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2006 COUNTRY DIALOGUE PAPER

**COUNTRY OPERATIONS DEPARTMENT
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ACRONYMS AND ABBREVIATIONS

ABEDA	Arab Bank for Economic Development in Africa
ADB	African Development Bank
ADF	African Development Fund
AFD	Agence française de développement (French Development Agency)
BCEAO	Central Bank of West African States
BWI	Bretton Woods Institutions
CFAA	Country Financial Accountability Assessment
CFAF	Franc of the African Financial Community
CSO	Civil Society Organization
CSP	Country Strategy Paper
EIB	European Investment Bank
EU	European Union
GDP	Gross Domestic Product
HDI	Human Development Index
HIPC Initiative	Heavily Indebted Poor Countries Initiative
HIPC	Heavily Indebted Poor Country
IDA	International Development Association
IFAD	International Fund for Agricultural Development
IFG	International Fertilizer Group
IMF	International Monetary Fund
LICUS	Low Income Countries Under Stress
MDRI	Multilateral Debt Relief Initiative
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
SDR	Special Drawing Rights
SME/SMI	Small-and Medium-Scale Enterprise/Industry
UN	United Nations
UNDP	United Nations Development Programme
WAEMU	West African Economic and Monetary Union

EXECUTIVE SUMMARY

1. **Introduction** : this Country Dialogue Paper is a follow-up to the one submitted to the Boards for information in January 2005 (ADF/BD/IF//2005/09 of 18 January 2005). Its objective is to inform once again the Boards of Directors on recent developments in Togo and to propose, for 2006-2007, a strategy for strengthening dialogue with the Government and consultation with other development partners that can foster the resumption of Bank Group interventions in Togo.

2. **Socio-political Situation** : three major events marked the Togolese political landscape in 2005 and the first half of 2006, namely : (1) the death in February 2005 of the President of the Republic who had ruled the country for nearly four (4) decades ; (ii) the organization in April 2005 in a very troubled context of presidential elections which resulted in socio-political upheavals and the displacement of the population to neighboring countries; and (iii) the holding in Lome (Togo) between end April and end May 2006 of inter-Togolese dialogue which dealt with eleven themes covering essentially the twenty-two commitments made by the Government in April 2004 in Brussels (see Annex 6). The presidential majority, the opposition and civil society took part in this dialogue, in the presence of the representatives of the European Union, the African Union and the Economic Community of West African States (ECOWAS) as well as the Special Representative of the Head of State of Burkina-Faso. For the new Togolese authorities, at the end of this dialogue, sixteen (16) commitments are considered as implemented, three (3) under implementation and three (3) not yet implemented. These are the organization, under transparent conditions, of legislative elections with the participation of international observers, the organization of local government elections and the putting in place of necessary conditions for democratic municipal assemblies. This analysis is shared by a good number of development partners including the European Union which is the champion of this issue and which has already pledged to provide assistance amounting to Euros 13 million for political dialogue, the electoral process and capacity building in the areas of human rights and justice.

3. **Governance Status** : over the past decade, Togo has experienced the disastrous effects of a prolonged political, economic and financial governance crisis, placing the country since then in the category of weak states. Indeed, for want of operating means due to low domestic resources and lack of external financing, most government services are paralysed and corruption is rampant in the management of government contracts and services. Furthermore, the State is suffering from the deterioration of its institutional capacities as illustrated by the absence of capacity for discussion and analysis within technical departments and declining reliability of statistical information. Because of this situation, the Government has no acceptable knowledge of the phenomenon of poverty in the country and no capacity to assess the efforts needed for the achievement of the Millennium Development Goals (MDGs). In short, the governance situation is characterized by : (i) a very strong influence of the army in the political game which has led to lack of credibility of the institutions of the Republic; (ii) infringement of individual and collective freedoms; (iii) deficiencies in the legal and judicial system with frequent interferences of the executive; (iv) lack of transparency in the process of preparation, execution and control of the State budget, and corruption in the management of public affairs; (v) politization of civil society organizations; and (vi) weak organization of the opposition.

4. Recent Economic Developments: economic growth in real terms fell to 1% in 2005 compared with 3% in 2004 despite the good performance of cement works and clinker. This situation is mainly due to the slump in the agricultural sector as a result of the sharp drop in world cotton prices, the falling production of phosphates (1.1 million tons in 2004 and 2005 as against an equilibrium production of 1.8 million tons) and the decline of government services. In 2006, growth should stand at 3.9% as a result of good weather conditions in the agricultural sector, the recovery of activities of manufacturing industries after many years of recession and the continuing good performance of cement works and clinker. Inflation stood at 3.5% compared to 3.9% in 2004. It is expected to fall to the community norm of 3% in 2006. In public finance, the budget balance, payment order basis (excluding grants) should record a 1% deficit of GDP and be financed by the accumulation of domestic and external arrears. This trend is expected to continue in 2006 and the deficit should be offset by both the issuance of treasury bills on the regional market (CFAF 36.3 billion) and the accumulation of external arrears. The banking system is experiencing recurrent problems arising from the accumulation of State arrears and the high level of bad debts, including the debts of public enterprises. In 2005, this situation resulted in a 3% contraction in the rate of growth of money supply and 2.5% in credit to the State. This trend should be reversed in 2006 owing to prospects of recovery of the agricultural sector and the buoyancy of cement works and clinker. The external account deficit stood at 9.2% of GDP in 2005 compared with 5.5% in 2004 because of the decrease in cotton and phosphate exports due to the drop in world cotton prices and phosphate production as well as the sharp increase in the oil bill which should reach 12.3% of GDP (as against 11% of GDP in 2004). In spite of the prospects of good climatic conditions in the agricultural sector and the continuing good performance of cement works and clinker in 2006, this deficit should rise to 11.4% of GDP, with an oil bill which would increase by a percentage point of GDP compared to 2005.

5. External Debt: as at mid-June 2005, outstanding external public debt represented 73% of GDP 61% of which is multilateral debt (IDA 45%, ADB 8% and others 8%). Bilateral debt (Paris Club) and bilateral debt (excluding the Paris Club) represented 30% and 9% respectively of the outstanding external public debt. In general, Togo has not honoured its external debt service in recent years. In order accede to the HIPC initiative, Togo is will have to embark on a reform programme with the backing of Bretton Woods institutions no later than 31 December 2006, the date set by the automatic censored clause under the HIPC provisions. Lastly, it should be mentioned that Togo is in the third category of countries which have not yet reached the decision point and which should benefit from the African Development Fund multilateral debt relief initiative. **Outstanding domestic debt** represented 27% of GDP as at mid-June 2005. An audit was commissioned in December 2005 to confirm the exact amount of the said arrears in order to propose a clearance plan.

6. Arrears to the Bank Group: since August 2001, Togo has been under sanctions by the Bank Group for the accumulation of arrears. As at 30 May 2006, the amount of arrears reached US\$ 13.4 million, including US\$ 12.7 million for ADF loans and US\$ 0.7 million for NTF loans. **Concerning Bretton Woods institutions,** Togo owes no arrears to the IMF. In contrast, the country has been owing arrears to the World Bank since May 2002. The amount of arrears stood at about US\$ 89.4 million on 30 May 2006.

7. Dialogue with Bretton Woods Institutions: as a result of the inter-Togolese dialogue, the IMF Executive Board recently authorized its staff to conduct a mission to Togo from 18 June to 1 July 2006 for discussions on a nine-month interim programme (July 2006 to March 2007). During this mission, the participants, including the EU, the ADF and other

bilateral partners, will agree on a common agenda for the rest of 2006 which will be submitted to Togolese authorities and other donors at end July 2006. The conclusion and satisfactory implementation of the said programme will pave the way for a Poverty Reduction and Growth Facility (PRGF) in the second half of 2007. **The World Bank** is pursuing its assistance within the framework of the programme prepared under the LICUS Initiative. A mission is also planned during the month of June to disseminate the action plan stemming from the fiduciary review.

8. Macroeconomic Dialogue Strengthening and Arrears Clearance Strategy and Instruments: the objective of the strategy is to create conditions for strengthening dialogue with the Government and consultation with other development partners that can foster the resumption of Bank Group interventions in Togo. The strategy will focus on two thrusts: (i) continuation of dialogue with Togolese authorities and consultation of other development partners in order to agree on a comprehensive plan for the clearance of arrears and resumption of financial cooperation and (ii) contribution towards the building of Togo's institutional capacities for an efficient implementation of the Government's agenda.

9. Conclusion: after nearly two decades of political instability, and bad economic and financial governance, the political and security situation is being normalized. The authorities from the April 2005 elections and other stakeholders involved in the Togolese situation are demonstrating their readiness and willingness to move towards the progressive normalization of the country's situation as well as relations with the different development partners. In this prospect, the Government has prepared an economic programme comprising four components, namely: resumption of political dialogue and improvement of the security situation; stabilization of public finance and rehabilitation of the financial sector; promotion of good governance; and capacity building. The Bank intends to back the Government in this process through two thrusts, namely intensification of dialogue for the mobilization of the international financial community in order to agree on an arrears clearance plan and building of the capacities of the Ministry of the Economy and Finance for the implementation of economic policies.

10. Recommendation: the Boards of Directors are invited to adopt this 2006 Dialogue Paper for Togo.

I. INTRODUCTION

1.1. This Country Dialogue Paper is a follow-up to the one submitted to the Boards for information in January 2005 (ADF/BD/IF//2005/09 of 18 January 2005). The actions recommended in this paper were not implemented because of the very troubled political context in 2005. Despite this situation, the Bank pursued dialogue with Togolese authorities on ways and means of resuming financial cooperation. The Bank also sustained consultations with the European Union under Article 96 of the Cotonou Agreement, with Bretton Woods institutions on trends in the economic situation in Togo within the framework of Article IV of the IMF Statutes, with the World Bank on the diagnosis of budgetary and financial management, as well as with other development partners present in Lome.

1.2 The objective of the 2006 Country Dialogue Paper is to inform once again the Board of Directors on recent developments in Togo and to propose, for 2006-2007, a strategy for strengthening dialogue with the Government and consultation with other development partners that can foster the resumption of Bank Group interventions in Togo. The paper comprises, besides this introduction, recent developments (Chapter II), key elements of the Government's agenda (Chapter III), status of dialogue with the international financial community (Chapter IV) and Bank Group strategy aimed at solving the problem of arrears.

Box 1 : Country Profile

Togo is a West African country bounded to the North by Burkina-Faso, to the East by Benin, to the West by Ghana and to the South by the Atlantic Ocean. It covers a surface area of 56 784 km² and its capital is Lome which is the country's only port situated by the Atlantic Ocean. Two types of climate coexist: a hot, Sudanese-type climate with one rainy season in the North, and a sub-equatorial type climate with two rainy seasons in the South. The population was estimated at 5 million in 2004, with a population growth rate of 2.3% and density of 86 inhabitants per square kilometre. Some 65% of the population live in rural areas and 35% in urban areas. The country's relief is dominated by grass savannah in the North, tree savannah in the Centre and South and forest in the mountainous regions. Politically, after the death of the President of the Republic who ruled the country for nearly four decades under a very strong influence of the army, his son succeeded him following elections held in a very troubled context in April 2005. The new authorities recently organized a national dialogue from the end of April to the end of May 2006 with a view to honouring the twenty-two commitments made by the Government to the European Union in April 2004 in Brussels, including the holding of legislative and local government elections. Concerning poverty, according to the United Nations Human Development Report 2005, Togo is ranked 143rd out of 177 countries, with a human development index of 0.512. Based on the I-PRSP validated in June 2004, the poor population is estimated at 72.6%, 57.4% of whom are extremely poor. Workers in urban and semi-urban centres are not as poor as agricultural workers. The phenomenon of poverty and extreme poverty evolves from the maritime region where economic activities are concentrated towards the northern regions which are dominated by agricultural activities. The incidence of poverty in the savannah region is 80% compared with 35% in the maritime region and 33% in the plateaux region. The distribution of the poor and extremely poor varies from one area of residence to another. For example, the incidence of poverty is estimated at 50% in Lome, 76% in big towns, 75% in secondary urban centres and 79% in rural areas.

II. RECENT DEVELOPMENTS

2.1 Socio-political Situation

Three major events marked the Togolese political context in 2005 and the first half of 2006, namely : (i) the death in February 2005 of the President of the Republic; (ii) the organization in April 2005 in a very troubled context of presidential elections which resulted in socio-political upheavals and the displacement of the population to neighbouring countries; and (iii) the holding in Lome (Togo) between end April and end May 2006 of inter-Togolese dialogue which was attended by the Presidential majority, the opposition and civil society, in the presence of the representatives of the European Union, the African Union, ECOWAS and the Special Representative of the Head of State of Burkina-Faso. The participants at this dialogue discussed eleven (11) themes concerning: the conditions of eligibility and method of voting, electoral constituencies, voting by servicemen, the issue of national and international observers, the issue of security forces and foreign military observers, the funding of political parties, the reform of the Constitutional Council and the issue of electoral disputes arising from the presidential elections of 25 April 2005. One of the achievements of this dialogue is

the principle of formation of a government of national unity which will be responsible, among other things, for implementing the conclusions of the said dialogue which are being finalized. Henceforth, for the new Togolese authorities, at the end of this dialogue, sixteen (16) commitments out of the twenty-two (22) made in Brussels in April 2004 are considered as implemented, three (3) under implementation and three (3) not yet implemented. These are the organization, under transparent conditions, of legislative elections with the participation of international observers, the organization of local government elections and the putting in place of necessary conditions for democratic municipal assemblies. This analysis is shared by a good number of development partners including the European Union which is the champion of this issue and which has already pledged to provide assistance amounting to Euros 13 million earmarked for political dialogue, the electoral process and capacity building in the areas of human rights and justice.

2.2 Governance Status

Over the past decade, Togo has experienced the disastrous effects of a prolonged political, economic and financial governance crisis, placing the country since then in the category of weak states. Indeed, for want of operating means due to low domestic resources and lack of external financing, most government services are paralyzed and corruption is rampant in the management of government contracts and services. Furthermore, the State is suffering from the deterioration of its institutional capacities as illustrated by the absence of capacity for discussion and analysis within technical departments and declining reliability of statistical for discussion information. Because of this situation, the Government has no acceptable knowledge of the phenomenon of poverty in the country and no capacity to assess the efforts needed for the achievement of the Millennium Development Goals. In short, the governance situation is characterized by: (i) a very strong influence of the army in the political game which has led to lack of credibility of the institutions of the Republic; (ii) infringement of individual and collective freedoms; (iii) deficiencies in the legal and judicial system with frequent interferences of the executive; (iv) lack of transparency in the process of preparation, execution and control of the State budget, and corruption in the management of public affairs; (v) politization of civil society organizations; and (vi) weak organization of the opposition.

2.3 Macroeconomic Context

2.3.1 **Growth and Inflation:** economic growth in real terms fell to 1% in 2005 compared with 3% in 2004 despite the good performance of cement works and clinker. This situation is mainly due to the slump in the agricultural sector as a result of the sharp drop in world cotton prices, the falling production of phosphates (1.1 million tons in 2004 and 2005 as against an equilibrium production of 1.8 million tons) and the decline of government services. In 2006, growth should stand at 3.9% as a result of good weather conditions in the agricultural sector, the recovery of activities of manufacturing industries after many years of recession and the continued good performance of cement works and clinker. Inflation stood at 3.5% compared to 3.9% in 2004. It is expected to fall to the community standard of 3% in 2006.

2.3.2 **Public Finance:** the public finance situation deteriorated in 2005 with tax revenue accounting for 14.1% of GDP compared with 15.5% of GDP in 2004. Expenditure represented 16.8% of GDP in 2005 compared with 16.1% in 2004 owing to the relaxing of expenditure control in the context of socio-political crisis during the first half of the year. The budget balance, on a payment order basis (excluding grants) should show a 1% deficit of GDP and be financed by the accumulation of domestic and external arrears. This trend is

expected to continue in 2006 under the effect notably of an increase in the oil bill thus reducing the possibilities of complying with the convergence criteria within WAEMU, especially as concerns the non-accumulation of arrears.

2.3.3 Money and Financial System: money supply declined by 3% in 2005 thus following the trend in economic activity. This helped to contain inflation. Forecasts point to a reversal of the trend in 2006 with the prospect of recovery of the agricultural sector and buoyancy of cement works and clinker. The banking system¹ is experiencing recurrent problems due to the accumulation of State arrears and the high level of bad debts including the debts of public enterprises. In this connection the viability of the two leading commercial banks is threatened by the concentration in their portfolio of claims on the Togolese Cotton Company (SOTOCO) and the Togo Phosphates Authority (OPT) whose financial situation suffered from the effects of the slump in the two sectors.

2.3.4 External Sector: the current account deficit of the balance of payments stood at 9.2% of GDP in 2005 as against 5.5% in 2004. This deterioration is due to the decrease in cotton and phosphate exports owing to the drop in world cotton prices and phosphate production as well as the sharp increase in the oil bill which is expected to reach 12.3% of GDP (compared with 11% of GDP in 2004). Despite the prospect of bright weather conditions in the agricultural sector and the continuing good performance of cement works and clinker in 2006, this deficit should stand at 11.4% of GDP, with an oil bill which would increase by one percentage point of GDP compared to 2005.

2.4 Public Debt and Arrears Situation

2.4.1 External Debt: as at mid-June 2005, outstanding external public debt amounted to more than US\$ 1.47 billion that is about 73% of GDP. Multilateral debt accounted for 61% of this outstanding debt or US\$ 0.89 billion of which 45% for IDA, 8% for the ADF/ADB and 8% for other creditors (IMF, EIB, WADB, ABEDA, IsDB and OPEC-Fund). Bilateral debt (Paris Club) accounted for 30% of this outstanding debt, owed mainly to Switzerland, France, Belgium and Spain. Lastly, bilateral debt (excluding Paris Club) represented 9% of the outstanding debt, owed to Japan (4.4%), Kuwait (1.9%), China (1%), Libya (0.9%) and Saudi Arabia (0.1%). Over the past few years, Togo has not been able to honour all its financial commitments concerning the external debt, apart from the repayment of debt due to the Islamic Development Bank (IsDB), the West African Development Bank (WADB) and the Saudi Fund. In addition, it should be pointed out that the last debt rescheduling with the Paris Club dates back to 1998. In order to accede to the HIPC initiative, Togo will have to embark on a reform programme benefiting from the support of Bretton Woods institutions no later than 31 December 2006, the date fixed by the automatic censored clause of the HIPC provisions*. Lastly, it should be mentioned that Togo is in the third category of countries which have not yet reached the decision point and which should benefit from the African Development Bank multilateral debt relief initiative.

2.4.2 Domestic Debt: as at mid-June 2005, the outstanding domestic debt amounted to US\$ 500 million, that is 27% of GDP, broken down into : (i) financial debt due to banks (42%), (ii) trade debt due to suppliers of the State (35%) and (iii) other State commitments notably deposits of State enterprises and the national girobank (16%). An audit was commissioned in December 2005 to confirm the exact amount of the said arrears in order to propose a clearance plan.

¹ The financial system comprises seven (7) banks, four (4) financial establishments, ten (10) insurance companies and eighteen (18) broking firms and 145 microfinance institutions.

2.4.3 **Arrears to Bretton Woods Institutions:** Togo does not owe arrears to the IMF. On the contrary, arrears to the World Bank have accumulated since May 2002 and amount to US\$ 89.4 million as at 30 May 2006.

2.4.4 **Arrears to the Bank Group:** disbursements were suspended since August 2001 because of the accumulation of arrears. On 30 May 2006, the amount of arrears stood at US\$ 13.4 million including US\$ 12.7 million in ADF loans and US\$ 0.7 million in NTF loans.

2.5 Reform Status

2.5.1 **In public finance management,** the public finance management review carried out by the Togolese government, the World Bank and the Bank in November 2004 and February 2005² shows weaknesses at the level of : (i) the State budget which is prepared in an unconsolidated manner, with budgeting procedures which do not conform to laws and regulations in force and a sizeable part of budgetary expenditures executed following exceptional procedures; (ii) public resource management with a treasury which is not unified and both external and domestic State debt not reliably monitored; (iii) a priori public expenditure control which has become ineffective ; and (iv) inappropriate institutional framework. An action plan to correct these weaknesses was prepared and it recommends: (i) improvement of the legal and institutional framework; (ii) improvement of budget preparation and execution, (iii) improvement of treasury and public debt management; (iv) strengthening of budget execution control; and (v) strengthening of public accounting and reporting.

2.5.2 **In the financial sector,** the viability of the two leading commercial banks is threatened by claims on the Togolese Cotton Company (SOTOCO) and Togo Phosphates Authority (OPT) whose financial difficulties have resulted in an increase in bad debts in their portfolio (3.5% of GDP). The restructuring and activity plan prepared at the request of the Regional Banking Commission should be implemented in the second half of 2006.

2.5.3 **Concerning sectoral restructuring,** no tangible progress was recorded in 2005. Thus, *in the cotton sector,* the organizational audit which should lead to the reorganization of the sector was started in early 2006. The reform of the sector which had to be undertaken with the support of the World Bank would enable the Togolese Cotton Company (SOTOCO) to overcome its financial hardships reflected by the accumulation of arrears equivalent to 2% of GDP. *In the phosphate sector,* the partnership concluded in 2001 between the Togo Phosphates Authority (OPT) and the private group International Fertilizer Group (IFG) ended in failure. The sector is also hard-hit by the economic situation and management problems. *In the energy sector,* the convention signed in 2000 for the privatization of the Togo Water and Electricity Company (CEET) was denounced for reasons of non-compliance with the clauses of the convention. These problems will be placed at the centre of the policy underpinning the interim programme which the Government intends to conclude with the IMF.

*Togo is on the short list of countries likely to benefit from the HIPC initiative drawn up jointly by WB and IMF staff and approved by the IDA Board of Directors on 14 April 2006.

²The report was finalized in early 2006.

2.6 Sectoral Context

2.6.1 **Primary Sector:** the primary sector (agriculture, livestock, fisheries, etc.) is the lead employer of the working population. It employs about 70% of the latter and generates nearly 20% of the State's export earnings. The agricultural sub-sector accounts for about 35% of GDP. It is facing two major constraints, namely its heavy dependence on rainfall and the inadequate implementation of the law of 1974 on agricultural land reform. The livestock sub-sector (cattle, sheep, goats, pigs and poultry) which accounts for 15% of GDP is characterized by its low productivity, extensive herd management method and degradation of grazing resources. Lastly, the fisheries sub-sector dominated by small-scale fishing followed by inland fishery and industrial fishery is confronted with low productivity and difficulty of access to the European Union market. Government policy in the agricultural and livestock sub-sectors is geared towards price liberalization in the agricultural sub-sector, reform of the cotton sector, promotion of irrigation farming, dissemination of the agricultural land law in close consultation with those living around reservoirs, promotion of the breeding of small ruminants and transfer of former State ranches to private operators.

2.6.2 **Industrial Sector:** in general, the industrial sector accounts for 21% of GDP more than half of which is generated by extractive (phosphate, clinker and cement) and manufacturing industries. The sector is characterized by: (i) high production factor costs; (ii) a juxtaposition of small production units without sufficient linkages to develop local resources; and (iii) low diversification and high concentration in the maritime region. Phosphates production is lower than its equilibrium level (1.8 million tons), which has weakened the situation of the Togo Phosphates Authority (OPT). The electricity, water, hydrocarbons and gas sub-sectors are confronted with the inadequacy of regulatory instruments and inadequate resources. The development of a competitive, coherent and diversified industrial fabric is a challenge which the Government must meet. To this end, the Government should define and implement an industrial development policy that fosters competition, diversification, integrated processing of profit-yielding products of agroindustry and the mining sector and the reduction of the cost of factors of production.

2.6.3 **Transport and Telecommunications:** the transport sector accounts for 20% of GDP. It comprises the Lome Port Authority (PAL), the Lome-Tokoin International Airport, the railway network and the road network. This sector plays a key role in the Togolese economy at the level of transit with landlocked countries (Burkina-Faso, Niger and Mali) and regional trade with ECOWAS countries as well as in the promotion of domestic and foreign trade. A large portion of the national road network is in an advanced state of degradation due to the absence of periodic maintenance because of the paucity of domestic resources and the suspension of financial cooperation with development partners. A Road Maintenance Fund (FER), set up since 1997 and resourced by a levy on fuel royalties and tolls and weighing, tries to ensure the maintenance and rehabilitation of the road network. *Togo's railways*, with only one line (Lome-Blitta) in service, are characterized by a deterioration of the quality of services rendered to customers and by the poor state of the track and rolling stock. The reform of the Road Maintenance Fund and rehabilitation and modernization of rail and port infrastructure are in the Government's programme. *The telecommunications sub-sector* comprises a State operator (Togo-Telecom) for stationary telephony and two operators for mobile telephony namely Togocel 100% of whose shares are held by Togo-Télécom, and Télécel-Togo (a private company). Tariffs are prohibitive due, in large part, to the low rate of mobile telephone coverage (4.4%). In this sub-sector, the Government intends to take measures to: (i) attract new operators in the mobile telephony business in order to reduce tariffs; (ii) review the taxation and billing system; and (iii) improve the rate of telephone coverage in rural areas.

2.7 Social Context

2.7.1 *Poverty and human development:* with a per capita GNP of US\$ 323 and a human development index (HDI) of 0.512, Togo was ranked 143rd out of 177 countries in 2005 and is one of the least advanced countries (LACs). The most visible signs of poverty in Togo are low incomes, unemployment, high illiteracy rate, malnutrition and low access to education, health and sanitation services. All socioprofessional categories are hit by poverty. However, the phenomenon is apparent essentially in the category of agricultural workers, traders and related trades. The situation *in the education sub-sector* is characterized by lack of internal efficiency with high repeater rates (36% in primary schools, 22% in secondary schools and nearly 40% in higher education) and a drop-out rate fluctuating between 10% and 20% depending on the level of education. Concerning external efficiency, it is necessary to underscore the mismatch between training and employment, resulting in an increase in the number of graduates without jobs. *In health*, access to health care is limited to 60% of the population and the proportion of births attended by a health worker is 60.8% (in 2003). Immunization coverage dropped, from 64.6% in 1990 to 58% in 2004 for measles and from 76.9% in 1990 to 55% in 2004 for diphtheria, maternal and neonatal tetanus and whooping cough (DTC3).

2.7.2 **HIV/AIDS and communicable diseases:** HIV/AIDS, malaria and tuberculosis are the leading causes of death in Togo, in addition to diarrhoeal diseases which affect mainly children. The HIV/AIDS prevalence rate was estimated at 6% in 2004. *Malaria* is rampant, with a prevalence rate varying between 8% and 10%. In the absence of a vaccine, actions to promote the use of mosquito nets are one of the strategies for controlling this disease by the Government. The prevalence of *tuberculosis* is about 32.2 per 100 000 inhabitants and it is another threat to public health which is spreading with HIV/AIDS. Tuberculosis is the cause of nearly 15% of deaths. Given the scale of this disease, a National Tuberculosis Control Plan was prepared in order to reduce its incidence within the population. Considering the mediocre results obtained in the fight against tuberculosis, HIV/AIDS and malaria, the country is unlikely to achieve the MDGs relating to HIV/AIDS and other communicable diseases by 2015.

2.7.3 **Gender:** women play a very active role in the Togolese economy because they predominate in all production sectors. In the agricultural sectors, for example, they account for 56.4% of the labour force and are an inevitable force in the production, storage, processing and marketing of produce, thus largely contributing to the country's food security. In the non-agricultural informal sector, they are also very active and present in activities such as petty trade and handicrafts (pottery, weaving, basketry, etc.). Therefore, most domestic responsibilities are increasingly being borne by women because of the country's economic difficulties due, among other things, to the negative consequences of the prolonged political crisis which led to the closure of enterprises, reducing men and women to unemployment. The Government, confronted with the problem of effectively involving this large chunk of the population in development initiatives, demonstrates a strong determination to ensure the advancement of women by incorporating the gender dimension in the design, planning and inclusion in the budget of development activities. It is thus seeking to increase substantially the participation of women in development activities, and to promote the legal status of women and their access to the benefits of production. A strategic action plan which was the subject of a general consensus was recently adopted by the Council of Ministers. Its implementation will enable Togo to make significant progress in the attainment of MDGs in the area of gender equality.

2.8 Major Constraints

2.8.1 **Governance Constraints** : over the past five years, the country continued to suffer from (i) lack of credibility of institutions of the Republic due especially to the delay in the organization of fresh legislative and local government elections, (ii) a legal and judicial system unfavourable to the entrenchment of the rule of law and to the development of the private sector, (iii) lack of transparency in public finance management and (iv) rampant corruption in the management of public affairs. Lastly, Togo is increasingly experiencing the politization of civil society organizations and the public administration. All these constraints impeded the restoration of normal relations with the country's development partners which contributed largely to the financing of the State budget and to which Togo owes substantial payment arrears.

2.8.2 **Sectoral Constraints**: in general, the Togolese economy is dominated by cash crop cultivation notably cotton, the production of which is extensive and subject to fluctuations in prices. The predominance of cotton and phosphates in exports increases the vulnerability of the economy to external shocks. In addition, the primary sector is confronted with lack of control of water for purposes of farming and with the inadequate implementation of the law of 1974 on agricultural land reform. The major constraints in the industrial sector are due to an environment that is not conducive to private sector development, the poor quality of production support infrastructure thus resulting in high factor costs, and low managerial capacities of private enterprises. To this series of constraints should be added the narrowness of the tax base which limits the level of tax revenue and thus contributes to the persistence of the budget deficit and domestic and external payment arrears.

2.8.3 **Social and Demographic Constraints** : in the *education sub-sector*, the major constraints include : (i) internal and external inefficiency of the educational system ; (ii) poor quality of education which can be explained in part by the inadequacy of the initial and continuing training of teachers and of teaching aids; and (iii) inadequate school and literacy education infrastructure and equipment. In the *health sub-sector*, the constraints are: (i) health services inaccessibility; (ii) poor quality of services; (iii) inadequate number and quality of medical staff, and (iv) problems related to the inadequacy of equipment and dilapidated health infrastructure.

2.8.4. **Technical and Institutional Capacity Constraints**: Togo continues to suffer from the degradation of its human and institutional capacities. Concerning human capacities, the shortage of professionals in central and decentralized services has reached such a level that practically no public service is rendered to users. Most professionals have chosen other sectors of activity, in particular the informal sector, or have preferred to emigrate to other countries of the sub-region, notably Benin and Senegal. Furthermore, the unreliability of statistical data made it impossible to carry out a proper analysis of the situation of poverty which characterizes the interim Poverty Reduction Strategy Paper (PRSP). Institutionally, Togo is suffering mainly from the disorganization of the public expenditure chain and public debt management difficulties, as well as weak procurement capacities.

III. GOVERNMENT'S DEVELOPMENT AGENDA

3.1 Key Elements of the Government's Agenda

3.1.1 In order to start overcoming the institutional and structural constraints and to encourage dialogue for the resumption of international financial cooperation, the new authorities stemming from the April 2005 elections have prepared a programme outlined in the General Policy Statement made by the Prime Minister before the National Assembly in early December 2005 during the presentation of the 2006 Budget Act. The Government's agenda comprises four (4) key components : (i) restoration of policy dialogue and improvement of the security situation; (ii) stabilization of public finance and rehabilitation of the financial sector; (iii) promotion of good governance and capacity building; and (iv) continuation of structural and sectoral reforms.

3.1.2 **Restoration of Policy Dialogue and Improvement of the Security Situation:** the Government is striving to create conditions for the restoration of policy dialogue and improvement of the security climate in accordance with Part II of the Cotonou Agreement and the new roadmap of the European Union. These conditions consist mainly in relaunching inter-Togolese dialogue which was interrupted soon after the death of the President of the Republic on 5 February 2005. The agenda and objectives of the dialogue concern essentially the twenty-two (22) commitments made by Togo to the European Union. Apart from the formulation of proposals on the issues of revision of the electoral framework and organization of the forthcoming legislative elections, the dialogue also concerns new subjects such as the return of 41 000 Togolese who took refuge in Benin and Ghana during the violence which marked the April 2005 presidential elections, compensation for damages, reform of security services and the problem of impunity.

3.1.3 **Stabilization of Public Finance:** with a GDP growth target of 3.5% in 2006, the Government is planning to implement a series of measures to improve tax revenue and the quality of public spending so as to reduce the budget deficit (including grants) by 0.7% of GDP in comparison with 2005 without budgetary support. The Government will, beginning with the 2006 budget, scrupulously comply with the rules of sound public finance management, in particular the preparation and execution of the consolidated budget and the strengthening of the unity-of-cash principle by obliging services which collect revenue to deposit the revenue directly into the accounts of the Treasury. Furthermore, to increase revenue, the following measures were retained: (i) modernization of customs services (computerization, one-stop-shop and strengthening of the control of exemptions notably in the free trade zones) ; (ii) introduction of new incentives for workers of revenue services ; and (iii) setting up of a department of SME/SMI at the Directorate of Taxation. The increase in revenue expected from this series of measures is estimated at 14.3% compared with the 2005 estimates. Concerning expenditure, the measures will seek to reduce some items of State expenditure (sovereignty, water, telephone, electricity and official travel expenses) and to improve the quality of expenditure with a strong impact on poverty reduction. The Government has to implement the following measures: (i) partial unfreezing of increments with financial effect and recruitment of 8000 new workers into the civil service in order to build capacities in the social sectors and economic and financial services; (ii) rehabilitation of infrastructure in the education and health sectors, including the Lome university teaching hospital; (iii) precise evaluation of the outstanding external debt or loan stock. (iv) partial clearance of the domestic debt after auditing; and (v) organization of legislative and local government elections. Specific actions are envisaged in the financial sector, notably: auditing of the accounts of public bodies in banks, evaluation of the level of under-capitalization of the banking system, estimation of tax losses due to problems of the banking

systems, restructuring of the Banque togolaise du commerce et de l'industrie (BTCI) whose deposit accounts represent 9% of GDP and formulation of a strategy which will prevent the risk of non-payment of interest on deposits.

3.1.4 Promotion of Good Governance and Capacity Building : the main thrusts retained by the Government focus on : (i) the strengthening of democratic institutions through respect of the principle of separation of executive, legislative and judicial powers as spelt out in the Constitution of 14 October 1992, the strengthening of the judicial system, respect of the rule of law and the regular and normal functioning of democratic institutions in order to protect individual freedoms; (ii) good economic and financial governance including the fight against corruption and promotion of transparency in public finance management; (iii) the strengthening of the legal and judicial environment of economic activities, and (iv) the modernization of the administration to transform it into an effective administration concerned about the efficiency of government services. Moreover, the Government will pursue the review of the I-PRSP so as to meet the conditions of access to the decision point of the HIPC initiative.

3.1.5 Resumption of Reforms: *in the cotton sector*, in order to restore the competitiveness of the sector and the viability of the banking sector, the following measures are envisaged: (i) launching of an external audit of the financial situation of SOTOCO; (ii) institution of a producer price for 2006 pegged to world prices and reform of the price fixing mechanism based on the market price; and (iii) formulation of a cotton sector reform strategy to improve the efficiency of the sector. Other reforms will bear on: (i) continuation of the public enterprise privatization-restructuring-liquidation programme; (ii) reform of the phosphates sector; and (iii) pursuit of efforts to adapt instruments and structures of the Togolese administration to the requisite WAEMU standards within the framework of implementation of directives on the legal, statistical and accounting framework of public finance in the Member States.

3.1.6 Financing of the Agenda: the cost of the programme for 2006 amounts to CFAF 59.5 billion including own resources amounting to CFAF 21.5 billion and external financing in the amount of CFAF 38 billion of which CFAF 13 billion already identified at the level of the European Union and CFAF 25 billion to be sought. CFAF 9 billion of the European Union financing will be used for capacity building in the area of justice and human rights, and CFAF 4 billion for policy dialogue and the electoral process. Access to European Union financing is subject to the launching of policy dialogue and drawing up of the electoral timetable.

3.2 Evaluation of the Government's Agenda

3.2.1 Coherence and Realism of the Agenda: the Government's goal is to restore the confidence of players in the political crisis as well as in macroeconomic management in order to establish an evaluation basis for resumption of a programme benefiting from the support of the IMF under the Poverty Reduction and Growth Facility (PRGF). In this connection, the programme components are coherent and complementary. Concerning specifically the issue of capacity building, the Government is planning to strengthen the human and material resources of the public administration to enable it to effectively play its role in the implementation and monitoring of the programme. However, because of the fragility of the country's socio-political situation and its severe financial constraints, substantial financial support is necessary for the implementation of the programme.

3.2.2 Growth and Poverty Reduction: the Government's agenda places emphasis essentially on the normalization of the political climate, macroeconomic management and capacity building. The programme addresses, incidentally, issues of sectoral reforms and review of the PRSP. By improving the political climate and public finance management, and building capacities, the Government creates the bases for a medium-term programme in which issues of growth, structural reforms and poverty reduction will be at the centre of its concerns.

3.3 Challenges and Risks

3.3.1 The major challenges to be faced by Togo are many. They include: (i) the effective launching of inter-Togolese dialogue; and (ii) the satisfactory implementation of the Government's agenda, which is the basis for the renewed confidence of development partners, preparation of a comprehensive arrears clearance plan backed by Togo's major development partners and access to the Poverty Reduction and Growth Facility. The risks arising from these challenges are : (i) failure to effectively hold the inter-Togolese dialogue and (ii) difficulties in securing financing for the programme aggravated by the vulnerability of the Togolese economy to export price fluctuations and to the rise in the price of oil as well as by the delay in the resumption of financial cooperation with development partners.

3.3.2 To mitigate the first risk, the parties concerned are intensifying gestures of goodwill. Hence, the inter-Togolese dialogue was held in Lome between end April and end May 2006, in the presence of the representatives of the European Union, the African Union and ECOWAS. Regarding the second risk, the first commitments of some development partners notably the European Union are a good sign that the financing of the programme will be secured. In addition, the pledges of the same development partners regarding capacity building including those of France, the World Bank, UNDP, WB and IMF will contribute significantly to the satisfactory implementation of the programme.

IV. DIALOGUE WITH DONOR COMMUNITY

In general, the suspension of financial cooperation negatively impacted on the usual mechanisms of consultation between development partners and the public authorities. However, under the coordination of the European Union and UNDP, mechanisms were put in place for sharing information between multilateral and bilateral partners on trends in the political and economic situation of Togo and on the areas covered by the PRSP, notably health, education and HIV/AIDS control. Recent developments relating to Togo's cooperation with some development partners are reviewed hereunder.

4.1 Bretton Woods Institutions and other Multilateral Organizations

4.1.1 International Monetary Fund (IMF): the last programme between the IMF and Togo dates back to 1998. Two interim programmes were unsatisfactorily implemented in 2001-2002 and the country owes no arrears to this institution. In 2005 and the first quarter of 2006, the IMF conducted two missions to Togo. The first was in mid-September 2005 under Article IV and the second in March 2006 on the evaluation of the financial system. The conclusions of the September 2005 mission were reviewed on 8 May 2006 by the Executive Board of the IMF following which a Fund mission had to be fielded from 18 June to 1 July 2006 for discussions on a nine-month interim programme (July 2006 to March 2007). The conclusion and satisfactory implementation of the said programme will pave the way for a Poverty Reduction and Growth Facility (PRGF) in the second half of 2007.

4.1.2 **World Bank** : Togo is in a state of suspension of IDA funding since May 2002 and the amount of arrears to this institution stands at US\$ 89.4 million on 30 May 2006. Despite this situation, the World Bank continues to provide assistance to this country under the Low Income Countries Under Stress (LICUS) Initiative for 2005 and 2006. The ensuing programme is financed with a Trust Fund grant amounting to US\$ 2.7 million. The programme covers (i) the strengthening of the socio-political process through the preparation of the programme for the modernization of the judicial system including training and capacity building; (ii) the preparation of economic recovery and re-engagement of the international community through assistance to the Directorate of Statistics of the Ministry of Development and Regional Development for a population census in 2005 and institutional capacity building; (iii) the analysis of debt sustainability and the arrears clearance process and fiduciary evaluations; and (iv) the social sectors emergency programme.

4.1.3 As part of this financing, the following actions were implemented between mid-2005 and mid-2006: (i) the preparation and finalization with UNDP of the national justice programme which was adopted by the Government in November 2005; (ii) the census of the population in 2005 with the assistance of the UNFPA; (iii) the fiduciary review with the participation of the Bank Group ; and (iv) assistance to three regions for income-generating projects and HIV/AIDS control.

4.1.4 **European Union**: relations between Togo and the European Union are suspended since 1993 because of the country's political situation. In spite of such suspension, the European Union pursued some activities directly in favour of the population by financing them with the 6th and 7th EDF funds. Togo also benefited from regional programmes such as the Regional Integration Support Programme (PARI) and the WADB Support Programme. Politically, dialogue was pursued, particularly following the April 2005 elections, in accordance with Part II of the Cotonou Agreement. A new roadmap was introduced and has already led to the holding of inter-Togolese dialogue between end April and end May 2006. This new prospect should enable Togo to benefit from the 8th EDF funds and to receive notification of the 9th EDF.

4.1.5 **UNDP and other Agencies of the United Nations System**: the current UNDP portfolio comprises four operations for an amount of US\$ 6.1 million and covers four areas, namely: (i) capacity building and promotion of good governance; (ii) poverty reduction interventions; (iii) development of micro-enterprises and community small-scale enterprises; and (iv) social infrastructure projects for strengthening the capacities of NGOs and local government agencies. In addition, Togo continues to implement three loans covering an amount of US\$ 28 million granted by the Global Fund to Fight HIV/AIDS, Tuberculosis and Malaria. UNDP is preparing the organization of an advisory group on the financing of the National Capacity Building Programme comprising, among other things, good economic and financial governance, and justice and decentralization components. Other United Nations system agencies (WHO, UNICEF, FAO, UNFPA and UNAIDS) remain active in their various areas of specialization.

4.2 Bilateral Partners

4.2.1 **France:** it resumed its normal cooperation with Togo since 1999. The current portfolio in terms of cooperation and cultural action service comprises six projects for an amount of Euros 6.8 million. Regarding the French Development Agency (AFD), its assistance covers three projects in the sectors of education at local level, health at local level and the development of village water supply in the form of grants amounting to Euros 11.8 million. In addition, the AFD has remained active in various infrastructure projects including roads, electricity, water and hygiene.

4.2.2 **Germany:** it has maintained humanitarian assistance but stopped its financial assistance to Togo in the past decade. In this context, the German Development Agency (GTZ) implemented a project worth Euros 2.4 million to support health services and fight against AIDS in urban and rural areas. Furthermore, the German Embassy is managing a micro-finance programme to the tune of Euros 90 000 annually channelled through NGOs for microprojects.

4.2.3 **United States of America:** its last assistance to Togo dates back to 2003 and it amounted to about US\$ 10 million. It remained focused on the promotion of democracy and good governance as well as HIV/AIDS control, child protection and microprojects. These resources are managed by civil society through, for example, the Peace Corps.

V. BANK GROUP ASSISTANCE STRATEGY

5.1 Bank Group Portfolio and its Management

5.1.1 Since 1972, the year of its first intervention in Togo, the Bank Group has approved twenty-seven (27) operations including twenty-four (24) projects or programmes and three (3) studies for a total amount of commitments of UA 180.66 million. These commitments cover loans provided with resources from the ADB window (14%), concessional loans with ADF resources (82%) and the Nigeria Trust Fund (4%). The sectoral distribution of these operations shows the predominance of the social sector (25.2%), followed by the transport sector (24.7%), the multisector (22.7%)⁴ and rural development (16.9%). Industry and banks, and telecommunications follow with 5% and 3.2% respectively. Lastly, the water and sanitation sector benefited from 2.3% of the commitments.

5.1.2 *Multinational projects* : as part of its economic cooperation and regional integration promotion policy, the Bank has already funded four (4) multinational projects which benefited, among others, the public utilities, industry and agriculture sectors in Togo, as well as two studies, one on 'higher education' and the other on 'social infrastructure maintenance' in the eight (8) WAEMU countries.

5.1.3 The lingering political crisis and the falling under sanction of Togo since August 2001 for non-payment of loans due as well as regular delays of financial counterparts of the State impeded the implementation of Bank projects. To date, the portfolio comprises only three (3) operations which are all old and eligible for cancellation. They are the Education II project approved in December 1991, DWS studies in semi-urban centres approved in July 1998 and the Lome-Notse road project approved in May 1999. Their performance is low as revealed by the September 2005 portfolio review. In accordance with its guidelines, the Bank should proceed to cancel the undrawn balances on the said projects amounting to about UA 9.7 million. However, the weakness of the Togolese economy after a long period of crisis militates in favour of maintenance of the undrawn balances of the three operations.

⁴ including three structural adjustment programmes (UA 36.52 million) and an institutional support (UA 2.76 million).

5.2 Status of Arrears to the Bank Group and Repayment of Loans Due

5.2.1 Since August 2001, Togo has been under sanctions by the Bank Group because of the accumulation of arrears. As at 30 May 2006, the amount of arrears stood at UA 9.2 million (US\$ 13.4 million) representing 0.54% of GDP. Arrears due on ADF loans amount to UA 8.6 million and UA 0.6 million on NTF loans.

Table 1
Repayment of Loans due in 2006-2010

Loan Repayment		Amount (UA)				
		2006	2007	2008	2009	2010
ADF	Principal	616 663.42	1 291 448.19	1 349 569.52	1 634 722.55	1 718 203.96
	Charges	319 645.30	637 670.21	629 481.10	617 186.05	604 785.78
	Total	936 308.72	1 929 118.39	1 979 050.63	2 251 908.60	2 322 989.74
NTF	Principal	-				
	Charges	7 832.03				
	Total	7 832.03				
Grand total		944 140.75	1 929 118.39	1 979 050.63	2 251 908.60	2 322 989.74

5.3 Arrears Clearance Actions by the Bank

5.3.1 Attempts at clearing arrears owed to the Bank Group since 2001 have not been successful because of the country's socio-political instability, bad governance and suspension of financial cooperation with the lead development partners despite the intensification of dialogue with Togolese authorities and strengthening of consultation with development partners, notably France, the European Union and Bretton Woods institutions. Thus, in 2005 and the first half of 2006, the Bank took part in three joint missions with Bretton Woods institutions, namely the mission to review Togo's economic and financial situation in September 2005 and the fiduciary review missions in November 2005 and February 2006. The Bank also discussed the issue of arrears clearance with Togolese authorities in Tunis and outside Tunis. Within the framework of this dialogue and during the Bank mission in September 2005, a new impetus was given by the written commitment made by the Government (cf. Letter No. 108/MEFP/CAB/SP of 16 September 2005) to clear arrears owed to the Bank Group not later than end February 2006 by raising sufficient funds on the regional market. Following the said commitment, the Bank initiated the preparation of the Country Strategy Paper for Togo covering the 2005-2007 period, the evaluation of the capacity-building support project of the Ministry of the Economy, Finance and Privatization and the consideration of the Government's request to extend the closing dates of the three projects in the Bank portfolio in Togo. Furthermore, the resumption of dialogue was also illustrated by the meeting between the President of the Republic of Togo and the President of the Bank Group in mid-November 2005 in Tunis on the sidelines of the World Summit on the Information Society. Unfortunately, this series of efforts did not lead to the clearance of arrears and resumption of financial cooperation because of the tightening of the constraint on public finance which does not allow the country to honour its commitments in compliance with the principle of equitable treatment of preferred creditors. Furthermore, the Bank pursued dialogue with Togolese authorities on the urgent need for an interim programme which would pave the way for the IMF Poverty Reduction and Growth Facility and free the country from compliance with the censored clause under the HIPC initiative provisions.

5.3.2 During this period, the ADF also pursued consultation with the European Union, UNDP and other institutions of the United Nations system on trends in the socio-political situation, the status of implementation of the twenty-two commitments made by the Government in April 2004 in Brussels as well as on the capacity-building programme and more specifically on the justice reform programme. In addition, consultation was sustained with bilateral partners notably the French Embassy in Lome and its cultural service, and the German and US embassies. Information continued to be shared with all these partners on subjects as diverse as developments in the socio-political situation, status of implementation of the twenty-two commitments and co-financing possibilities in the event of resumption of international financial cooperation.

5.4 Microeconomic Dialogue Strengthening and Arrears Clearance Strategy and Instruments

5.4.1 **Objective:** the strategy aims at creating conditions for strengthening dialogue with the Government and consultation with other development partners that can foster the resumption of Bank Group interventions in Togo. To this end, the Bank will focus its actions on two complementary thrusts: (i) continuation of dialogue with Togolese authorities and consultation with other development partners for a comprehensive arrears clearance plan and resumption of financial cooperation; and (ii) contribution to the institutional capacity building of Togo.

Thrust 1 : Dialogue for Resumption of Bank Group Interventions

5.4.2 Togo is not eligible for the Post-Conflict Countries Facility (PCCF) but it has the characteristics of a weak state outlined in the discussion paper being finalized within the Bank. Considering that Togo can only honour the arrears and repay the loans due with the normalization of its relations with its lead creditors, the arrears clearance framework can only be the comprehensive framework backed by multilateral and bilateral partners. The support arrangement will comprise the intensification of dialogue with Togolese authorities, the maintenance of the undrawn balances on the three projects, the financing of a study on governance and training sessions for future Members of Parliament and the continuation of consultation with other partners. Concerning the intensification of dialogue, jointly with other partners, the Bank will be in permanent contact with Togolese authorities in the second half of 2006 and in 2007 in order to assist the Government to successfully implement the programme for the rehabilitation of the Togolese economy. With a view to the conclusion of a Poverty Reduction and Growth Facility (PRGF) in the second half of 2007, the Bank will also intensify dialogue with the country on the issue of arrears taking into account the ongoing discussion on weak States. The amount of the indicative allocation of the country under ADF X for the 2005-2007 period stands at UA 11.03 million including a maximum of UA 2.2 million, or 20% of the total allocation, for financing capacity building. The support arrangement also proposes the maintenance of the remaining amount of UA 9.7 million for the three projects with a view to restructuring them at the time of resumption of financial cooperation and thus contributing to the reduction of negative net transfers of resources to Togo. Lastly, to help the Government to address the consequences of the crisis, the Bank could finance with bilateral resources a study on gender and the labour market and the organization of training seminars for Members of Parliament who will be elected during the forthcoming legislative elections.

5.4.3 It should be noted that the satisfactory implementation of the reform programme will enable Togo to conclude an economic programme backed by external financial resources the first simulations of which show that Togo could receive US\$ 325 million in net present value by the end of 2009.

5.4.4 The process of mobilizing development partners is gradually being put back in place after the holding of inter-Togolese dialogue. Indeed, a consultation on the interim programme is planned during the IMF mission to Togo scheduled from 18 June to 1 July 2006 between the IMF, WB, European Union, ADB and France. Participants at this meeting will agree on a common agenda for the rest of 2006 which will be submitted to Togolese authorities and to other donors at the end of July 2006. The objective of this approach is twofold: (i) to assist the Government to cover the financing gap of its programme; and (ii) to propose, in early 2007, a comprehensive and sustainable solution to the clearance of external and domestic arrears which could be backed by a Poverty Reduction and Growth Facility. In this respect, the Bank will encourage Togolese authorities to approach the country's partners and will actively support this process. The Bank will take part in the IMF mission from 18 June to 1 July 2006 as well as in other donor consultations on the modalities of mobilizing resources for a sustainable solution to the arrears and debt problem. Lastly, the Bank will, together with the European Union, take advantage of the consultative mechanisms established within the framework of the memorandum of understanding (MOU) of 25 July 2005 to exchange views on the issues of governance and recent macroeconomic developments in Togo.

5.4.5 At the macroeconomic level, dialogue will place emphasis on the satisfactory implementation of reforms provided for in the Government's agenda. Emphasis will also be placed on the enrichment of the conclusions and recommendations of the diagnosis on public finance and procurement, by participating, in June 2006, in discussions on the action plan and in the dissemination seminar. The Bank will assist the country in the implementation of the said action plan.

5.4.6 **Amount of arrears:** as at May 2006, the amount of arrears stood at UA 9.2 million. It is estimated at UA 12.08 million on 31 December 2007, prospective date of conclusion of a Poverty Reduction and Growth Facility and adoption of the arrears clearance plan. The Bank will regularly sensitize Togolese authorities to the urgent need for a satisfactory implementation of the economic and financial programme. The Bank will monitor attentively the implementation of the programme, in close coordination with Bretton Wood institutions. As part of the preparation of the arrears clearance plan, the Bank will study the flexibility to be applied to Togo, depending on the conclusions of the discussion on the cases of fragile countries.

Thrust 2 : Institutional Capacity Building

5.4.7 The second thrust of the strategy will be to support capacity building of government economic and financial services for the implementation of the Government's programme and the Poverty Reduction and Growth Facility (PRGF). This support which is also an instrument for dialogue with the country will be implemented in coordination with other donors, in particular the WB, the IMF, the European Union, UNDP and France. The Bank will provide its assistance in mid-2006 through the institutional capacity building project of the Ministry of the Economy, Finance and Privatization, with a view to backing the Government in the implementation of measures contained in its programme, notably public

finance stabilization and capacity building of the external debt management organ, and resumption of the review of the PRSP. This assistance will be an ADF grant of an amount not exceeding UA 2.2 million. The first component of this project is support to economic management structures (directorate of the economy, directorate of the budget and the debt directorate) and to the Poverty Reduction Strategy Paper. The second component is support to structures responsible for the execution, monitoring and transparency of the budget (directorate of finance, directorate of financial control and directorate of the Treasury). The expected results are improvement of macroeconomic management as well as improvement of the execution, monitoring and transparency of the budget.

VI. CONCLUSION AND RECOMMENDATION

6.1 Conclusion

6.1 After nearly two decades of political instability, and bad economic and financial governance, the political and security situation is being normalized. The authorities stemming from the April 2005 elections and other stakeholders involved in the Togolese situation are demonstrating their readiness and willingness to move towards the gradual normalization of the country's situation as well as relations with the different development partners. In this prospect, the Government has prepared an economic programme comprising four components, namely: resumption of political dialogue and improvement of the security situation; stabilization of public finance and rehabilitation of the financial sector; promotion of good governance; and capacity building. The Bank intends to back the Government in this process through two thrusts, namely intensification of dialogue for the mobilization of the international financial community in order to agree on an arrears clearance plan and building of the capacities of the Ministry of the Economy and Finance for the implementation of economic policies.

6.2 Recommendation

The Boards of Directors are invited to adopt this 2006 Dialogue Paper for Togo.

Togo : Key Macroeconomic Indicators for 2002 –2010

	2002	2003	2004	2005	2006	2007
	(Annual growth, unless otherwise indicated)					
National income and prices						
GDP at constant prices	4.1	1.9	3.0	0.8	3.9	4.5
Per capita GDP at constant prices	2.2	0.0	1.1	- 1.0	1.8	2.4
Consumer price index	1.6	- 1.7	3.9	3.5	3.0	3.0
External sector (CFAF)						
Exports fob	12.9	17.5	-3.4	-3.6	2.2	8.1
Imports fob	6.1	9.3	0.6	6.6	8.7	7.9
Terms of trade	5.0	6.2	-8.1	- 8.0	2.7	1.0
Government Financial Operations						
Revenue	- 12.2	30.6	3.9	- 5.0	11.8	14.2
Expenditure and net borrowings	- 10.2	9.3	15.5	3.0	3.6	- 0.1
Recurrent expenditure	- 11.8	13.9	12.5	- 1.7	16.3	0.1
Capital expenditure	6.3	- 28.7	54.4	48.3	123.0	- 1.0
Money and credit						
Net domestic assets	5.7	0.6	27.3	4.7		
Domestic credit	- 6.2	- 7.4	- 3.6	- 1.3		
Net credit to the Government	- 3.9	16.1	1.9	1.6		
Monetary aggregates	- 2.1	11.4	18.3	4.3		
Velocity (GDP/M ²)	4.3	3.7	3.3	3.3		
	(In percentage of GDP, unless otherwise indicated)					
Investment and savings						
Gross investments	15.5	13.3	13.1	11.9	14.3	14.1
Government investments	1.4	1.0	1.5	2.1	4.4	4.0
Private investments	14.4	12.3	11.6	9.8	9.9	10.1
Gross domestic savings	6.0	3.9	7.6	2.6	2.9	2.9
Government savings	0.6	2.8	1.7	1.1	0.5	2.5
Private savings	5.4	1.1	5.9	1.6	2.4	0.4
Government financial operations						
Revenue and grants	12.7	17.0	16.9	15.4	16.3	17.2
Revenue	12.3	16.5	16.2	14.6	15.3	16.2
Expenditure and net loans	13.1	14.6	16.0	15.7	19.2	17.8
Budget balance (commitment base)						
Including grants	- 0.4	2.4	0.9	- 0.3	- 2.9	- 0.6
Excluding grants	- 0.8	1.8	0.2	- 1.1	- 3.9	- 1.5
Budget balance (cash base)	0.7	3.3	2.5	- 0.6	- 3.3	- 1.6
Primary balance	1.0	3.6	1.9	0.4	- 2.7	- 0.3
Balance of payments						
Current account balance (- = deficit)						
Including official transfers	- 9.5	- 9.4	- 5.5	- 9.2	- 11.4	- 11.2
Excluding official transfers	- 10.2	- 10.0	- 6.2	- 10.0	- 12.2	- 12.1
Financing gap	0.0	0.0	0.0	0.0	- 2.6	- 2.0
Outstanding debt (including IMF)	92.4	90.4	83.1	80.7	80.5	80.2
Public debt service						
In % of exports of goods and services	21.0	17.9	15.9	11.9	11.8	11.1
In % of Government revenue	36.3	28.4	27.1	20.4	18.1	16.3
Balance of payments (in US\$ million)	- 44.4	- 66.5	5.3	- 24.4	- 57.0	- 51.0

Sources : Togolese authorities ; IMF estimates and projections, and ADB staff adjustments

Togo : State Financial Operations for 2003–2008

	2003	2004	2005	2006	2007	2008
	(in CFAF billion)					
Total revenue and grants	170.8	179.6	176.4	189.4	220.9	247.6
Total revenue	165.3	171.7	155.9	169.8	208.3	232.9
Tax revenue	148.7	161.0	143.6	157.3	188.6	212.0
Nontax revenue	16.5	10.7	12.3	12.5	19.2	20.9
Grants	5.5	7.9	20.5	19.6	12.6	14.7
Total expenditure and net loans	147	169.8	191	233	228	255
Recurrent expenditure	136.8	153.9	139.8	181	176.2	190.3
Primary expenditure	119	124	124	167	160.7	175.2
Capital expenditure	10.3	47.35	51.5	52.3	51.8	64.8
Net loans	0.0	0.0	0.0	0.0	0.0	0.0
Overall balance (commitment base)						
Including grants	23.7	-18.6	-14.8	-43.9	-7.1	-7.5
Excluding grants	18.2	-42.2	-35.4	-63.5	-19.8	-22.2
Debt interest arrears	14.7	-8.2	-11.0	-12.7	-13.0	-11.0
Overall balance (cash base)	38.5	-26.5	-25.8	-56.7	-20.1	-18.5
Financing	-38.5	26.5	25.8	56.7	20.1	18.5
Domestic financing	-41.4	-8.7	0.0	14.2	-4.6	-2.4
Monetary financing	-17.8	-11.9	0.0	-8.8	-1.6	-2.4
IMF	-7.0	-7.7	0.0	-6.0	15.4	17.6
BCEAO	-11.2	-2.1	0.0	-2.2	-10.0	-10.0
Commercial banks	0.4	-2.2	0.0	-0.6	-10.0	-16.0
Non-monetary financing	-23.7	3.2	0.0	23.0	0.0	0.0
PE advances to the State	0.0	0.0	0.0	0.0	0.0	0.0
Others	-23.7	3.2	0.0	23.0	0.0	0.0
External financing	3.0	-13.3	3.6	-5.5	-1.1	5.2
Loans	3.3	20.2	4.6	17.3	23.4	32.0
Programmes	3.3	20.2	4.6	17.3	23.4	32.0
Projects	0.0	0.0	0.0	0.0	0.0	0.0
Debt retirement	-33.6	-33.5	-21.9	-22.8	-24.5	-27.6
Rescheduling obtained	0.0	0.0	0.0	0.0	0.0	0.0
Debt cancellation	0.0	0.0	0.0	0.0	0.0	0.0
Arrears on principal	33.3	33.5	21.9	22.8	0.0	0.0
Financing gap	0.0	0.0	0.0	0.0	25.9	24.6
Memorandum items	(In percentage of GDP)					
Total revenue and grants	17.0	16.0	15.3	15.9	17.2	17.8
Total revenue	16.5	13.8	13.7	14.2	16.2	16.8
Tax revenue	14.8	12.8	12.6	13.2	14.7	15.3
Total expenditure and net loans	14.6	17.8	16.8	19.6	17.8	18.4
Recurrent primary expenditure	13.6	13.3	12.3	15.2	13.7	13.8
Salaries and wages	5.2	4.9	4.5	4.8	4.9	4.7
Other primary expenditure	6.7	6.7	6.4	9.2	7.7	7.9
Interest	1.8	1.7	1.4	1.2	1.2	1.1
Capital expenditure	1.0	4.5	4.5	4.4	4.4	4.7
Domestic financing (net)	-4.1	-0.8	0.0	1.2	1.2	-0.2
Domestic primary balance (- = deficit)	11.8	11.7	10.9	14.0	13.6	12.6
Current account balance	2.8	0.5	1.4	0.0	0.5	3.1
Primary balance	4.4	1.8	1.4	0.0	-0.2	2.2
Overall balance, commitment base (- = deficit)						
Including grants	2.4	-1.7	-0.3	-3.7	-0.5	-0.5
Excluding grants	1.8	-4.0	-3.1	-5.3	-1.6	-1.6
Overall balance, cash base (- = deficit)	3.8	-2.5	-2.3	-4.8	-1.3	-0.6
Primary balance (excluding grants)	3.6	-2.5	1.9	-4.1	-0.5	-0.6
Nominal GDP (in CFAF billion)	1004	1061	1061	1191	1387	1308

Annex 3						
Togo: Balance of Payments for 2002 –2007						
	2002	2003	2004	2005	2006	2007
(in CFAF billion)						
Trade balance	-105.7	-91.3	-105.6	-147.6	-181.5	-194.8
Total exports	295.6	347.3	335.6	322.8	330.0	356.8
Domestic exports	218.0	261.9	293.9	279.1	280.4	306.2
Cotton	27.6	51.8	61.1	41.0	23.6	29.9
Phosphates	28.7	20.5	25.4	22.6	19.2	23.2
Cement & clinker	51.8	72.0	51.9	57.1	66.9	84.7
Reexports	77.6	85.4	41.7	43.7	49.6	51.3
Total imports	-401.3	-438.6	-441.2	-470.4	-511.4	-593.4
Balance of services and income	-55.5	-77.2	-63.8	-67.4	-71.2	-73.4
Balance of transfers	63.6	74.2	111.0	112.0	121.8	125.2
Current account balance (excluding official grants)	-97.6	-94.3	-58.4	-103.0	-144.1	-151.9
	-104.6	-100.2	-65.4	-111.0	-155.6	-163.5
Capital account & financial account	66.8	55.7	61.0	90.1	117.2	136.8
Capital account	9.5	12.0	19.5	20.2	26.6	29.7
Private net transfers	6.0	7.4	11.7	12.0	14.0	15.0
Credits to Government	3.5	4.5	7.9	8.2	12.6	14.7
Financial account	57.3	43.7	41.5	69.9	90.6	107.1
Medium- and long-term public capital	-23.9	-30.4	-28.6	-17.3	-1.1	2.9
Medium- and long-term private capital	32.4	22.7	34.3	30.7	31.9	35.1
Direct investments	35.5	23.3	31.8	28.6	30.6	33.7
Portfolio investments	9.1	9.7	11.9	10.0	10.0	11.8
Bank medium- and long- term commitments	-0.3	-0.3	-0.3	-0.5	-0.3	-0.3
Short-term net foreign assets of banks	0.0	5.3	-25.3	0.0	0.0	0.0
Short-term capital	8.2	4.6	26.5	18.4	18.8	24.0
Errors & omissions	-3.8	8.7	-8.8	0.0	0.0	0.0
Overall balance	-30.8	-38.6	2.6	-12.8	-26.9	-16.6
Excluding grants	30.8	38.6	-2.6	12.8	26.9	16.6
Net change in official foreign assets	-14.0	-6.7	-48.0	-15.0	2.0	-3.0
Including net utilization of IMF resources	-5.5	-7.0	-8.5	-8.5	15.4	18.2
Change in external arrears	44.9	45.3	45.4	27.8	-1.0	-5.0
Financing requirement	0.0	0.0	0.0	0.0	25.9	24.6
(In percentage of GDP, unless otherwise indicated)						
Trade balance	-10.3	-9.1	-9.9	-13.2	-15.2	-14.2
Exports of goods	28.8	34.6	31.6	29.0	27.7	28.1
Imports of goods	-39.1	-43.7	-41.6	-42.2	-43.0	-42.9
Current account balance excluding grants	-10.2	-10.0	-6.2	-10.0	-12.1	-11.8
Current account balance including grants	-9.5	-9.4	-5.5	-9.2	-11.2	-10.8
Overall balance	-3.0	-3.8	0.2	-1.2	-2.1	-1.1
Petroleum products ^{1/}	103.9	109.3	119.9	137.1	159.6	158.9
Nominal GDP/	1026	1004	1061	1114	1282	1387
Sources : Togolese authorities; IMF estimates and projections and ADB staff adjustments/In CFAF billion						

Togo : Monetary Survey for 2002–2005					Annex 4
	2002	2003	2004	2005	
					(In CFAF billion)
Net foreign assets	80.2	81.5	154.9	169.9	
BCEAO	60.5	67.2	115.2	130.2	
Commercial banks	19.7	14.3	39.7	39.7	
Net domestic assets	160.6	186.6	162.3	163.1	
Net claims on the government	43.3	25.5	16.3	6.8	
BCEAO	46.3	28.1	7.1	-2.5	
Commercial banks	-3.0	-2.6	9.2	9.3	
Net claims on the rest of the economy	128.0	166.7	171.7	185.4	
Other elements (net)	-10.7	-5.6	-25.6	-29.1	
Monetary aggregates (M2)	240.7	268.2	317.2	333.0	
Outstanding bank notes	63.2	48.6	73.4	77.0	
Bank deposits	177.5	219.6	243.8	256.0	
					(Changes in percentage, unless otherwise indicated)
Net credits to the government	5.7	0.6	27.3	4.7	
Monetary aggregates (M2)	5.7	2.8	17.9	4.0	
Commercial banks	0.0	-2.2	9.4	3.0	
Net domestic assets	-7.8	10.8	-9.1	-2.8	
Investments and savings	-6.2	-7.4	-3.4	-1.3	
BCEAO	-4.5	-7.6	-7.8	-2.1	
Commercial banks	-1.7	0.2	3.4	0.9	
Net claims on the rest of the economy	-3.9	16.1	1.9	1.6	
Other elements (net)	2.4	2.1	-7.5	-3.1	
Monetary aggregates (M2)	-2.1	11.4	18.3	4.3	
Outstanding bank notes	-9.2	-6.1	9.2	1.6	
Bank deposits	7.1	17.5	9.0	2.6	
Memorandum item					
Velocity (GDP/ M2)	4.3	3.7	3.3	3.3	

Sources : Togolese authorities; IMF estimates and projections and ADB staff adjustments

TOGO: Ongoing Projects, all eligible for cancellation (in UA)

Project	Approved date	Approved amount	Amount disbursed	Amount not disbursed	Net commitments	Rate of disbursement
1- REHABILITATION OF LOME-NOTSE ROAD	05/05/1999	12,180,000.00	6,797,074.53	5,382,925.47	12,180,000.00	55.81
Sub-total Transport		12,180,000.00	6,797,074.53	5,382,925.47	12,180,000.00	55.81
2- DWS STUDIES IN SEMI-URBAN CENTRES	07/15/1998	1,200,000.00	891 749.8	308 250.2	1,200,000.00	74.3
Sub-total Public Utilities		1,200,000.00	891 749.8	308 205.2	1,200,000.00	56.62
3- EDUCATION II	12/16/1991	11,052,624.00	7,070,069.06	3,982,554.94	11,052,624.00	63.97
TOTAL		24,432,624.00	14,546,610.42	9,673 730.0	24,432,624.00	59.54

Togo : Status of Implementation of Commitments Made Under Article 96 of the Cotonou Agreement	
Commitment	Status according to the Government
1. With the aim of ensuring full respect for democratic principles, announce, without delay, an open and credible resumption of national dialogue with the traditional opposition and civil society within a structured and transparent framework.	<i>Under implementation with the holding from end April to end May 2006 in Lome of inter-Togolese dialogue</i>
2. Commitment to guarantee, without delay, free action by all political parties, without any harassment, intimidation or censorship.	Implemented
3. Commitment to proceed, based on the Lome Framework Agreement, to a revision of the electoral framework, guaranteeing a transparent and democratic electoral process acceptable to all the parties within a period of six months.	<i>Under implementation</i>
4. Commitment to guarantee all political parties equitable access to government media and to establish a balanced system of access to public funds earmarked for the funding of political parties.	Implemented
5. Commitment to organize fresh legislative elections, under transparent conditions and accepting international observers at all stages of the process, as soon as possible and in accordance with the framework provided for in commitment 3 above.	Not yet implemented
6. Commitment to organize local government elections, within a period of 12 months, under transparent conditions and accepting observers at all stages of the process.	Not yet implemented
7. Commitment to put in place necessary conditions to ensure that Municipal Assemblies, democratically elected, have the mandate and resources necessary to run a local government that is efficient and democratically recognized within a period of 12 months.	Not yet implemented
8. Commitment to guarantee, at any moment, the absence of extra-legal executions, torture and other inhuman and degrading acts on Togolese territory, including by adequate training of cadres of the forces of law and order and the judicial system.	Implemented
9. Commitment to free all political prisoners overtly detained because of their political opposition, criticism of the government or other reasons which do not justify detention. The list of prisoners concerned by this measure had to be drawn up in collaboration with one or more recognized NGOs with competence in the area and accepted by all the parties. This commitment had to be honoured within a time frame not exceeding six weeks.	Implemented
10. Commitment to transmit to the public prosecutor's office all files of persons in custody pending trial or released pending trial for a clarification of their cases in accordance with the laws in force.	Implemented
11. Commitment to allow free access to prisoners by lawyers and humanitarian and human rights NGOs, accompanied by a physician of their choice, at all places of detention (prisons, gendarmerie, police, etc stations) enabling them to ascertain the absence of torture and other inhuman treatments, before the end of consultations.	Implemented
12. Commitment to review the mandate and statutes of the Commission on Human Rights, in order to guarantee its effective independence vis-à-vis administrative authorities, within a period of 9 months.	Implemented
13. Commitment to cause the prosecution, by legal or disciplinary measures, established perpetrators of extra-legal executions, acts of torture and inhuman and degrading treatment. This commitment had also to include the amendment of the respective laws and regulations in force, where necessary.	Implemented
14. Commitment to ensure, by appropriate measures to be eventually specified, an impartial and independent functioning of the executive. A diagnosis enabling the establishment of an action plan is expected before the end of consultations.	<i>Under implementation</i>

<p>15. Commitment to review the press and communication code to bring it to a level that is in conformity with international standards, within a period of six months. In particular, it is expected that sentences of imprisonment for crimes of “defamation and injury to character”, currently provided for by the press code, will be abolished.</p>	<p>Implemented</p>
<p>16. Commitment to guarantee, without delay, the media, NGOs and representatives of civil society freedom from all forms of harassment, censorship or intimidation.</p>	<p>Implemented</p>
<p>17. Commitment to guarantee, without delay, all political and civil society actors and all citizens the right to freedom of expression, association and peaceful demonstration, in public and throughout the national territory, without any harassment, censorship or intimidation.</p>	<p>Implemented</p>
<p>18. Commitment to guarantee all political and civil society actors free movement, as citizens and within the framework of the performance of their political functions or duties as representatives of civil society.</p>	<p>Implemented</p>
<p>19. Commitment to guarantee, before the end of consultations, all citizens free access to media information, including the websites of opposition parties, nongovernmental organization; etc..</p>	<p>Implemented</p>
<p>20. Commitment to review, within a period of six months, the mandate and statutes of the High Audiovisual and Communication Authority, in order to guarantee its effective independence vis-à-vis administrative authorities and all political forces.</p>	<p>Implemented</p>
<p>21. Commitment to furnish reports on 1 June and 1 July 2004 to European Union bodies on the progress made in the different areas of dialogue and on the fulfilment of the commitments made.</p>	<p>Implemented</p>
<p>22. Readiness of Togolese authorities to participate in dialogue locally and to facilitate any missions of officials of the Commission and the Presidency to Togo., within the framework of the dialogue initiated.</p>	<p>Implemented</p>