technical and financial partners, including the World Bank, the government also aims to develop a medium-term strategy to maximize the sector's contribution to growth. We also intend to enhance transparency in financial relations between the government and Togo Télécom, for example, by exploring the possibility for a study of relationships of transfers, debts, and advances on dividends between the two parties.

- In order to promote Togo's competitiveness as a trade hub, we intend to initiate the process of creating a one-stop window for foreign trade at the Autonomous Port of Lomé with assistance from the World Bank. In order to achieve this objective, the government intends to approve at the Council of Ministers before the end of the year a detailed roadmap based on a technical report that will indicate the roles of each government agency and the required measures. Consultants financed by the World Bank to draft the report will be recruited before the end of September 2010 (new structural benchmark). The one-stop window will facilitate all administrative procedures for exports and imports, including customs procedures, at one location.

33. The government also is working to resolve issues in the petroleum product sector, which accounts for 7 percent of GDP. Negotiations on the amount of the settlement of quasi-fiscal liabilities to petroleum product importers and distributors have advanced. The government has launched a review of the domestic petroleum product pricing mechanism that will benefit from FAD technical assistance. The review aims to establish a mechanism that minimizes fiscal risks of pricing policies by implementing automatic adjustment of retail prices, through the application of a pricing formula that fully passes through fluctuations in international prices over time while smoothing out the pass-through of volatility in the short term. This new mechanism will be approved by the Council of Ministers by end-November 2010 (revised structural benchmark).

34. Efforts to strengthen the public financial management reforms underway are intensifying in 2010:

- Strengthen the implementation of the mechanism for managing cash flow and monitoring budget execution. Starting in June 2010, meetings are being held fortnightly to examine data on expenditures, revenue and financing needs, with minimum standards and lag times, and to propose necessary actions. These reports will include monitoring of the balance of outstanding payables to minimize these amounts. At the same time, a treasury cash flow plan will be prepared with regularly updated projections for each remaining month of the year. We are inviting IMF staff based in Lomé to attend all of these meetings.

- Some measures taken in the 2009 budget law with respect to the free economic zone have raised questions among investors in Togo regarding adherence to established international practices. In consultation with stakeholders and development partners (including the World Bank and IMF), the government is drawing up a new investment code that will ensure consistency among the various existing legislative acts, including the free economic zone law. The code will simplify the system of incentives and make the entitlement to incentives automatic, while controlling the system's fiscal costs.

- Continue preparations to complete the 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 (structural benchmark) that will help establish an overall strategy for repaying the government's social debt. With assistance from the World Bank, the call for bids for the audit was launched in October 2009 and a contract should be signed by June 2010. A contract for the actuarial study should be signed by September 2010, thus meeting the structural benchmark early.

- Improve debt management capacity and reporting systems, including the preparation of an annual plan indicating projected monthly debt service by creditor and monitoring debt to public enterprises. We intend to seek the advice of IMF staff in advance of all revisions to this plan, as well as any newly planned financing. In addition, we plan to implement capacity-building for personnel and management of public debt, as well as to put in place over the medium term an audit system for the management of public debt. In the meantime, we would like to request from the World Bank an update of the assessment of our debt management performance (DeMPA).

Conclusion

35. Togo appreciates the continuing and growing support of its development partners as it strives to cope with external shocks and revive the economy. Togo continues to need resources urgently (in the form of grants or concessional loans) to finance investment in economic infrastructure and social services, with the aim of reducing poverty and generally attaining the MDGs. In particular, we value the commitments by Togo's partners in Brussels in September 2008 to mobilize increased resources within the principles of the Paris declaration and the program of action coming out of the Accra Forum. For its part, Togo is determined to fulfill the conditions for satisfying the floating completion point triggers under the HIPC initiative as soon as possible in 2010. The process of preparing the full PRSP was completed in June 2009. Implementation is proceeding, and we intend to submit the first Annual Progress Report in the third quarter of this year.

36. The progress of our ECF-supported program will be monitored on the basis of revised quantitative performance criteria for end-June 2010 and newly established quantitative performance criteria for end-December 2010. Moreover, we have established quantitative targets for end-September 2010 (Table 1). All these PCs and targets were developed in consultation and agreement with the IMF mission. We request that the fifth program review will be completed by end-November 2010, and we aim to fulfill the conditions for the floating completion triggers so that a decision on the HIPC completion point will also be possible at that time. We request that the sixth program review to be completed by end-April 2011.

37. As noted above, the ECF-supported program has continued to make resolute progress toward its goals, despite external shocks and administrative capacity constraints. Some deviations from program objectives occurred, and we are taking corrective actions. The government is convinced that the policies and corrective actions set out in this document will be sufficient to attain program objectives. Our macroeconomic and financial needs are particularly pressing this year, given the need to offset the persistent impact of the global

recession. Accordingly, we request: waivers for the performance criteria for domestic primary fiscal balance and net domestic financing for end-December 2009; and a waiver for the continuous performance criteria for noncessional external financing for financing contracted in February 2010, which we have cancelled. If these waivers are granted, we request an augmentation of SDR 11 million in the amount of the arrangement; the completion of the fourth review; and the disbursement of the fifth tranche of the loan and the augmentation.

38. The government remains committed to taking any additional measures that might be necessary toward these goals. The Togolese authorities will consult with the IMF about 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).

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

Sincerely yours,

/s/

Adji Otèth AYASSOR
Minister of Economy and Finance

Table 1. Togo: Quantitative Performance Criteria and Indicative Targets

December 31, 2009 — December 31, 2010

	2009		2010				
	Dec.		June		Sep.	Dec.	
	Prog.[1]	Prel.	3rd. Rev.[1]	Rev. Prog.[2]	Prog. [3]	3rd. Rev.[1]	Rev. Prog.[2]
	(Billion CFA francs, cumulative from end of preceding year)						
Performance criteria (for end-December 2009 and end-June and end-December 2010; indicative targets otherwise)							
Domestic primary fiscal balance (floor)	-3.8	-6.6	-0.2	3.6	-2.7	-19.3	-1.8
Nonaccumulation of external arrears [4]	0	0	0	0	0	0	0
Net domestic financing (ceiling)	3.8	14.0	37.5	26.9	39.2	31.4	40.8
Central government contracting or guaranteeing of nonconcessional external debt (ceiling) [4]	0	0	0	15.7	0	0	0
Indicative targets							
Total revenue (floor)	255.8	252.4	110.6	140.6	209.6	249.1	267.6
Domestic payments arrears, changes in stock (ceiling)	-12.9	-16.5	-33.1	-58.1	0.0	-33.1	-58.1
Domestically financed social and capital spending (floor) [5]	97.7	114.0	…	…		…	…
Total domestically financed investment spending (floor)	…	…	14.8	19.3		51.0	51.0
Total domestically financed social spending (floor)	…	…	40.7	35.1		101.8	87.7
Exceptional financing	41.7	41.0	6.2	6.2		28.7	38.3

[1] Letter of Intent dated October 29, 2009

[2] Letter of Intent dated June 10, 2010

[3] Indicative target

[4] Continuous performance criterion.

[5] In 2010, this target is disaggregated for better tracking of the components.

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.
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.	Done. Following reports from the privatization advisors, authorities opted to issue a public information notice initiating a pre-qualification process for potential buyers in December 2009, rather than a call for expressions of interest.
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.	Done with a delay. The strategic audit was completed in September 2009 and was adopted by the Council of Ministers on March 30 2010.

Table 3. 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 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.	Not met. Progress so far has been satisfactory. The government is using the credit granted by the BCEAO to clear audited arrears to the private sector. By February 2010 over 1,600 suppliers had been paid. Completion is delayed by a slow response rate of certain suppliers.
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.	Underway. The survey of Treasury accounts has already been re-launched. Estimates suggest the existence of about 200 accounts.
Simplify and reduce lag time in the public sector expenditure chain by eliminating redundant control points	Benchmark June 2010	To increase speed of implementation of investment projects in the short term and the capacity to absorb foreign aid.	Underway. The reorganization of controls and the implementation of the SIGFIP software will allow for a reduction in delays related to controls from 7 to 5 weeks at the maximum. The redundant control points will be eliminated as scheduled.
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.	Underway. On schedule, but some risks to envisaged timeframe linked to the legal framework for privatization.
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. Following the revision of the schedule during the third review, the technical consultants will complete the final feasibility study before mid-June. The study will provide recommendations on the appropriate options for implementation of the structure or mechanism for recovery of non-performing loans.
Complete 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.	Underway. The audit and study are planned as part of the World Bank financial sector project. A call for bids for the audit was launched in October 2009 and a contract will be signed by June 2010 at the latest. A contract for the actuarial study should be signed by September 2010 at the latest.
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 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. The one-stop window at the Port Autonome de Lomé is part of a World Bank project aiming to promote regional integration.
Approve at the Council of Ministers a new adjustment mechanism for petroleum product prices.	Benchmark November 2010	Implement a mechanism that limits fiscal risks by institutionalizing frequent and automatic adjustments of prices at the pump.	Underway. The government has undertaken a restructuring of the domestic pricing mechanism for petroleum products. A FAD technical assistance mission is scheduled for June 2010.