

**AFRICAN DEVELOPMENT BANK  
AFRICAN DEVELOPMENT FUND**



**REPUBLIC OF TOGO**

**ELIGIBILITY FOR SUPPLEMENTARY RESOURCES AND  
ARREARS CLEARANCE OPERATION UNDER THE  
FRAGILE STATES FACILITY**

**JULY 2008**

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**FISCAL YEAR**

1 January – 31 December

**CURRENCY EQUIVALENTS**  
**(April 2008)**

UA 1 = SDR 1.00

UA 1= EUR 1.04003

UA 1= US\$ 1.64450

UA 1= CFAF 682.215

**Matrix of Arrears Clearance Operation for Togo**

<b>Objectives</b>	<b>Indicators</b>	<b>Means of Verification and Sources</b>	<b>Assumption/Risks</b>
<p><b>Overall goal:</b> Sustainable re-engagement of the Bank in Togo and contribution to improving economic performance</p>			
<p><b>Specific objectives:</b> 1. Normalization of relations between Togo and the Bank</p>	<ul style="list-style-type: none"> <li>• Lifting of sanctions by end July 2008.</li> </ul>	<ul style="list-style-type: none"> <li>• Approval of clearance note by the Boards and lifting of sanctions against Togo.</li> </ul>	<ul style="list-style-type: none"> <li>• Assumption: The Bank has received the contribution of Togo in respect of arrears clearance</li> </ul>
<p>2. Easing of Togo's debt burden</p>	<ul style="list-style-type: none"> <li>• Reaching the HIPC decision point by December 2008 and the completion point by December 2010</li> </ul>	<ul style="list-style-type: none"> <li>• IMF/IDA decision point and HIPC Initiative completion point</li> </ul>	<ul style="list-style-type: none"> <li>• Assumptions: Togo continues to achieve good performances in the implementation of the PRGF supported three-year programme and does not accumulate any new payment arrears to the official creditors. Togo has finalized and adopted a complete PRSP in 2009. Togo has successfully implemented its complete PRSP for at least one year;</li> </ul>
<p>3. Assist in the financing of priority expenditures, notably enhancement of governance, rehabilitation of basic infrastructure and institution capacity building</p>	<ul style="list-style-type: none"> <li>• Positive net transfers to Togo</li> </ul>	<ul style="list-style-type: none"> <li>• Amount disbursed by the Bank from 2008 to 2010 compared to payments made by Togo for arrears and debt service to the Bank.</li> </ul>	<ul style="list-style-type: none"> <li>• Togo has fulfilled the conditions for disbursement of support resources in the form of project and budgetary grants</li> </ul>

## LIST OF ABBREVIATIONS AND ACRONYMS

ACW	Arrears Clearance Window
ADF	African Development Fund
AFD	French Development Agency
APG	General Policy Agreement
BOAD	West African Development Bank
EDF	European Development Fund
EIB	European Investment Bank
EU	European Union
FAO	United Nations Food and Agriculture Organization
FSF	Fragile States Facility
GDP	Gross Domestic Product
HDI	Human Development Index
HIPC	Heavily-Indebted Poor Countries
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFI	International Financial Institution
IMF	International Monetary Fund
MDG	Millennium Development Goal
MDRI	Multilateral Debt Relief Initiative
NGO	Non-Governmental Organization
NPV	Net Present Value
PARI	Regional Integration Support Programme
PCCF	Post-Conflict Country Facility
PEMFAR	Public Expenditure and Financial Management Review
PRGF	Poverty Reduction and Growth Facility
SIGFIP	Integrated Public Financial Management System
SSW	Supplemental Support Window
UA	Unit of Account
UNFPA	United Nations Fund for Population Activities
UNICEF	United Nations Children's Fund
WAEMU	West African Economic and Monetary Union
WHO	World Health Organization

## EXECUTIVE SUMMARY

1. The Bank's commitment to post-conflict countries dates from July 2004 when the Boards approved the creation of the Post-Conflict Country Facility (PCCF). To date, the Facility has helped to clear the arrears of five countries, namely: Burundi (October 2004), Republic of Congo (December 2004), Central African Republic (December 2006), and Liberia and Comoros (December 2007). Drawing lessons from these operations and taking into account the strategic orientations of ADF-XI, the Bank decided to intensify its support to post-conflict countries. To that end, the Board, on 28 March 2008, approved a new Fragile States Facility (FSF), drawing on the PCCF mechanisms and containing significant innovations. The most significant of these innovations is the creation of several windows within the Facility not only to clear arrears, but also to make available to Fragile States, a supplementary operational support<sup>1</sup> in addition to the normal ADF allocation and a selective support for capacity building.

2. Since 2001, Togo has been under a Bank sanction for accumulated arrears amounting to UA 14.72 million (US\$ 24.2 million) as at 31 December 2008, including the 2008 outstanding maturities. Dialogue between the Bank and Togo, which has always been maintained despite this situation, intensified in recent months leading to the signing of an aide-mémoire on 15 April 2008 on conditions for clearing the arrears. Based on this aide-mémoire and the new FSF mechanisms, a programme for clearing Togo's arrears is being proposed to the Boards.

3. Pursuant to the FSF provisions, countries that are eligible for the Bank's arrears clearance programme must first meet the conditions for the FSF supplementary operational support, which constitutes the first pillar of the Bank strategy for enhanced engagement in fragile states. Once these conditions have been fulfilled, access to the Arrears Clearance Window is assured by the country's eligibility for the HIPC initiative for general debt relief and compliance with the preferred creditor requirement with regard to new maturities owed to the Bank.

4. An analysis of the socio-political and economic situation of Togo shows that the country has fulfilled all the conditions required for access to the resources of the Supplemental Support Window and the Arrears Clearance Window of the FSF. As such, it qualifies for the Bank's arrears clearance programme.

5. Two major events have marked the Togolese political landscape since the death in February 2005 of the President of the Republic who ruled the country for four decades: (i) the holding in Lome between the end of April and the end of May 2006 of inter-Togolese dialogue that led to the Comprehensive Political Agreement; and (ii) the organization of legislative elections under relatively acceptable conditions in October 2007, followed by the formation of an open government. The entire international community now considers that the country's normalization process is virtually irreversible. From the social perspective, there is unanimity on the urgent need for aid to the country. Deprived of external support for about

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<sup>1</sup> The supplemental operational support is backed by the Facility's Supplemental Support Window (SSW). Conditions for eligibility to SSW resources consist of two-stage criteria:

- (i) The first stage criteria involve: (i) an assessment of the country's commitment to the consolidation of peace and security, and (ii) evidence that the scale of country's unmet economic and social needs are such that supplementary assistance from the Bank is necessary.
- (ii) The second stage criteria are intended for countries that have already fulfilled the first stage criteria. Furthermore, such countries must have initiated programmes to improve the macroeconomic environment and promote a judicious debt policy, sound financial management practices, and public accounts transparency.

fifteen years, the country has practically suspended its social infrastructure investment programme. The low economic growth recorded over the period, with the attendant worsening unemployment, has resulted in an unprecedented poverty level in the country. A survey conducted in 2006 showed that 62% of the population live below the poverty line. Togo was classified in 2007 among countries with the lowest Human Development Index (HDI) ranking 152nd out of 177 countries.

6. Togo has implemented major reforms since 2006, under a staff-monitored programme signed with the Bretton Woods institutions. Fiscal management has become more prudent and stringent, and the country has begun to restructure several key sectors of the economy, notably the financial sector, as well as the cotton and phosphates sub-sectors where serious problems of governance had been noted. In 2008, the country undertook to pursue these reforms under a three-year programme backed by the IMF Poverty Reduction and Growth Facility (PRGF). The PRGF, which was approved by the IMF Executive Board in April 2008 in the amount of US\$ 108 million, should pave the way for debt relief for Togo under the HIPC and MDRI initiatives. A preliminary analysis conducted in 2007 by the IMF and the World Bank showed that Togo is indeed eligible for debt relief given the unsustainable nature of its debt. The country's other partners, in particular the World Bank, have already cleared the country's entire stock of arrears and resumed their cooperation in 2008.

7. With regard to the Bank, Management proposed a token contribution of 1% in the aide-mémoire for Togo, and the extension of the deadline to December 2008 in view of the country's fragile financial situation. Togo has already paid this contribution with the support of [...]. Furthermore, the country's authorities have undertaken to pursue reforms and actions in the area of governance in order to benefit from all the support earmarked for Fragile States.

8. In light of the foregoing, the Boards are invited to approve:

- (i) the assessment whereby Togo, as a fragile State, meets the criteria for benefiting from FSF financial assistance;
- (ii) the limitation of the country's share to a token contribution of 1% and the financing of maturities due up to December 2008;
- (iii) a grant of UA 14.57 million from the FSF Arrears Clearance Window; and
- (iv) the lifting of the sanctions against Togo.

## I INTRODUCTION

1 This document presents the operation for clearing the arrears owed by Togo to the African Development Bank Group, as part of the overall re-engagement plan of the country's development partners. Following a protracted crisis period, Togo has regained socio-political stability and embarked on a process to normalize its economic situation. This new development has paved the way for resumption of the country's cooperation with its development partners. To ensure that this cooperation will be sustainable, Togo must address the issue of the unsustainable level of its debt as soon as possible. Clearing the country's arrears is one of the pre-requisites for achieving it.

2. This clearance operation is in line with the Bank's new Strategy for Enhanced Engagement in Fragile States, approved by the Boards on 28 March 2008 (ADF/BD/WP/2008/10).

3. The aim of this document is to propose a programme for the clearance of Togo's arrears owed to the Bank Group, based on the conditions for access to FSF resources, particularly those of the Arrears Clearance Window (ACW). It is also based on the terms of the aide-mémoire on arrears clearance signed on 15 April 2008 with the Togolese authorities. Arrears clearance is one of the components of the Bank's re-engagement strategy in Togo, which includes the formulation of an interim strategy. The Interim Country Strategy Paper (I-CSP), which is currently being prepared in consultation with other partners, notably the World Bank and the IMF, will be submitted to the Boards, following approval of the arrears clearance programme.

4. This document consists of the following sections: Section II considers the context for the Bank's re-engagement programme as well as prospects for relief of the country's debt through the HIPC initiative. Section III demonstrates that Togo is eligible for FSF resources. Section IV presents the proposal for arrears clearance, indicating the amounts borne by the Bank and the country respectively, as well as the clearance conditions. The last section summarizes the main conclusions of the document and makes recommendations to the Boards of Directors of the Bank.

## II CONTEXT OF RE-ENGAGEMENT

### 2.1 Socioeconomic Context and Progress towards Normalization of the Country

2.1.1 **A political situation marked by a return to normality.** Togo underwent serious political crises at the beginning of the 1990s that affected its socioeconomic development and led to the suspension of cooperation with its major development partners. The situation was remedied by the Inter-Togolese dialogue that culminated in the Global Political Agreement (APG) on 20 August 2006. In the view of the international community, the successful organization of legislative elections in October 2007, in accordance with the APG, marked a return to normality for the country. The elections were followed in December 2007 by the formation of a government that included part of the opposition and the civil society.

2.1.2 **Significant improvement of the macroeconomic situation, which still remains fragile.** The easing of the socio-political tension resulting from the implementation of the APG enabled the country to successfully implement a staff-monitored programme defined in 2006 with the Bretton Woods Institutions. Following this, the Togolese economy recorded positive growth rates of 4.1% in 2006 and 2.1% in 2007, despite the country's difficult energy situation. The level of inflation fell sharply from 6.8% in 2005 to a mere 1% in 2007 thanks to measures taken by the Government to contain soaring prices due to the rise in world oil prices. Public finance also improved significantly, with increased budgetary revenues and better expenditure control. Despite this progress, the country's financial situation remains unsustainable owing to the Government's debt overhang. The external public debt was estimated at 80% of GDP at the end of 2007 with arrears corresponding to 30% of GDP. In December 2007, the authorities embarked on discussions with the IMF, the World Bank and the Bank on the treatment of the arrears and the

signing of a 3-year programme supported by the IMF Poverty Reduction and Growth Facility (PRGF) that should, in the medium term, enable the country to enjoy debt relief under the HIPC and MDRI.

**2.1.3 An extremely tense social situation.** The weak growth of the country's economy for more than a decade raised the level of poverty significantly. According to a survey conducted in 2006, about 62% of the Togolese population live below the poverty line. The incidence of poverty is extremely high in rural areas where three out of every four households are poor compared with two out of every five in urban areas. Furthermore, the survey showed a strong link between poverty and undernourishment in the country. Indeed, over 64% of the poor population are undernourished. Besides, the poor are at a great disadvantage in terms of access to education, health, electricity and drinking water. If this trend is not reversed early enough, none of the Millennium Development Goals (MDGs) would be achieved by 2015.

## **2.2 Re-engagement by the Donor Community**

**2.2.1 The 2006 global political agreement triggered enhanced cooperation between Togo and its main development partners.** The political and economic progress made by the Government since the signing of the agreement persuaded the entire donor community to fully resume their activities in the country.

**2.2.2 Aid coordination gradually being restored.** Generally speaking, the suspension of financial cooperation disrupted conventional consultation mechanisms for development partners and the Togolese authorities. However, following recent developments, information sharing mechanisms between multilateral and bilateral partners have been put in place to monitor the political and economic situation of the country. The European Union coordinates political activities and the UNDP handles humanitarian issues, particularly health, education and HIV/AIDS. Furthermore, since 2006, the World Bank, IMF and the Bank have intensified the coordination of their activities by fielding several joint missions to Togo.

**2.2.3 The IMF approved a PRGF-supported programme on 21 April 2008 amounting to US\$ 108 million.** The programme, whose approval was subject to prior agreements on the clearance of Togo's arrears to the World Bank and the Bank Group, has boosted the Government's efforts towards political and economic normalization. It aims primarily at enabling the country to secure overall debt relief that would free resources for growth and basic social services. In the next three years, Togo has undertaken to significantly increase its expenditures on infrastructure, education and health.

**2.2.4 On 29 May, the World Bank approved an Interim Strategy Note (ISN) and a grant for economic recovery and governance (DREG) that was partly used to clear the entire stock of arrears of Togo to the institution.** The interim strategy note defined the framework for World Bank assistance to Togo over the May 2008 – June 2010 period, and enabled the institution to embark on re-engagement and respond to the country's new economic recovery opportunities. The projects, programmes and studies proposed under the ISN aim at supporting the implementation of three main pillars of the Interim Poverty Reduction Strategy Paper (DISRP) that the Togolese Government adopted in March 2008, namely: (i) improvement of economic governance and transparency; (ii) promotion of economic recovery and sustainable development; and (iii) addressing urgent social needs.

**2.2.5 UNDP and several other UN agencies have prepared action plans for the 2008-2010 period.** The UNDP action plan estimated at US\$ 18.6 million is a follow up to its activities over the 2002-2007 period. The intervention areas are governance, poverty and crisis and conflict resolution. The interventions of other UN agencies have been set within the framework of the United Nations Development Aid Fund (UNDAF) Master Plan. Proposed financing amounting to US\$ 48.8 million relate to three priority areas: (i) poverty reduction and food insecurity, (ii) development of social sectors, and (iii) promotion of good governance and human rights. Overall,

the UN agencies remained in the country throughout the crisis and undertook a minimum of activities coordinated by the UNDP. Thus, they financed operations in the area of: (i) capacity building and promotion of good governance, (ii) micro-enterprise development, and (iii) social infrastructure projects to build the capacities of NGOs and local administration agencies.

**2.2.6 France resumed its cooperation with Togo in 1999 and envisages budget support in 2008.** The current portfolio of cooperation and cultural action comprises six projects amounting to 6.8 million Euros. Furthermore, the French Development Agency (AFD) has been providing assistance through three projects in the education, sanitation and water sectors.

**2.2.7 The European Union has fully resumed its activities following the lifting of sanctions in November 2007.** The EU had suspended direct cooperation with the Togolese Government in 1993, as a result of governance-related problems in the country. The suspension was confirmed in December 1998, and since then only actions directly benefiting the people or contributing to strengthening human rights were financed. Following the lifting of sanctions as a result of the successful organization of legislative elections in October 2007, the EU on 27 February 2008 approved a country strategy paper for its interventions in Togo under the 10<sup>th</sup> EDF. The proposed allocation for Togo, amounting to 123 million Euros, is to be fully disbursed in the form of a grant. The interventions proposed are: (i) economic and institutional governance (22 million Euros); (ii) urban infrastructure and sanitation (57 million Euros), and (iii) support to macroeconomic reforms (32 million Euros with budget support) as soon as the conditions are fulfilled. The EU has also set aside 10 million Euros for support to the civil society and the environment.

**2.2.8 China plans to intensify cooperation with Togo.** In the area of agriculture, China plans to create a pilot agronomic technology centre to expand rice production. In the area of energy, China is considering a request from the Togolese authorities to construct a hydroelectric dam at Adjralala on the Mono River. The dam will cover a significant portion of the energy needs of Togo and Benin. In the area of health, China has begun the construction of a large hospital complex in Lome, and plans to build a malaria control centre. China is exploring other areas, notably telecommunications and road infrastructure.

### **2.3 Bank Group Activities**

**2.3.1 Since August 2001, Togo has been under a Bank sanction for accumulated arrears, but dialogue with the country has been maintained.** In 2006, the Boards approved a dialogue paper on Togo whose objectives were as follows: (i) clear the arrears of Togo in a concerted manner with the other development partners, and (ii) contribute to the institutional capacity building in the country. Consequently, the Bank in 2006 financed an institutional support project in the amount of UA 2.2 million. This project<sup>1</sup> aims at improving the performance of departments in the Ministry of Economy and Finance. To date, it remains the only active project of the Bank in the country, but is already contributing to enhancing fiscal management and transparency. The level of implementation is relatively acceptable, with a 33.5% disbursement rate at end March 2008.

**2.3.2 Dialogue continued in 2007 with joint missions of the Bank, IMF and the World Bank for the preparation of the PRGF and re-engagement strategies.** The official visit of the President of the Bank to Lomé in February 2008 raised the level of dialogue for rapid resumption of cooperation. On that occasion, the President of the Bank presented the Bank's new Strategy for Enhanced Engagement in Fragile States, and drew the attention of the Togolese authorities to the need to adopt a sound debt management policy to prevent the country from relapsing into debt overload following the processing of its debt.

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<sup>1</sup> Capacity building support project (PARCI)

2.3.3 Lastly, in view of prospects for resuming financial and technical cooperation with the country, an interim country strategy paper (I-CSP) is being prepared and will be submitted to the Boards after the clearance of arrears. The I-CSP aims at supporting the Government in the implementation of the Interim Poverty Reduction Strategy Paper (I-PRSP) adopted in March 2008 outlining its priorities for the 2008-2010 period.

## 2.4 Arrears Clearance Efforts

2.4.1 **The World Bank has cleared all of Togo's arrears through an Economic Recovery and Governance Grant (DREG) amounting to US\$ 170.6 million.** Togo has been under World Bank sanction since May 2002 for accumulated payment arrears. At the end of May 2008, these arrears amounted to US\$ 153 million. The Economic Recovery and Governance Grant which led to the clearance of the entire stock of arrears also provided US\$ 17.6 million as budget support to support the country's reforms in governance.

2.4.2 **The International Fund for Agricultural Development (IFAD) envisages a rescheduling of Togo's arrears with a three-year moratorium without debt service.** This arrangement is subject to prior payment of 15% of Togo's arrears by a donor.

2.4.3 **The European Union envisages clearing the entire stock of Togo's arrears to the European Investment Bank (EIB).** These arrears, which amount to 22 million Euros, will be covered by grants under the 9<sup>th</sup> EDF (5 million Euros) and the 10<sup>th</sup> EDF (17 million Euros). This decision came in the wake of the lifting of sanctions against Togo in November 2007.

2.4.4 **The Paris Club creditors met on 12 June 2008 and agreed to consider Togo's debt on the basis of the Naples<sup>2</sup> terms.** The arrangement involved a US\$ 739 million debt in nominal value, and led to the immediate cancellation of US\$ 347 million. In view of the country's limited financial capacity, the Paris Club members re-scheduled the country's entire debt stock, as well as the attendant interests on arrears during the 3-year PRGF programme. They also accepted to defer to beyond March 2012, the repayment of arrears accumulated by Togo on its short term and post deadline debt. Consequently, no payment is expected from Togo between 1 April 2008 and 31 March 2011. The Paris Club creditors undertook to grant the country a new debt relief as soon as it reaches the HIPC decision point.

## 2.5 HIPC Initiative Debt Relief Perspectives

A preliminary analysis of the sustainability of the debt conducted jointly by the IMF and the World Bank in May 2007 showed that Togo is eligible for debt relief under the HIPC initiative. The indicators on Table-1 show that Togo is indeed over-leveraged, with the ratios of the net present value of its outstanding external debt to GDP, exports and revenues clearly above the indicative thresholds. With internal revenues higher than 15% of GDP and exports in excess of 30 % of GDP, Togo could qualify for the "budgetary window" of the enhanced HIPC and the MDRI. According to the current roadmap, Togo is expected to reach the HIPC decision point by December 2008. As for the completion point, it could be attained by December 2010 after finalization of the PRSP in 2009 and its implementation for at least one year.

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<sup>2</sup> According to the Naples Terms, loans granted as Official Development Assistance prior to the deadline have been rescheduled over 40 years, including a 16-year grace period at an interest rate which is at least as favourable as the concessional rate of such loans. 67% of pre-deadline commercial loans have been cancelled and the balance rescheduled over 23 years, including a 6-year grace period.

**Table 1 : Main indicators of external debt viability**

	Indicative threshold	2006 (Est.)	2007 (Proj)
<b>NPV debt/GDP</b>	<b>30</b>	<b>65.6</b>	<b>52.6</b>
<b>NPV debt /exports</b>	<b>100</b>	<b>162.1</b>	<b>133.3</b>
<b>NPV debt /revenues (excl. grants)</b>	<b>200</b>	<b>387.9</b>	<b>329.5</b>
Debt service/exports	15	7.1	8.3
Debt service/revenues (excl. grants)	25	16.9	20.4

### III QUALIFICATION OF THE COUNTRY

#### 3.1 Designation of Togo as Fragile State

3.1.1 The Fragile States Facility has established a list of nine Fragile States, including Togo, considered to be potentially eligible for FSF resources. These countries have experienced a broad spectrum of situations ranging from marked deterioration to gradual recovery, including active conflicts, post-crisis period and transition. With regard to Togo in particular, although it has not known any armed conflict, it is considered to be a post-crisis country in view of the protracted political crisis disrupting the country and electoral processes that were sometimes marred by clashes, notably in 2005.

3.1.2 Already in 2000, a joint international UN and OAU commission of enquiry had taken into account reports of hundreds of extra-judicial killings committed in the country by the security forces in 1998. More recently, in 2005, the African Commission on Human Rights and Peoples passed a resolution on 11 May 2005 on the country's human rights situation. The resolution was a follow up to post-electoral events that occurred from 5 February to 5 May 2005 that witnessed the aggravation of the human rights situation with increased political violence and serious human rights violations.

3.1.3 The socio-economic situation of Togo deteriorated further, following the suspension of cooperation with the European Union and several donors. Deprived of external financing, the country suspended its investment programme. Between 1993 and 2007, public investments averaged a mere 2.6% of GDP for a total investment of 12.5% of GDP. Currently, infrastructures are in an advanced state of deterioration for lack of maintenance, and social services hardly operate in many areas in the country. Furthermore, the crisis seriously affected the institutional and administrative capacities of the country. The virtual suspension of recruitment in public administration owing to financial constraints resulted in the overall ageing of the public workforce and a mismatch between public service needs and the number of staff in service. The Government issued texts in March 2008 to reduce the retirement age and maintain a minimum of competent persons pending the increase in the workforce. This was compounded by inadequacies in supervision and continuous training that did not help maintain the level of Government employees in most departments.

#### 3.2 Eligibility for the Supplemental Support Window (SSW)

3.2.1 Fragile States that can qualify for the arrears clearance programme must be eligible for the FSF resources, particularly SSW resources which constitute the first pillar of the FSF. Access to SSW resources is subject to two-stage criteria<sup>3</sup>.

<sup>3</sup> **The first stage criteria** comprise: (i) assessment of the commitment to consolidating peace and security, and (ii) showing that unmet economic and social needs are so significant that a supplementary assistance of the Bank is required to address them.

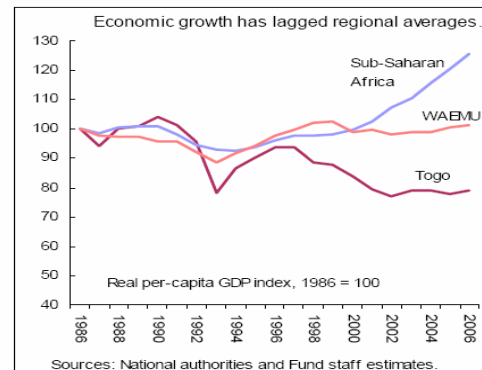
**The second stage criteria** are intended for countries that have already fulfilled the first stage criteria. Such countries must have also initiated programmes to improve the macroeconomic environment and promote a judicious debt policy, sound financial management practices and transparent public accounts.

*First set of criteria: country's commitment to consolidating peace and security*

**3.2.2 The Togolese authorities have given several positive signals on their commitment to consolidating peace and security.** Two major events have marked the country's political landscape since the death in February 2005 of the President of the Republic who led the country for nearly four decades: (i) holding in Lomé between end April and end May 2006 of inter-Togolese dialogue on the twenty-two commitments made by the Government in April 2004 in Brussels (see Annex 6) leading to the General Political Agreement; and (ii) the organization of legislative elections under relatively acceptable conditions in October 2007 followed by the formation of an open government. The success of these legislative elections marked the satisfactory implementation of twenty (20) commitments out of the 22 decisions in 2004. This only leaves (i) Commitment-1.6 on the organization of local elections, and (ii) Commitment 1.7 on creating conditions for democratic municipal assemblies. The Government undertook to pursue the process that should lead to national reconciliation. On 15 April 2008, the Head of State launched national consultations on the truth, justice and national reconciliation process. The entire community considers that the process of political normalization is irreversible.

**3.2.3 The protracted crisis in the country has created a wide gap between the needs of the population for basic social services and the available economic and financial resources.**

The economic growth of Togo has been one of the weakest in Sub-Saharan Africa, with annual average per capita income declining by 1 % since the 1980s. The Human Development Report (HDI 2007/2008) ranks Togo 152nd out of 177 countries on the Human Development Index. According to the conclusions of the first national report on the MDGs in Togo in October 2003, none of the goals will be achieved if strong measures are not taken rapidly enough. The preliminary data that enabled the Boards to declare at the adoption of the FSF in March 2008, that Togo has met the criteria of the first stage have thus been confirmed.



The economic growth of Togo has been one of the weakest in Sub-Saharan Africa, with annual average per capita income declining by 1 % since the 1980s. The Human Development Report (HDI 2007/2008) ranks Togo 152nd out of 177 countries on the Human Development Index. According to the conclusions of the first national report on the MDGs in Togo in October 2003, none of the goals will be achieved if strong measures are not taken rapidly enough. The preliminary data that enabled the Boards to declare at the adoption of the FSF in March 2008, that Togo has met the criteria of the first stage have thus been confirmed.

*Criteria for the second stage: implementation of sound macroeconomic and transparency of public accounts*

**3.2.4 Togo has fulfilled its commitments to a sound macroeconomic policy since the adoption of a staff-monitored programme in 2006.** All the budgetary targets set in the staff-monitored programme have been achieved. The primary deficit fell below 1% of GDP in 2006, far short of the 1.75% ceiling set in the programme, and the country has undertaken to repay its domestic arrears. These achievements were pursued in 2007, and helped to establish a relatively sound macroeconomic situation.

**3.2.5 Under the three-year 2008-2010 PRGF-supported programme approved on 21 April 2008, Togo has undertaken to pursue good and transparent financial management practices.** The Government has drastically cut back on unauthorized spending. The 2008 budget was passed on schedule, and is in line with the objectives set in the programme. The box below provides some of the commitments made by the Government (see Annex-1 for more details).

### **Commitments made by the Government under the PRGF**

- increase public revenue to about 18 % of GDP by 2010, based on administrative reforms capable of stimulating growth of about ½ percentage point of GDP annually;
- reallocate domestic expenditures from non-priority sectors to health, education and infrastructural investments, while supporting the restructuring of public enterprises and banks;
- target a primary domestic fiscal surplus of about 1 % of GDP by 2010, compared with the 2006 deficit of 1% , to avoid fresh arrears and release resources for external debt service (after implementing HIPC measures) and clearance of domestic arrears, while containing fresh lending.

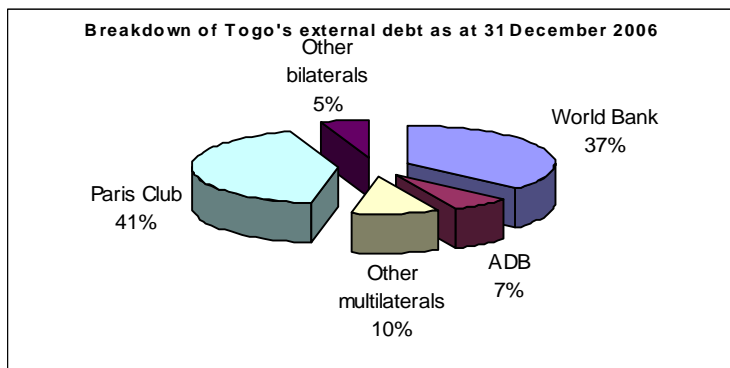
**3.2.6 In accordance with the recommendations of the PRGF arrangement, Togo has began producing simplified monthly budgetary execution statements since January 2008.** This measure is the first step towards enhancing transparency in public accounts management, which in the medium term, should lead to regular production of comprehensive public accounts and the passing of the audited budget acts. The institution capacity building that the Bank initiated in 2006, particularly by financing the integrated public financial management system (SIGFIP), has contributed significantly to this. The system should be operational in 2009 and facilitate the monitoring of budget execution in real time. Furthermore, in 2006 the World Bank conducted a Public Expenditure Management and Financial Review (PEMFAR) which is being updated with the participation of the Bank. This study should help the Togolese authorities to implement a new budgetary execution framework by July 2008 latest.

### **3.3 Eligibility for Arrears Clearance Window (ACW)**

3.3.1 Togo has fulfilled conditions for access to the SSW. To gain access to the ACW of the FSF, Togo must respect the Bank Group's preferred creditor status by servicing new maturities on all outstanding debt or at least to the same relative level of debt service paid to other international finance institutions (IFI). It must also be eligible for HIPC debt relief, but not yet reached the decision point under the Initiative.

**3.3.2 Respect for the Bank Group's preferred creditor status is assured by similar treatment adopted by the country's major multilateral creditors.** The external debt of the

country as at 31 December 2007 amounts to about US\$ 2 billion. The main multilateral creditor is the World Bank, followed by the Bank. In view of the difficult financial situation of the country, most of the multilaterals are committed to clearing the country's arrears and providing financing to cover maturities due in a year or two. With regard to the Bank,



Management proposed in an aide-mémoire signed on 15 April 2008, that the 2008 maturities be also considered in the arrears, but Togo undertook to resume its debt service on 1 January 2009. In this context, the Bank's preferred creditor status would not be necessary given that no multilateral creditor (apart from the IMF) will receive any debt service payment from Togo.

3.3.3 Togo's eligibility for the HIPC initiative as highlighted in Paragraph 2.5 stems from the preliminary debt sustainability analysis jointly carried out by the IMF and World Bank in May

2007. A satisfactory review of the PRGF arrangement in August 2008 will help the country to reach the decision point by the end of 2008.

3.3.4 In light of the foregoing, Togo could be considered as eligible for the Bank's arrears clearance mechanism through the Fragile States Facility arrears clearance window.

## IV ARREARS CLEARANCE PROGRAMME

Since Togo is eligible for FSF resources, this section presents the operation intended to assist Togo clear its arrears to the Bank Group. It begins with an analysis of the structure and scale of the arrears, followed by a presentation of the clearance operation. It concludes by outlining the prospects for recovery following the re-engagement.

### 4.1 Arrears to the Bank Group

Togo's arrears to the Bank as at 30 June 2008 stands at UA 13.69 million (US\$ 22.5 million), and is expected to attain UA 14.72 million (US\$ 24.2 million) as at 31 December 2008 if no payment is made by Togo in 2008. These arrears represent 10% of the total arrears owed by Togo to multilaterals.

**Table 2 : Arrears in 2008 and 2007-2010 debt service**  
(UA million)

	Stock of Arrears			Maturity	
	31-Dec-07	30-June-08	31-Dec-08	2009	2010
<b>Total</b>	<b>12.65</b>	<b>13.69</b>	<b>14.72</b>	<b>2.36</b>	<b>2.43</b>
ADF	12.19	13.23	14.26	2.33	2.40
NTF	0.46	0.46	0.46	0.00	0.00

### 4.2 Togo's Capacity to contribute arrears clearance

4.2.1 **Dialogue on the clearance of Togo's arrears is being conducted in close coordination with the IMF and the World Bank.** This coordination, involving the Togolese authorities, has helped to define terms and conditions that would enable the World Bank and the Bank to clear their arrears at relatively short intervals. Furthermore, the Bank is now involved in the debt sustainability analyses conducted together with the IMF and the World Bank.

4.2.2 The FSF operations are based on the quantitative assessment of the country's repayment capacity using three indicators:

- Gross payment capacity: external arrears / public revenues
- Capacity to generate financial resources: Current account / GDP
- Poverty indicator: GDP / capita

Togo's contribution to the arrears clearance programme is based on these indicators as at end 2007, as well as on the assessment of its medium term financial viability.

**Table 3 : Payment capacity indicators, 2007**

Indicators	2007	Number of corresponding points
Ext arrears/Gov. revenue	138%	2
Current acct balance / GDP	-6.4%	3
GDP/cap.	364.4	3
<b>Total points out of 9</b>		<b>8</b>

4.2.3 Pursuant to the FSF rating principles, Togo yields a total of 8 points out of 9, which corresponds to a contribution ranging between 1 and 11%. **The highly fragile nature of the country's economic and financial situation requires considerable flexibility in determining its contribution.** Indeed, the medium-term macroeconomic projections indicate that despite an expected improvement in the country's financial situation, it cannot generate sufficient resources to pay such a high level of arrears.

- **The economy is recovering, but remains fragile.** According to IMF projections, economic growth will continue, though it will not exceed 4% by 2010. A 3% growth rate is projected in 2008 and 4% in 2009 based on assumptions of better cotton, phosphate and cement outputs.
- **The budgetary situation will continue to show deficit.** The financial situation will continue to improve with the enhanced public revenue collection, but the budgetary balance will remain negative and the primary balance will only yield a small surplus starting from 2009. Total revenue is expected to increase from 17% of GDP in 2007 to 17.8% of GDP by 2010. However, in view of the significant needs of the country, notably in social infrastructure, spending throughout the period will be scaled up from 22.3% of GDP in 2007 to 23.5% of GDP by 2010.
- **The current account deficit will not improve over the next three years (see Annex7).** The persistent escalation of the energy bill will absorb the gains in increased cotton and phosphate exports. The current account deficit will worsen in 2008 before improving gradually from 2009 to attain its 2007 level (-6.4% of GDP). For 2008 alone, the financing requirements of Togo, both in terms of arrears and the balance of payments, are estimated at 36.8 % of GDP.

### 4.3 Arrears Clearance Programme

4.3.1 One of the major innovations of the FSF is the principle of clearance burden sharing only between the country concerned and the Bank, in contrast to the PCCF which also required a contribution from a donor. This flexibility will help to curtail the time and resources devoted to negotiations prior to the clearance of arrears. The new approach will enable donors to contribute to the portion of costs relating to countries on a voluntary basis.

4.3.2 In light of the foregoing, namely: (i) Togo's inability to pay its arrears, and (ii) the highly favorable treatment given by all Togo's creditors, it is proposed to the Boards as follows:

- (i) **A token one (1) percent contribution for Togo.** The total amount of Togo's external arrears is equivalent to 176% of its budgetary revenues. Clearly, the country is not in a position to pay such a high level of arrears. This assessment, which is also shared by the country's multilateral creditors, led the Bank's Management to sign an aide-mémoire on 15 April 2008 with the country's authorities in which a token 1% contribution for Togo and a 99% for the FEF were proposed. Furthermore, in order to guarantee a net positive resource flow to Togo, and in line with proposals made by other creditors, the Bank will rapidly resume its support to Togo within the framework of an interim country strategy (I-CSP).
- (ii) **Proposal of 31 December 2008 as deadline.** One of the key principles of the FSF, drawn from the PCCF, is to ensure that the arrears clearance programme leads to the long-term financial sustainability of the beneficiary country, through debt relief under the HIPC and MDRI initiatives. It is therefore being proposed that 31 December 2008 be set as the deadline for integrating the 2008 debt service into the stock to be cleared to ensure that Togo does not relapse into arrears, which will seriously undermine its chances of reaching the HIPC decision point in December 2008.

**(iii) Resumption of payment of current maturities by Togo starting from January 2009.**

Togo will be in a position to service its external debt starting in January 2009 thanks to efforts to mobilize internal resources and financial support from its development partners, under the PRGF. Already the IMF and the World Bank have granted budget support to the country to the tune of US\$ 108 million and US\$ 17.6 million respectively. Other donors, notably the European Union and France, have also undertaken to resume their budgetary assistance in 2008. Apart from this support, the country's capacity to service its debt will be enhanced through intermediate debt relief it stands to receive as soon as it reaches the HIPC decision point. The progress made in the implementation of the PRGF arrangement indicates that the country will reach the decision point by December 2008, after a conclusive review of the latter in August 2008. In that event, the Bank will reduce Togo's debt service obligations by 80% starting from January 2009<sup>4</sup>. Overall, for 2009 and 2010, Togo's debt service to the Bank will decrease sharply from UA 6.86 million to UA 1.32 million (See Annex 6). The country's other multilateral and bilateral creditors will also provide similar facilities. These various efforts will help the country to meet one of the major requirements of the PRGF, namely the non-accumulation of payment arrears owed to official creditors before reaching the Completion Point by 2010. Fiscal management, which improved significantly since the implementation of the staff-monitored programme in 2006, will be pursued under the PRGF and undoubtedly contribute to meeting this requirement.

**Table 4 : Burden sharing (in UA Thousand)**

	June 2008	December 2008
Arrears to be financed	13,696.8	14,723.9
FSF (99%)	13,559.8	14,576.7
TOGO (1%)	137.0	147.2
Remaining 2008 payments	1,027.1	0
FSF	0	0
TOGO	1,027.1	0
<b>Total</b>	<b>14,723.9</b>	<b>14,723.9</b>
<b>FSF</b>	<b>13,559.8</b>	<b>14,576.7</b>
<b>TOGO</b>	<b>1,164.1</b>	<b>147.2</b>

4.3.3 Following the confirmation of payment of Togo's contribution and the approval of the Arrears Clearance Note by the Boards, the sanctions could be lifted immediately.

**4.4 Prospects for Resumption of Bank Assistance**

4.4.1 The Bank Group's assistance will be provided through the ADF-XI resources and closely coordinated with the other donors. The amount earmarked for Togo over the 2008-2010 period stands at UA 36.35 million, including UA 21.99 million through the normal performance-based allocation, and UA 14.36 million under the FSF Supplemental Support Window. The specific request for supplementary allocation will be presented to the Board at the same time as the interim strategic paper.

4.4.2 The Government adopted an Interim Country Strategy Paper (I-CSP) in March 2008 outlining its priorities for the 2008-2010 period. In view of the country's financial constraints, the external partners made a request for technical and financial support for capacity building and rehabilitation of social infrastructure. Furthermore, although the country secured the IMF PRGF for its three-year programme, significant balance of payments and budget deficits remain uncovered. The Bank's intervention during the ADF-XI period will contribute to meeting the

<sup>4</sup> Togo will continue to receive the relief until the total amount defined under the HIPC initiative is exhausted.

financing requirements of the PRGF to facilitate the country's attainment of the HIPC completion point and supporting the Government's priorities defined in its poverty reduction strategy.

## **V CONCLUSIONS AND RECOMMENDATIONS**

5.1 In light of the foregoing, the Boards are invited to approve:

- (i) the assessment whereby Togo, as a fragile State, meets the criteria for benefiting from FSF financial assistance;
- (ii) the limitation of the country's share to a token contribution of 1% and the financing of maturities due up to December 2008;
- (v) a grant of UA 14.57 million from the FSF Arrears Clearance Window; and
- (vi) the lifting of the sanctions against Togo.

### Annex 1 : Measures precedent to implementation and commitments for 2008

Sector		Commitments with World Bank		Commitments under PRGF
		Prior measures taken (Jan-Mar 2008)	Other measures to be implemented in 2008	Measures to be taken in 2008
Improvement of public finance management:	Budget formulation	Submission to the National Assembly of 2008 draft budget reflecting discussions held during the December 2007 mission.	Submission to National Assembly of draft budget 2009 that meets IDA requirements	Submit the 2008 Finance Bill to Parliament, in line with agreement reached with the December 2007 mission ( <b>already done</b> )
	Budget execution	Adoption (by Ministerial decision) and implementation of an instrument (performance indicators) of monthly monitoring of budget execution.  Introduction of a line of credit based on 2008 budget for contingency spending (natural disaster, etc.); and banning (by Ministerial decision) of the use of Payment Orders (PO) without letter telegramme (LT), except for foreign debt service.	Satisfactory execution of 2008 budget	Put in place a new framework for the monthly monitoring of budget execution ( <b>already done</b> )
			Dissemination of quarterly budget execution report	Operationalize the state-of-the-art ASYCUDA ++ software in five major customs offices. ( <b>ongoing</b> )
			Implementation of the organization plan of the Treasury in accordance with the WAEMU Guidelines by creating (i) a General Pay Office, (ii) a General Revenue Office and (iii) a Central Account Agency of the Treasury	Integrate the monitoring and management of foreign and domestic public debt; v) issue regular reports on debt operations and related operations. ( <b>ongoing with Bank support</b> )
			Adoption by Cabinet Meeting and start of implementation of a domestic debt clearance strategy	Adopt a domestic arrears clearance strategy based on the recent KPMG audit report. The strategy should take into account medium term budgetary constraints.
			Creation of a general inspectorate of finance within the Ministry of Economy and Finance, appointment of the inspector general of finance	Prohibition from contracting or guaranteeing any non-concessionary external debt, as required by the PAT, until the end of the programme.
Procurement	Adoption of a public procurement reform action plan based on CPAR 2003.	Adoption of a new public procurement code reflecting the comments of the IDA and consistent with UEMOA guidelines		

Sector		Commitments with World Bank		Commitments under the PRGF
		Prior measures taken (Jan-Mar 2008)	Other measures to be taken in 2008	Measures to be taken in 2008
Enhanced transparency in the management of key public enterprises:	Cotton sector	Establishment of a fact-finding mission to ascertain the veracity or otherwise of over-invoicing mentioned in the audit (inputs, supply and shortfall from fibre).	Taking of measures to recover over-invoiced amounts, confirmed by the fact-finding mission	Formulate a restructuring programme for the cotton company, SOTOCO, with the assistance of the World Bank, based on the findings of the financial and strategic audits.
		Decision on the restructuring option at the end of Workshop and "Strategic" Final Report (legal instruments and terms of reference to be entrusted to SOTOCO top management).	Establishment of a reliable information management system, cost accounting and clear procedures for sales, credits, revenues and purchases	
			Putting in place of a mechanism for setting cotton seeds producer prices related to world prices	
	Financial sector	Putting in place of a new administration for the BTICI to manage the implementation of restructuring measures as recommended by the banking commission.	Recapitalization of the BTICI, UTB and BIA in line with prudential standards	Adoption of a bank restructuring strategy based on the recommendations of the WAEMU Banking Commission and the IMF technical assistance mission conducted in March 2007 with World Bank participation. Strengthen the management and control of the BTICI by appointing new managers and by placing it under an interim administration, in consultation with the WAEMU and BCEAO Banking Commission, and on the basis of an agreed mandate. In the short term, priority will be given to the recapitalization of the BTICI and the UTB through government bond issues part of which will be negotiable. Revive the UTB Board of Directors and identify a strategic investor.
	Energy sector	Putting in place of definitive management structures of the CEET evidenced by (i) establishment of a board of directors; appointment of a general manager, adoption of the statutes of the CEET in harmony with the OHADA law	Formulation and adoption of a 3-5 year performance contract between the Government and the CEET	Prepare an energy sector restructuring strategy with the assistance of the World Bank.
Phosphates sector:		Publication of revenues of the new phosphates company of Togo (SNPT) based on 2008 sales	Advertise an international competitive bidding for the financial auditing and strategic financing of the phosphates sector, based on the terms of reference and procurement rules jointly prepared with the World Bank	

## Annex 2 : Financial Situation of Togo

	2005	2006	2007		2008	2009	2010
	Actual	Actual	H1	Proj. <sup>1</sup>	Reform scenario <sup>1</sup>		
	(Percent of GDP, unless otherwise indicated)						
Revenue and grants	16.9	18.3	9.2	19.0	20.2	21.3	22.3
Total revenue	15.7	16.9	7.8	16.5	17.0	17.6	18.0
Tax revenue	14.6	15.5	7.4	15.2	15.7	16.2	16.5
Nontax revenue	1.1	1.4	0.4	1.2	1.3	1.4	1.5
Grants	1.2	1.4	1.4	2.6	3.2	3.7	4.3
Expenditures and net lending	19.3	21.1	10.8	21.6	22.8	23.5	24.1
Current expenditures	16.5	17.5	9.1	18.0	17.2	17.0	17.0
Domestic primary current expenditures	15.0	15.9	7.7	15.3	15.1	15.0	15.1
Wages and salaries	4.4	5.1	2.5	5.3	5.5	5.9	6.3
Goods and services	4.2	5.8	2.2	4.3	4.1	3.9	3.6
Subsidies and transfers	2.4	3.8	2.3	4.3	3.9	3.9	4.0
Autonomous and local entities	0.7	0.4	0.2	0.4	0.5	0.5	0.5
Offbudget/unclassified	3.2	0.8	0.4	0.6	0.3	0.0	0.0
Bank restructuring/other contingency	0.0	0.0	...	0.4	0.8	0.7	0.7
Foreign-financed current expenditures	0.5	0.6	1.0	1.8	0.8	0.8	0.8
Interest	1.0	0.9	0.5	0.9	1.3	1.2	1.1
External debt	1.0	0.9	0.4	0.8	1.0	0.9	0.8
Public investment	2.8	3.6	1.7	3.6	5.6	6.5	7.1
Domestically financed	1.2	2.0	0.7	1.6	1.8	2.0	2.0
Externally financed	1.6	1.6	1.0	2.0	3.8	4.5	5.1
Domestic primary balance	-0.5	-1.1	-0.6	-0.4	0.1	0.6	0.9
Overall balance, payment order basis	-2.4	-2.8	-1.6	-2.5	-2.6	-2.2	-1.8
Change in domestic arrears and treasury float	1.9	-0.4	0.0	0.0	-0.5	-0.5	-0.5
Arrears on external interest	0.9	0.8	0.4	0.8	0.0	0.0	0.0
Overall balance, cash basis	0.4	-2.4	-1.3	-1.8	-3.1	-2.7	-2.3
Financing	0.2	2.9	1.3	0.5	0.6	1.1	1.1
Domestic financing (net)	-0.7	2.1	0.8	-0.4	-0.5	-0.5	-0.5
Banking system	-0.3	-1.5	1.1	1.8	0.0	0.0	0.0
Nonbank financing <sup>2</sup>	0.4	4.3	0.0	-1.7	0.0	0.0	0.0
Amortization of NPLs guaranteed by govt.	-0.7	-0.6	-0.3	-0.6	-0.5	-0.5	-0.5
External financing (net)	0.8	0.7	0.5	0.9	1.1	1.6	1.6
Drawings	0.9	0.8	0.6	1.2	1.4	1.6	1.6
Amortization	-1.7	-1.7	-0.9	-1.8	-1.9	-1.9	-20.6
Rescheduling obtained	0.0	0.0	0.0	20.6	1.6	1.8	1.8
Debt cancellation <sup>3</sup>	0.0	0.0	0.0	6.3	0.0	0.0	18.8
Arrears on amortization	1.7	1.6	0.9	1.8	0.0	0.0	0.0
Contingency for debt service	...	0.0	-0.1	-0.3	0.0	0.0	0.0
Discrepancy/unidentified financing	-0.5	-0.4	0.0	1.3	2.5	1.6	1.3
Memorandum items							
Social spending <sup>4</sup>	5.1	6.2	...	6.4	7.8	9.4	11.3
Of which : foreign financed	1.1	0.8	...	1.1	2.3	3.0	3.8
Nominal GDP (CFAF billions)	1,113	1,159	1,216	1,216	1,284	1,362	1,445

Sources: Togolese authorities; and Fund staff estimates and projections.

<sup>1</sup> Projections for 2007 based on SMP objectives and 2007 budget. Assumes external debt and arrears rescheduling/relief in 2007–10, broadly in line with potential debt relief under the HIPC initiative and MDRI.

<sup>2</sup> Includes issuance of government bond on the regional market and changes in suspense accounts.

<sup>3</sup> Debt cancellation in 2007 refers to potential grant-based clearance of arrears.

<sup>4</sup> Includes health and education (including salaries), and pension transfers.

**Annex 3****Debt Structure of Togo**

	2004		2005		2006 (Prel.)	
	Total	<i>Of which:</i>	Total	<i>Of which:</i>	Total	<i>Of which:</i>
		<i>arrears</i>		<i>arrears</i>		<i>arrears</i>

(Millions of U.S. dollars)

Total	1,600.3	336.7	1,625.8	367.6	1,819.7	577.3
Multilateral	967.3	78.0	906.4	123.6	1,032.1	157.9
World Bank	731.0	59.1	666.9	67.0	715.3	104.5
AfDB	133.6	10.2	116.2	12.1	128.6	15.4
Other	102.7	36.4	123.3	25.3	188.3	38.0
Bilateral	632.7	258.4	719.4	243.7	787.6	419.4
Paris Club	506.0	174.3	579.3	218.5	687.7	404.0
Non-Paris Club	126.7	84.2	140.1	25.2	99.9	15.4

(Percent of GDP, unless otherwise indicated)

Total	86.2	24.3	80.8	25.8	80.5	25.6
Multilateral	48.6	5.1	45.1	6.4	45.7	7.0
World Bank	34.9	2.8	33.2	4.0	31.7	4.6
AfDB	6.4	0.5	5.8	0.9	5.7	0.7
Other	7.3	1.7	6.1	1.4	8.3	1.7
Bilateral	37.6	19.2	35.8	19.4	34.9	18.6
Paris Club	30.1	17.7	28.8	17.4	30.4	17.9
Non-Paris Club	7.5	1.5	7.0	2.0	4.4	0.7

*Memorandum item*

Nominal GDP (CFAF billions)	1023.3	1112.7	1158.8
Exchange rate CFAF/USD (end of year)	489.3	553.3	512.9

Sources: Togolese authorities, and Fund staff estimates.

**Annex 4**

## Economic and Financial Indicators

	2005	2006	2007	2008	2009	2010
			Est.	Program <sup>1</sup>		
	(Percent of GDP, unless otherwise indicated)					
Real GDP (percent change)	1.3	4.1	2.1	3.0	4.0	4.0
Consumer prices (annual average, percent change)	6.8	2.2	1.0	4.1	3.8	3.5
Broad money (M2, percent change)	1.4	22.1	16.4	10.0	...	...
Total revenue and grants	16.9	18.3	18.7	19.5	21.2	22.1
Revenue	15.7	16.9	17.0	17.2	17.5	17.8
Total expenditure and net lending	20.4	22.1	20.6	21.9	22.9	23.4
Domestic primary expenditure	16.2	17.9	16.8	17.2	16.9	16.7
Overall balance (payment order basis)	-3.5	-3.8	-1.9	-2.4	-1.7	-1.3
Primary balance	-0.5	-1.1	0.2	0.0	0.6	1.1
Change in domestic arrears	1.9	-0.4	-0.8	0.0	-0.4	-0.7
Current account balance	-5.3	-6.0	-6.4	-7.9	-6.7	-6.4
Exports of Goods and Services	40.3	42.3	42.0	44.4	45.3	46.2
Imports of Goods and Services	57.2	61.8	62.6	68.0	69.4	70.2
External public debt	90.3	83.9	80.9	64.2	60.8	36.3

Sources: Togolese authorities; and Fund staff estimates and projections.

<sup>1</sup> Assumes external debt/arrears relief in 2008-2010, broadly in line with potential HIPC/MDRI debt relief.

### Annex 5 : Servicing of Togo's Debt to the Bank 2008-2010

(UA Thousand)

Institution	Year	Month	Charges	Principal	Total	
ADF	<b>2008</b>	January	248.04	639.23	887.27	
		April	81.33	64.45	145.78	
		July	245.34	639.23	884.57	
		October	78.10	64.45	142.55	
	<b>2008 Total</b>			<b>652.81</b>	<b>1,407.36</b>	<b>2,060.17</b>
	<b>2009</b>	January	245.62	776.49	1,022.11	
		April	78.71	64.45	143.16	
		July	238.73	776.49	1,015.22	
		October	77.19	104.63	181.82	
	<b>2009 Total</b>			<b>640.25</b>	<b>1,722.05</b>	<b>2,362.30</b>
	<b>2010</b>	January	239.75	776.49	1,016.24	
		April	78.12	104.63	182.75	
		July	232.95	820.18	1,053.14	
		October	76.46	104.63	181.09	
	<b>2010 Total</b>			<b>627.28</b>	<b>1,805.93</b>	<b>2,433.21</b>
	<b>Sub-Total</b>			<b>1,920.34</b>	<b>4,935.34</b>	<b>6,855.69</b>
	NTF	2008	January	7.26		7.26
<b>Total</b>			<b>7.26</b>		<b>7.26</b>	
<b>Grand Total</b>			<b>1,927.60</b>	<b>4,935.34</b>	<b>6,862.95</b>	

Source: African Development Bank

### Annex 6 : Servicing of Togo's debt to the Bank after the HIPC Decision Point <sup>(\*)</sup>, 2009-2010

When Togo reaches the decision point in December 2008, the Bank Group will grant debt relief under the HIPC Initiative. This will free Togo from 80% of its debt service obligations to the Bank starting from January 2009, until a full relief is granted.

(in UA Thousand)

Institution	Year	Month	Charges	Principal	Total	
	<b>2009</b>	January	49.124	155.298	204.42	
		April	15.742	12.89	28.632	
		July	47.746	155.298	203.04	
		October	15.438	20.926	36.364	
	<b>2009 Total</b>			<b>128.05</b>	<b>344.41</b>	<b>472.46</b>
	<b>2010</b>	January	47.95	155.298	203.25	
		April	15.624	20.926	36.55	
		July	46.59	164.036	210.63	
		October	15.292	20.926	36.218	
	<b>2010 Total</b>			<b>125.456</b>	<b>361.19</b>	<b>486.64</b>
	<b>ADF Total</b>			<b>384.07</b>	<b>987.07</b>	<b>1,371.14</b>
	NTF	2008	January	1.452	0	1.452
	<b>Sub-Total</b>			<b>1.452</b>	<b>0</b>	<b>1.452</b>
<b>Grand Total</b>			<b>385.52</b>	<b>987.07</b>	<b>1,372.59</b>	

Source: African Development Bank

(\*) On the assumption that Togo reaches decision point at the latest December 2008.  
Debt service reduction factor is 80%.

## Annex 7 : Debt Sustainability Framework, Without Reform Scenario 2004-2027

Data are in % of GDP, unless otherwise indicated	Effective	Historical average	Std dev	Projections									
											2007-12 average	2013-27 average	
				2006	2007	2008	2009	2010	2011	2012	2017	2027	
Public sector debt	102.9			103.3	104.9	107	109	110.8	113.1		123.6	141.8	
Of which: foreign currency debt	80.5			79.3	78.9	78.8	78.7	78.6	78.6		78.6	80.5	
Change in public sector debt	1.3			0.4	1.7	2.1	2	1.8	2.3		2	1.7	
Net debt generating flows identified	-7.1			-1.9	0	0.6	0.6	0.3	1.3		1	0.7	
Primary deficit	1.9	-0.1	2.4	2.6	3.5	3.7	3.7	3.7	3.7	3.5	3.7	3.7	3.7
Revenues and grants	18.3			17.5	17	17	17	17	17		17	17	
Of which: grants	1.4			1.6	1	1	1	1	1		1	1	
Primary expenditure (excluding interests)	20.2			20.2	20.5	20.7	20.7	20.7	20.7		20.7	20.7	
Endogenous debt dynamics	-8.9			-4.5	-3.5	-3.1	-3.2	-3.4	-2.5		-2.7	-3.1	
Contribution from interest/growth rate differential	-3.1			-3.2	-2.4	-2.4	-2.4	-2.6	-2.6		-2.9	-3.2	
Of which: contribution of average interest rate	-1.1			-1.1	-0.7	-0.6	-0.6	-0.7	-0.8		-0.8	-0.9	
Of which: contribution from real GDP growth	-2			-2.1	-1.7	-1.8	-1.8	-1.8	-1.9		-2	-2.3	
Contribution from depreciation of real exchange rate	-5.8			-1.4	-1.1	-0.7	-0.8	-0.9	0.2		...	...	
Other identified debt generating flows	-0.1			0	0	0	0	0	0		0	0	
Proceeds from privatizations (negative)	-0.1			0	0	0	0	0	0		0	0	
Implicit or conditional commitments noted	0			0	0	0	0	0	0		0	0	
Debt relief (HIPC and other)	0			0	0	0	0	0	0		0	0	
Other debt generating flows identified	0			0	0	0	0	0	0		0	0	
Residual, including assets changes	8.4			2.3	1.6	1.4	1.5	1.5	1		1	1	
<b>NPV of public sector debt</b>	87.9			87.1	88.9	91	93.2	94.9	97		106.5	113.9	
Of which: foreign currency debt	65.6			63.1	62.9	62.9	62.9	62.7	62.5		61.5	52.6	
Of which: external	65.6			63.1	62.9	62.9	62.9	62.7	62.5		61.5	52.6	
Conditional NPV commitments (not included in public debt)	0			0	0	0	0	0	0		0	0	
Gross financing gap2	5.9			7.3	7.9	8.1	8.1	8.1	8.1		8.4	8.7	
NPV public debt/revenues (in percent)	520.1			545.9	557.1	570.7	584.1	595	608.3		667.5	713.9	
Of which: external	387.9			395.5	394	394.1	394.3	393.3	392		385.4	329.5	
Debt service ratio/revenues (in percent)	15.4			19.1	20.8	20.8	21	20.7	20.7		22.8	25	
Primary deficit stabilizing debt/GDP ratio	0.6			2.3	1.9	1.7	1.7	1.9	1.5		1.7	2.1	
<b>Major macroeconomic and budgetary assumptions</b>													
Real GDP growth (in percent)	2	1.1	2.5	2.1	1.7	1.7	1.7	1.7	1.7	1.8	1.7	1.7	1.7
Average nominal interest rate on foreign debt (%)	1.1	1.8	0.6	1	1.3	1.2	1.2	1.1	1.1	1.2	1.1	1	1
Real average interest rate on domestic debt (%)	-1.9	-0.9	6.9	-1.2	-0.5	-0.2	0	-0.3	-0.3	-0.4	-0.3	-0.2	-0.3
real exchange rate depreciation (%,+for depreciation)	-7.4	-0.2	10.6	-1.8	...	...	...	...	...	...	...	...	...
Inflation rate (GDP deflator, %)	2.1	2.7	6.2	2	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8	1.8
Real primary expenditure growth (with GDP deflator, %)	12.5	4.1	16.6	2.2	3.3	2.7	1.7	1.7	1.7	2.2	1.7	1.7	1.7
Grant element of new public borrowings (in %)	31.6	31.6	0	31.6	31.6	31.6	31.6	31.6	31.6	31.6	31.6	31.6	31.6

Source: Togolese authorities and IMF estimates

## Annex 8 : Balance of payments, 2005-10

	2005	2006	2007	2008	2009	2010
			Estim.		Program <sup>1</sup>	
	(Billions of CFA francs)					
Current account balance	-58.9	-69.6	-76.4	-98.2	-89.2	-90.1
Trade balance	-182.8	-221.3	-239.2	-293.3	-322.0	-342.8
Exports	314.2	339.8	336.5	373.3	400.8	434.0
Domestic exports	269.7	284.1	289.9	311.9	328.6	359.6
Of which: Cotton	33.9	15.6	10.2	16.4	19.1	19.8
Phosphates	18.1	20.6	18.0	32.0	40.5	43.4
Cement & clinker	52.8	58.5	60.5	63.5	66.7	70.0
Reexports	44.5	55.7	46.6	61.4	72.2	74.4
Imports, f.o.b.	-497.0	-561.1	-575.8	-666.6	-722.9	-776.8
Of which: Petroleum products	-182.6	-213.6	-222.0	-279.3	-288.9	-297.5
Imports for reexports	-35.6	-47.0	-39.6	-49.2	-63.5	-65.4
Services (net)	-5.0	-5.2	-6.4	-1.8	3.5	5.8
Credit	134.2	150.7	165.8	182.4	200.6	216.7
Debit	-139.2	-156.0	-172.2	-184.2	-197.1	-210.9
Income (net)	-9.4	-13.2	-20.8	-14.6	-8.1	-7.7
Of which: interest on external debt	-22.3	-21.8	-22.8	-14.6	-8.1	-7.7
Current transfers (net)	138.3	170.2	190.0	211.5	237.4	254.6
Private	125.2	154.2	169.6	182.5	188.3	194.1
Public	13.1	16.0	20.4	29.0	49.1	60.5
Capital and financial account	-3.8	89.5	72.6	49.1	67.1	69.2
Direct investment	24.2	39.8	30.1	41.3	53.1	63.3
Portfolio investment, incl. bond	12.7	33.7	3.2	-8.2	0.0	0.0
Other investment	-40.7	16.0	39.3	16.1	14.1	5.9
General government	-9.5	-10.1	-17.9	-10.7	-5.8	-1.8
Disbursements	9.9	9.5	2.0	12.0	18.0	22.5
Amortization	-19.4	-19.6	-19.9	-22.7	-23.8	-24.3
Banks, net foreign assets <sup>3</sup>	-13.5	-2.2	15.5	0.0	0.0	0.0
Other capital, errors, and omissions	-17.7	28.3	41.6	26.8	19.9	7.7
Overall balance	-62.7	19.9	-3.8	-49.1	-22.1	-20.8
Financing	62.7	-19.9	3.8	24.4	-1.7	-2.6
Central bank net foreign assets <sup>3</sup>	22.3	-59.4	-34.8	0.0	-15.2	-16.2
Of which: Use of Fund resources	-6.0	-3.6	-3.2	-0.7	0.0	0.0
Arrears, net change	40.4	39.5	38.6	13.5	0.0	0.0
Flow rescheduling	0.0	0.0	0.0	10.9	13.5	13.6
Clearance of debt/arrears	0.0	0.0	0.0	-384.0	0.0	-303.9
Debt/arrears cancellation	0.0	0.0	0.0	208.3	0.0	303.9
Debt and arrears rescheduling	0.0	0.0	0.0	175.8	0.0	0.0
Unidentified financing <sup>5</sup>	0.0	0.0	0.0	24.7	23.8	23.4
Memorandum items:	(Percent of GDP, unless otherwise indicated)					
Current account balance	-5.3	-6.0	-6.4	-7.9	-6.7	-6.4
Exports of goods and services	40.3	42.3	42.0	44.4	45.3	46.2
Imports of goods and services	57.2	61.8	62.6	68.0	69.4	70.2
Gross int. reserves (months of imports)	2.0	3.1	3.5	3.2	3.1	3.1

Sources: Togolese authorities; and Fund staff estimates and projections.

<sup>1</sup> Based on structural reforms, fiscal adjustment, and higher donor support. Assumes external debt and arrears rescheduling/relief in 2008–10, broadly in line with potential HIPC/MDRI debt relief.

<sup>2</sup> Including late interest on arrears through 2007 and early 2008.

<sup>3</sup> Negative sign indicates increase.

<sup>4</sup> To be covered by PRGF and other disbursements.

## **Annex 9: Commitments made under Article 96 of the Cotonou Accord**

**Commitment N° 1.1:** To ensure full respect for democratic principles announces without delay the resumption of a national and credible dialogue with the traditional opposition and civil society within a structured and transparent framework.

**Commitment N° 1.2:** Commitment to guarantee, without delay, freedom of action by all political parties without harassment, intimidation or censure.

**Commitment N° 1.3:** Commitment to undertake within 6 months, an electoral review, based on the Lomé Framework Agreement, guaranteeing a transparent and democratic electoral process acceptable to all the parties.

**Commitment N° 1.4:** Commitment to guarantee to all political parties equal access to public media and establish a balanced system of access to public funds for financing political parties.

**Commitment N° 1.5:** Commitment to organize fresh and transparent legislative elections and by allowing international observers to all the stages of the process, as soon as possible and in accordance with the framework of Commitment 1.3 above.

**Commitment N° 1.6 (not yet realized) :** Commitment to organize local elections within 12 months in a transparent manner and by allowing observers to all the stages of the process.

**Commitment N° 1.7 (not yet realized) :** Commitment to put in place the necessary conditions to enable democratically elected municipal assemblies to secure the mandate and resources needed for an effective local administration and democratically legitimate administration within 12 months.

**Commitment N° 2.1 :** Commitment to guarantee at all times the absence of extrajudicial executions, torture and other inhuman and degrading acts on the Togolese territory, and by providing adequate training to law enforcement agents and personnel of the judicial system.

**Commitment N° 2.2:** Commitment to free all political prisoners detained for their political opposition, critical comments against the Government or other reasons that do not warrant imprisonment. The list of prisoners concerned by this measure should be established in collaboration with one or more recognized and relevant NGOs and accepted by all the parties. This commitment should be observed within a period of 6 weeks.

**Commitment N° 2.3 :** Commitment to refer to the public prosecutor's department within three months all cases of persons in preventive detention or interim release to clarify their cases in conformity with the law.

**Commitment N° 2.4:** Commitment to enable free access to prisoners by lawyers and humanitarian and human rights NGOs accompanied by a doctor of their choice, to all detention places (prisons, gendarmerie and police stations etc.) to verify the absence of torture and other inhuman treatments, before the end of consultations.

**Commitment N° 2.5:** Commitment to review the mandate and status of the Human Rights Commission to guarantee its effective independence in relation to administrative authorities, within 9 months.

**Commitment N° 2.6:** Commitment to prosecute through legal or disciplinary measures, the proven perpetrators of extrajudicial killings, acts of torture and degrading and inhuman treatment. This commitment should also include the amendment of respective legislative and regulatory instruments, wherever necessary.

**Commitment N° 2.7:** Commitment to ensure, through appropriate measures to be defined eventually, impartial justice independent of the executive. A diagnosis establishing an action plan is awaited prior to the consultations.

**Commitment N° 3.1:** Commitment to review the press and communication code and bring it to international standards, within 6 months. In particular it is expected that prison sentencing for libel and defamation and currently provided for under the law will be repealed.

**Commitment N° 3.2:** Commitment to guarantee without delay to the media, NGOs and civil society representatives, the absence of any harassment, censure or intimidation.

**Commitment N° 3.3 :** Commitment to guarantee without delay to all political and civil society actors and any citizen the right to freedom of expression, to participate in meetings and peaceful demonstrations in public and throughout the country without any harassment, censure or intimidation.

**Commitment N° 3.4:** Commitment to guarantee to all political and civil society freedom of movement, as citizens and in the exercise of their political duties or of their representation of the civil society.

**Commitment N° 3.5:** Commitment to guarantee before the end of the consultations, to all citizens free access to media information, including the web sites of opposition parties, non-governmental organizations, etc.

**Commitment N° 3.6 :** Commitment to review within 6 months, the mandate and status of the High Authority of Audiovisual and Communication to guarantee its effective independence in relation to the administrative authorities and to all political forces.

**Commitment N° 4.1:** Commitment to issue reports on 1st June and 1st July 2004 to European Union entities on progress made in the various areas of dialogue, and on the accomplishment of the commitments made.

**Commitment N° 4.2:** Readiness of Togolese authorities to participate in dialogue and facilitate missions by the Commission and the Office of the President of Togo as part of the dialogue initiated. In the spirit of partnership of the Cotonou Accord, the European Union declares itself ready to provide financial and technical assistance for the implementation of the said commitments.