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## AFRICAN DEVELOPMENT FUND

### Reform and Governance Support Programme (PARG-2)

**Country: TOGO**

### APPRAISAL REPORT

October 2011

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**CURRENCY EQUIVALENTS**

Date: June 2011

Currency Unit = CFA Franc

UA 1 = USD 1.5518

UA 1 = EUR 1.10896

UA 1 = CFAF 780.923

**Weights and Measures**

Metric System

**Fiscal Year**

1 January - 31 December

## ACRONYMS AND ABBREVIATIONS

ADB	African Development Bank
ADF	African Development Fund
BCEAO	Central Bank of West African States
BPW	Building and Public Works
CFAA	Country Financial Accountability Assessment
COAB	Cadre d'Organisation des Appuis Budgétaires (Budget Support Coordination Framework)
CPAR	Country Procurement Assessment Review
CPIA	Country Policy and Institutional Assessment
DB	Budget Directorate
DNCMP	National Public Procurement Control Directorate
ECF	Extended Credit Facility
F-PRSP	Full-Fledged Poverty Reduction Strategy Paper
FSF	Fragile States Facility
GDP	Gross Domestic Product
HIPCI	Heavily Indebted Poor Countries Initiative
ICT	Information and Communication Technologies
IMF	International Monetary Fund
MDG	Millennium Development Goals
MEF	Ministry of Economy and Finance
MTEF	Medium-Term Expenditure Framework
PEFA	Public Expenditure and Financial Accountability
PPRA	Public Procurement Regulatory Authority
PRGF	Poverty Reduction and Growth Facility
PRP	Poverty Reduction Plan
RBCSP	Results-Based Country Strategy Paper
RMC	Regional Member Countries
SIGFIP	Integrated Public Finance Management System
SIGMAP	Integrated Public Procurement Management System
SNPT	Société nouvelle des phosphates du Togo (New Phosphate Company of Togo)
SP-PRPF	Permanent Secretariat for Reform Policy and Financial Programme Monitoring
TFP	Technical and Financial Partners
TOFE	Table of Central Government Financial Operations
TOR	Terms of Reference
UA	Unit of Account
UNDP	United Nations Development Programme
WAEMU	West African Economic and Monetary Union
WB	World Bank

## GRANT INFORMATION SHEET

**Beneficiary Information**

<b>DONEE</b>	:	Republic of Togo
<b>SECTOR OF IMPLEMENTATION</b>	:	Economic and Financial Governance
<b>EXECUTING AGENCY</b>	:	Ministry of Economy and Finance – Permanent Secretariat for Reform Policy and Financial Programme Monitoring
<b>FINANCING</b>		
<b>AMOUNT</b>	:	UA 20 million
<b>MODALITIES</b>	:	Disbursement of the first tranche before end 2011 and of the second tranche in early 2012
<b>NUMBER OF TRANCHES</b>	:	Two
<b>SOURCE</b>	:	FSF Pillar 1

**Timeframe - Main Milestones**

Activities	:	Dates
Identification Mission	:	22/11 to 03/12/2010
Preparation Mission	:	15/02 to 1/03/2011
Review of Concept Note by Country Team	:	24/03 and 06/05/2011
Review of Concept Note by OPSCOM	:	10 August 2011
Appraisal Mission	:	16/08 to 28/08/2011
Presentation of the Appraisal Report to Bank's Boards of Directors	:	November 2011
Effectiveness	:	November 2011
Disbursement of the First Tranche	:	December 2011
Mid-Term Review	:	March 2012
Disbursement of Second Tranche	:	1 <sup>st</sup> Quarter 2012
Annual Audit of Financial Flows by TFPs	:	January 2013
Programme Completion Report	:	March 2013

## RESULTS-BASED LOGICAL FRAMEWORK

RESULTS CHAIN		PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/ MITIGATION MEASURES
		Indicator (including CSI)	Baseline Situation	Target		
IMPACT	Sustained and durable economic growth.	GDP growth rate.	3.4% in 2010	4.5% in 2012	- Quarterly budget execution report	Risks/Assumptions - Socio-political tension - Budgetary pressure - Fiduciary risks
		Public Investment (% GDP).	6.7% of GDP in 2010	9.9% of GDP in 2012	Same as above	
OUTPUTS	1. Improved business environment	1.1 Number of government services with which economic operators have to deal in order to start up a business	1.1 -Several Ministries and parastatals	1.1. A business start-up one-stop shop	1.1 - Submission of one-stop shop activity reports.	Risks/Assumptions - Socio-political tension - Macro-economic instability - Weak reform implementation capacity Mitigation measures: - Political tension is eased by the Opposition's entry into Parliament and government - The Authorities continue to show their goodwill and determination in implementing on-going reforms backed by all the TFPs, including the IMF, the World Bank and the Bank. - Commitment of TFPs after about fifteen years of suspending cooperation with the country. - The public finance management system is improved through capacity building of control structures (Court of Auditors and Inspectorate-General of Finance).
		1.2. Time required to start a business				
		1.3 Business start-up cost	1.2 75 working days	1.2 15 days from January 2012	1.2 Posting of one-stop shop activities on the Government's reform website.	
		1.4 Investor protection	1.3 205% of per capita income	1.3 48% reduction from 1 <sup>st</sup> quarter 2012	Same as above	
	2. Financial management is consolidated	2.1 The internal control system is strengthened	2.1 PEFA PI-21 rated D+ in 2009	2.1 PI-21 rated C in 2012	Doing Business Report  PEFA Report  Same as above  Same as above	
		2.2 Introduction of competitive bidding procedures	2.2 PI-19 rated D+ in 2009	2.2 PI-19 rated C in 2012		
		2.3 Review of Budget Laws by Parliament (PI-27)	2.3 PI-27 rated D+ in 2009	2.3 PI-27 rated C in 2012		

<b>KEY ACTIVITIES</b>	<b>OUTCOMES</b>	<p><b>Component 1</b></p> <ul style="list-style-type: none"> <li>- Revision of Customs and Investment Codes</li> <li>- Finalization of establishment of the one-stop shop.</li> </ul>	<ul style="list-style-type: none"> <li>- New revised Codes.</li> <li>- Business start-up one-stop shop operational.</li> </ul>	<ul style="list-style-type: none"> <li>- Investment Code out of date.</li> <li>- Absence of a business start-up one-stop shop.</li> </ul>	<ul style="list-style-type: none"> <li>- Adoption of the new Code by the government in 2012.</li> <li>- Operationalization of the one-stop shop.</li> </ul>	<ul style="list-style-type: none"> <li>- Council of Ministers' Communiqué.</li> <li>- Quarterly Activity Reports</li> </ul>	<p>Implementation of PARCI-1 and the on-going PARCI-2 have helped to build the technical and operational capacity of the Togolese government services responsible for implementing the reforms retained in the programmes, including PARG-2</p>
		<p><b>Component 2</b></p> <ul style="list-style-type: none"> <li>- Building the capacity of judges of the Court of Auditors and support staff</li> <li>- Preparation of Control Procedures Manual of the Court of Auditors.</li> <li>- Building the capacity of IGF inspectors.</li> </ul> <p>Operationalization of ARMP, DNMP and the CGMP.</p>	<ul style="list-style-type: none"> <li>- Number of judges of the Court of Auditors and support staff trained.</li> <li>- Production of Control Procedures Manual of the Court of Auditors.</li> <li>- Number of IGF inspectors trained.</li> <li>- Production of ARMP, DNMP and CGMP procedures manuals.</li> </ul>	<ul style="list-style-type: none"> <li>- Weak capacity of the Court of Auditors in 2011.</li> <li>- Absence of a Control Procedures Manual of the Court of Auditors in 2010</li> <li>- Weak capacity of the IGF in 2011.</li> <li>- Absence of ARMP, DNMP and CGMP Procedures Manuals in 2010</li> </ul>	<ul style="list-style-type: none"> <li>- All judges of the Court of Auditors and support staff trained before end 2012.</li> <li>- The Procedures Manual of the Court of Auditors prepared before 2012.</li> <li>- All the IGF inspectors trained before end 2012.</li> <li>- ARMP, DNMP and CGMP Procedures Manuals prepared and adopted by end June 2012.</li> </ul>	<ul style="list-style-type: none"> <li>- PARCI-2 Activity Report.</li> <li>- Submission of a copy of the Court of Auditors' Procedures Manual to the Bank.</li> <li>- PARCI-2 Activity Report.</li> <li>- Submission of a copy of the ARMP, DNMP and CGMP Procedures Manuals to the Bank.</li> </ul>	
		<b>COMPONENTS</b>				<b>RESOURCES</b>	
		<ol style="list-style-type: none"> <li>1. Signature of Grant Agreement</li> <li>2. Opening of the special account for payment of grant resources</li> <li>3. Preparation of regulatory texts on reforms to be implemented</li> <li>4. Preparation of quarterly programme implementation status reports</li> <li>5. Audit of special account</li> <li>6. Preparation of Programme Completion Report by Government</li> </ol>				<p><b>RESOURCES (in UA million)</b></p> <p><b>- FSF (Pillar I) (2011-2012): 20.00</b></p>	

## PROGRAMME EXECUTIVE SUMMARY

<b>Programme Overview</b>	<ul style="list-style-type: none"> <li>• Programme Name: Reform and Governance Support Programme (PARG-2)</li> <li>• Geographic Scope: Countrywide</li> <li>• Implementation Period: 2011-2012</li> <li>• Programme Cost: UA 20 million as an FSF-Pillar 1 grant</li> <li>• Programme Type: General Budget Support Programme</li> <li>• Disbursement: 2 tranches (of UA 10 million in 2011 and UA 10 million in 2012) Two components: (i) Continued Improvement of the Business Environment; and (ii) Consolidation of Public Finance Management Rationalization</li> </ul>
<b>Programme Outcomes</b>	<p>The main expected PARG-2 outcomes are: (A) a more appropriate regulatory and institutional framework for private sector development with: (i) the promulgation of a new Investment Code with more incentives; (ii) simplification and enhanced clarity of the provisions of the Tax and Customs Codes; (iii) reduction in the time required to start a business from 75 days to two weeks and a 48% reduction in start-up costs for ECOWAS citizens and 30% for non-ECOWAS citizens following the establishment of a one-stop shop; (iv) accounting and management assistance to SMEs/SMIs as well as to informal sector units now provided through Authorized Management Centres; (v) participation of investors in tapping the country's mineral resources fostered by a new Mining Code in compliance with international standards; (B) public finance management is consolidated through: (i) full operationalization of SIGFIP allowing the expenditure chain, which currently only covers commitment, validation and payment authorization, to reach the Public Treasury payment stage and to facilitate the presentation of management accounts; (ii) ending of bad management practices by strengthening internal and external control as well as public procurement management.</p>
<b>Needs Assessment</b>	<p>This budget support operation which is in keeping with FSF-Pillar 1 for the ADF-XII period is justified by the fragility of the Togolese economy in the wake of fifteen years of socio-political crisis and suspension of international community aid. Despite the steady resumption of economic activities, many challenges remain to be addressed to enable the country to permanently emerge from its fragile situation. This programme assumes critical importance for macroeconomic and budgetary stability as well as for consolidation of the peace process. Implementation of the programme measures will help to consolidate the achievements of the structural reforms implemented by the government to-date in order to ensure sustainable economic growth and poverty reduction. The Bank's support will provide the government with an opportunity to minimize cash flow pressure while safeguarding social sector budget allocations.</p>
<b>Bank's Comparative Advantage and Value Added</b>	<p>In its capacity as the first partner to engage in the country after over fifteen years of suspended dialogue with the international community, the Bank has financed the Institutional Capacity Building Support Project (PARCI-1), which has opened the way for other contributions to the implementation of the Government's agenda through institutional and even budget support operations. There is steadily increasing complementarity and synergy among TFP interventions under the Budget Support Coordination Framework (COAB).</p>
<b>Institutional Development and Knowledge Building</b>	<p>Through these measures, the Programme will continue to contribute to institutional development and knowledge building in the area of private sector promotion and public finance management, in synergy with the on-going PARCI-2.</p>

**REPORT AND RECOMMENDATION OF MANAGEMENT OF THE AFRICAN  
DEVELOPMENT BANK GROUP TO THE BOARDS OF DIRECTORS OF THE  
AFRICAN DEVELOPMENT BANK AND THE AFRICAN DEVELOPMENT FUND  
CONCERNING A PROPOSAL TO AWARD A GRANT TO THE REPUBLIC OF  
TOGO TO FINANCE THE REFORM AND GOVERNANCE SUPPORT  
PROGRAMME (PARG-2)**

## **I PROPOSAL**

1.1 Management hereby submits this proposal to award a UA 20 million grant from the Fragile States Facility-Pillar 1 (FSF-1) to the Republic of Togo to finance the second phase of the Reform and Governance Support Programme (PARG-2), 2011-2012. This is a general budget support to be implemented over the 2011-2012 period within the Budget Support Coordination Framework (COAB) concluded on 13 December 2010 that defines the principles and modalities for designing and implementing budget aid programmes, as well as the reciprocal commitments of the Government of Togo and its technical and financial partners. PARG-2 was prepared further to a request to the Bank by the Government in June 2010. It is a continuation of the previous budget support (PARG-1) backed by the Bank and other multilateral donors including, in particular, the World Bank and the European Union. It is consistent with the country's development thrusts as defined in the Full-Fledged Poverty Reduction Strategy Paper (F-PRSP) for 2009-2011, which has been extended to end-2012. To ensure the continuity of the latter, the 2013-2017 F-PRGSP is currently being finalized. The PARG-2 design has reflected the principles of the Paris Declaration and the Accra Agenda for Action on development effectiveness and principles of good practices in conditionality. It is in line with the Second Pillar of the 2011-2015 Country Strategy Paper, which concerns good governance support.

1.2 Based on the Government's Letter of Development Policy attached as Appendix I, PARG-2 was prepared in close collaboration with the other development partners/members of the Budget Support Coordination Framework represented in Lomé. The programme's goal is to support the execution of structural reforms retained in the Government's Programme, with a view to strengthening the implementation of conditions for sustained and durable economic growth. Its specific objective is to pursue the improvement of the business environment, on the one hand, and the consolidation of public finance management reforms, on the other. The main expected outcomes of PARG-2 are: (A) a more appropriate regulatory and institutional framework for private sector development with, in particular: (i) the promulgation of a new Investment Code with more incentives; (ii) simplification and enhanced clarity of the provisions of the Tax and Customs Codes; (iii) reduction in the time required to start a business from 75 days to two weeks and a 48% reduction in start-up costs for ECOWAS citizens and 30% for non-ECOWAS citizens, with the establishment of a one-stop shop; (B) consolidation of public finance management through: (i) the full operationalization of the Public Finance Management Information System; and (ii) ending of bad management practices by strengthening internal and external control, and the transparency of public procurement management.

## II COUNTRY AND PROGRAMME CONTEXT

### 2.1 Recent Economic and Social Developments, Constraints, Challenges and Prospects

**2.1.1 Political developments: after more than two decades of political tension, political dialogue was initiated in 2006.** This resulted in a calmer political climate, leading to the holding of peaceful legislative elections in 2007 and presidential elections on 4 March 2010. In the wake of the presidential elections, a political agreement was signed between the two main parties, the RPT and UFC, to form a Government of National Unity. Although disputed by some dissidents from the UFC, this power-sharing political agreement has consolidated the stabilization of the political and social climate in Togo.

**2.1.2 Recent macroeconomic performance: the economic recovery, which started in 2009, resulted in a 3.2% growth rate despite the international financial crisis. It continued in 2010 with a 3.7% growth rate,** significantly higher than the 3.4% target of the IMF-backed programme following the government's implementation of major structural reforms, the adoption of a counter-cyclical budgetary policy and the revival of activities in the secondary (6.4%) and tertiary (4.9%) sectors (mainly transport and ports). Inflation fell from 1.9% in 2009 to 1.8% in 2008 as a result of a good cereals harvest.

**2.1.3 Public finance: budgetary management under the IMF programme was deemed satisfactory in 2009 and 2010.** Indeed, in 2010, current expenditure was contained within the limits of the programme at 16.5% compared with a 16.6% objective, while the implementation of priority expenditure improved, especially in the social sectors (14.7% of GDP, compared with a 13.7% target); 91% of domestic resource investments were implemented compared with 71% in 2009. External resource investments attained 118% of programme objectives, reflecting greater mastery of TFP disbursement procedures and faster project implementation. Domestic revenue also increased and, in 2010, represented 18.9% of GDP compared with the programme target of 17.1% and especially the 16.9% of GDP achieved in 2009.

**2.1.4** Given government's determination to significantly increase investment expenditure to 8.9% of GDP in 2011 to narrow the basic infrastructure gap, the residual financing gap for that year amounted to CFAF 11.9 billion following the inclusion of the CFAF 47 billion from the bond issue and external resources. This fragile budgetary framework has further deteriorated during the current budget period due to: (i) uncertainties regarding the mobilization of some non-tax revenue (dividends to be paid at SNPT down from an expected 3 billion to 0.5 billion, CFAF 20 billion in levies not yet paid by the third mobile telephone operator); and (ii) the effective application of the pump price adjustment mechanism following the hike in international oil prices, with the need to implement supporting social measures estimated at CFAF 4 billion. Thus, the revenue losses combined with implicit oil subsidies and expenditure as a result of the initially unplanned social measures will increase the residual financing gap from CFAF 11.9 billion to over CFAF 50 billion if the initial investment expenditure is maintained.

**2.1.5 The external position: the current account balance, which showed a deficit of -6.6% of GDP in 2009, deteriorated further in 2010.** The current account deficit widened to -7.2% of GDP in 2010 as a result of an increase in imports of capital goods (53.8% of GDP compared with 52.5% in 2009) linked to infrastructure works initiated, and despite an

improvement of the current transfers balance (CFAF 160.1 billion compared with CFAF 143 in 2009). International foreign exchange reserves represented 6.1 months of goods and services imports in 2010.

**2.1.6 Public debt:** Togo's total public debt in net present value terms represents about 30% of GDP, with 12.3% for external debt and 17.9% for domestic debt. On 14 December 2010, Togo reached the HIPC completion point. This led to debt relief of about USD 1.8 billion, i.e. an 82% reduction in external debt. **With regard to domestic commercial debt,** only CFAF 11.45 billion was outstanding as at 31 July 2011, of the CFAF 32.55 billion owed private suppliers in December 2008.

**2.1.7 Social development: Togo remains one of the world's poorest countries.** It is ranked 139<sup>th</sup> out of 169 in the UNDP Human Development Index (this is actually an improvement on the 2009 ranking as 159<sup>th</sup> out of 182 countries). The estimated poverty rate is about 62% of the population. The current situation has been exacerbated by the exogenous shocks experienced by the country, in particular the 2007 and 2008 floods and the surge in food prices in 2008. The country's social indicators remain among the weakest in the world. The adult illiteracy rate is about 47%, compared with 33% for Africa; the under-5 mortality rate is 75 per 1000, compared with 57.3 per 1,000 for all developing countries. Life expectancy at birth is about 55 years<sup>ii</sup>. Under such conditions, and because of the fifteen years of socio-political crisis the country has experienced, only the MDG relating to universal primary education and combatting HIV/AIDS, malaria and other diseases are likely to be achieved given current trends<sup>iii</sup>.

**2.1.8 Governance: Togo has made progress in the area of governance<sup>iv</sup> since the end of the country's long, 15-year socio-political crisis, especially with regard to security and the gradual establishment of the rule of law.** Furthermore, the Authorities are making efforts to stem corruption. Regarding this aspect, Transparency International's Corruption Perceptions Index ranked Togo 134<sup>th</sup> out of 178 countries in 2010. With regard to economic and financial governance, Togo has embarked upon major transparency and public finance management reforms since 2006, backed by the IMF, the World Bank, the European Union and the ADB. In this area, the Country Policy and Institutional Assessment (CPIA) carried out by the Bank in 2010, awarded an average score of 3.5 for financial and budgetary management quality on a scale of 1 to 5. It should also be mentioned that Togo reached the HIPC Completion Point on 14 December 2010. Lastly, the country was admitted as an EITI Candidate Country in October 2010. Each country with this status has a two-year period from the acceptance of its candidacy to complete its validation and obtain EITI-Compliant Country status. The Government is ready to make significant efforts to implement its EITI Action Plan in order to achieve EITI-Compliant Country status before 18 October 2012.

**2.1.9 Medium-term prospects: according to IMF estimates, the country's macroeconomic prospects are expected to improve with the gradual resumption of economic activities, despite a difficult international context.** It is expected that growth will be consolidated and should reach 3.9% and 4.5% in 2011 and 2012, respectively, due to the anticipated revival of agricultural production (cotton and cereals) and the recovery of

<sup>ii</sup> African Development Bank – ADB/BD/WP/2011/03. Togo: Completion Point Document under the Enhanced HIPC Initiative - 6 January 2011.

<sup>iii</sup> According to the Third National Millennium Development Goal (MDG) Monitoring Report published in 2010 and the MDG Acceleration Framework published in 2009 by the Authorities in collaboration with the United Nations Development Programme (UNDP).

<sup>iv</sup> Togo has risen from 42<sup>nd</sup> rank in 2007/2008 out of 53 countries to 39<sup>th</sup>, which reflects significant progress, according to the Mo Ibrahim Index. Source: ADB Statistics Department 2011.

secondary (mainly mining and electricity) and tertiary (mobile telephony and banking) sector activities. The inflation rate will be 2% in 2011 and 2.6% in 2012, which meets the WAEMU convergence criteria. The external position should weaken slightly in 2011 and 2012. The current account deficit (including transfers) is projected at 7.2% of GDP in 2011 and 8.1% in 2012, compared with 6.6% of GDP in 2009. This is attributable to the significant rise in imports due to the sustained pace of public investments, especially in infrastructure, and a sharp deterioration in the terms of trade (-1.6). Nevertheless, the Government will continue its efforts to consolidate the public finance situation through the implementation of reforms aimed at containing the budget deficit, including grants, at 3.9% of GDP in 2011 and 4.1% in 2012, albeit above the 3% WAEMU standard.

**2.1.10 Challenges and constraints: Togo must address many challenges including:** (i) insufficient investment in infrastructure, especially transport and energy; (ii) an environment that is not very conducive to private investment, and is still governed by ill-adapted texts (outdated Investment, Customs and Tax Codes), and marked by administrative and institutional constraints. The business start-up procedure is extremely cumbersome and takes a minimum of 75 days, mainly due to the inefficiency of the two administrative structures responsible for the procedure (the Business Formalities Centre (CFE) and the Togo Free Trade Zone Administration (SAZOF); (iii) despite the many reforms initiated by the government, there are persisting public finance management weaknesses, including: (a) the weak revenue collection capacity; and (b) the fact that SIGFIP is not yet fully operational to ensure effective payment by the Treasury and automatic generation of accounts. The government is determined to take up these challenges in order to foster private sector development and economic growth. Therefore, the government is considering deepening the reforms with a view to: (i) enhancing the business environment and; (ii) consolidating the public finance management system. PARG-2 is consistent with this context.

## **2.2 Government Development Strategy and Medium-Term Reforms**

**2.2.1 The government's development programme is based on the Full-Fledged Poverty Reduction Strategy Paper (F-PRSP-1) for 2009-2011, extended to end 2012.** It focuses on the following four strategic pillars: (i) strengthening of governance; (ii) consolidation of the foundations of strong, sustainable growth; (iii) human capital development; and (iv) reduction of regional imbalances and promotion of community development. The 2013-2017 second-generation PRGSP, which is being finalized, confirms the direction and thrusts of the F-PRSP-1. Implementation of the government's programme should help to achieve the 2012 objective of real GDP growth of 4.5% and consolidate this performance in the medium-term. PARG-2 is consistent with the thrusts of the F-PRSP-1 and with Pillar 2 of the Country Strategy Paper (2011-2015 CSP) relating to the promotion of economic and financial governance reforms. PARG-2 is also a continuation of the reforms already embarked upon by the Government with the backing of the IMF, the EU and the ADB regarding governance. Since Togo is a fragile State, it is important to continue to provide it with support to promote good governance and results-based public finance management. PARG-2 is consistent with this context.

## **2.3 Status of Bank Portfolio**

**2.3.1 The Bank's active portfolio in Togo comprises four (4) projects, representing total commitments of about UA 54 million.** The portfolio is young (average age of 1 year) and does not contain any project at risk. There have been no major implementation

difficulties. Projects such as PARG-1 and PARCI-1, which have been fully implemented, have been the subject of completion reports within the regulatory timeframes, with their performance deemed satisfactory.

### III MAIN ELEMENTS OF PROGRAMME DESIGN

#### 3.1 Linkages with the CSP, Assessment of Country Preparedness and Underlying Analytical Elements

3.1.1 **Linkages with the CSP: PARG-2 is in keeping with the Bank's operational strategy in Togo as defined in the 2011-2015 CSP, the second pillar of which concerns good governance.** PARG-2 is also in line with the Bank's Governance Strategic Directions for the 2008-2012 period, the priority thrusts of which are improvement of the business climate and financial governance.

3.1.2 **Togo meets the conditions precedent in respect of budget support,** defined in the Guidelines on Development Budget Support Lending and the Fragile States Facility ADF/BD/WP/2008/60/Corr.1 of 11 July 2008, confirming the previous guidelines (ADB/BD/WP/2003/145/ Rev.2 – ADF/BD/WP/2003/182/ Rev. 2). The main eligibility criteria are as follows:

Conditions Precedent	Comments
- <b>Political Stability</b>	Due to the calmer political climate, legislative and presidential elections were held in October 2007 and March 2010, respectively, and accepted by the international community. The signing of a political agreement between the two main parties led to the formation of a Government of National Unity following the March 2010 presidential elections. This agreement has helped to stabilize the political climate in Togo.
- <b>Macroeconomic Stability</b>	In April 2008, the IMF approved a three-year programme backed by the PRGF/Extended Credit Facility (ECF) whose implementation was considered satisfactory overall by the Sixth Review in May 2011. Moreover, Togo reached the Enhanced HIPCII completion point on 14 December 2010. Since the resumption of cooperation with the development partners, the government has continued to show its goodwill and determination to deepen the reform achievements, complete the reforms already initiated and embark on new actions likely to boost economic growth.
- <b>Government Commitment Existence of a well-designed PRSP/NDP and efficient PRSP/NDP implementation mechanisms</b>	The Togolese government prepared a Full-Fledged PRSP based on a participatory approach in June 2009. This document is the basis of the consensus between the government and donors on the country's development priorities.
- <b>Medium-term viability of the macroeconomic framework and financial sector</b>	The viability of the macroeconomic framework has been confirmed by the successive reviews of the IMF medium-term staff-monitored programme.
- <b>Existence of a solid partnership between the RMC and donors</b>	Togo has benefited from a full resumption of cooperation with the technical and financial partners.

Conditions Precedent	Comments
<ul style="list-style-type: none"> <li>- <b>Existence of a solid partnership among donors</b></li> </ul>	<p>The Government recently established a Budget Support Coordination Framework aimed at supporting implementation of the F-PRSP through budget aid.</p>
<ul style="list-style-type: none"> <li>- <b>Procedure for implementing a capacity building programme</b></li> </ul>	<p>The Government is actively implementing its capacity building programme with TFP support, in particular, the World Bank, the EU and the Bank. Against this backdrop, the already implemented PARCI-1 and the on-going PARCI-2 financed by the Bank as well as the FSF Window III Support operations aim to build the country's institutional capacity.</p>
<ul style="list-style-type: none"> <li>- <b>Satisfactory fiduciary review of the public finance management system (PEFA, CPAR and Public Expenditure Review- use of country systems)</b></li> </ul>	<p>Implementation of the action plan based on the 2009 PEMFAR and PARG-1 has enabled the Government to begin the public finance management improvement process by building the capacity of control structures (Court of Auditors and the Inspectorate General of Finance) and financial administrations. In particular, PARG-1 contributed to an improvement in public finance management transparency through the establishment of SIGFIP (a computerized management system). The management accounts and the Budget Review Acts have been produced for the first time, thanks to PARG-1. The public procurement system has also been reformed and is operational, although it requires further consolidation. Lastly, a country fiduciary risk assessment was conducted by the ADB under the CSP. It reveals that the financial management system requires further major reform efforts to more closely comply with internationally recognized standards, despite significant improvements made since the resolution of the crisis in 2006, under the WAEMU community framework.</p>
<ul style="list-style-type: none"> <li>- <b>Two-step filtering process for eligibility to FSF:</b></li> <li>(i) Meet the required conditions for consolidation of peace and security;</li> <li>(ii) Level of commitment to pursue the implementation of sound programmes to consolidate the macroeconomic situation and improve transparency and accountability in debt and financial resource management practices.</li> </ul>	<p>Togo meets the criteria of the two-step filtering process</p> <p>(i) Refer to above comments on macroeconomic stability</p> <p>(ii) Refer to above comments on government's commitment and also on the satisfactory fiduciary review of the public finance management system</p> <p>(iii) Togo has already received support under FSF Windows II and II.</p>

**3.1.3 Analytical work: the programme is based on a broad range of analytical work, in particular:** (i) Togo's Country Economic Memorandum and the World Bank Diagnostic Trade Integration Study, which analyses the sources of growth as well as the growth-bearing sectors of the Togolese economy for the development of the private sector and exports. The study recommends the development of a stable and transparent regulatory framework to attract serious investors ready to commit for the long-term, while providing the State with the necessary development resources; (ii) the conclusions of the 2009 PEMFAR, which reports public finance management weaknesses, the most serious of which concern: (a) budget credibility, monitoring of implementation and transparency of budget operations; (b) the absence of accountability in resource utilization; and (c) weakness of both the internal and external control mechanisms for central government financial operations; and (iii) the 2011-2015 Country Strategy Paper, which proposes an operations strategy for the Bank Group in

Togo for the 2011-2015 period, and the country's eligibility for the second cycle of resources from the Fragile States Facility (FSF).

**3.1.4 Programme justification: this budget support operation, which is in keeping with Pillar I of the FSF for the ADF 12 period, is justified by the fragility of the Togolese economy,** which has suffered from almost fifteen years of socio-political crisis and the suspension of aid from the international community. Many challenges must be addressed to enable the country to permanently emerge from its fragile situation. The implementation of programme measures will help to consolidate the structural reforms carried out to date by the government to ensure sustainable economic growth and a lasting reduction in poverty. The Bank's support will also help the government to ease cash flow pressure while safeguarding budget allocations to the social sector.

### 3.2 Donor Collaboration and Coordination

3.2.1 Despite the resumption of financial cooperation with all the development partners in 2008, Togo had not yet established a framework for aid coordination and complementarity among donors. However, this gap was filled in 2010 with the establishment of a Budget Support Coordination Framework (COAB)<sup>v</sup>, the objective of which is to support the F-PRSP through budget aid. Adopted on 13 December 2010, the COAB defines the principles and modalities for the formulation and implementation of budget aid programmes in Togo. In this respect, it should be noted that in February 2011, the World Bank awarded a USD 13 million grant to Togo for private sector promotion. PARG-2 will be implemented in synergy with the World Bank operation. Lastly, in March 2011, the World Bank Executive Board also approved budget support of USD 28 million.

### 3.3 Results and Lessons from Similar Operations

3.3.1 **Main lessons from previous operations:** this operation is an extension of PARG-1 which, as a result of the measures taken, achieved the outcomes listed in the box below. It will help to consolidate the achievements of PARCI-1 and continuation of the reforms aimed at further improving economic and financial governance in the country (refer to details of PARG-1 outcomes in Annex 4).

Objectives	Outputs	Outcomes
<b>1. Improve Public Finance Management</b>	1.1- Establishment of the Integrated Public Finance Management System (SIGFIP) 1.2- Familiarization of Sector Ministries with the Medium-Term Expenditure Framework (MTEF) 1.3- Drafting of the law on the revision of the Tax Code. 1.4- Adherence to the budget schedule and presentation of the Budget Law within the statutory period stipulated in the Constitution 1.5- Reorganization of the Treasury Services in accordance with WAEMU Directives	1.1- Two of the three SIGFIP modules are operational; the third remains to be finalized. 1.2- Ministry officials have been trained 1.3- The law on the new Tax Code has been prepared since September 2010 and will be tabled before Parliament. 1.4- The 2009 Budget was executed as scheduled. The Budget Law was voted by the National Assembly on 17 December 2008. 1.5- The Chief Treasury Accountant, the Treasury Paymaster-General and the Chief Tax Inspector have taken the oath of office and duly empowered.
<b>2. Modernize the Public Procurement</b>	2 The Law on the Public Procurement Code is adopted by the Council of	2.1-The new code now governs public procurement

<sup>v</sup> The joint matrix is being finalized by the donors.

Objectives	Outputs	Outcomes
System	Ministers 2.2- The structures planned under the new Procurement Code are established.	2.2- ARMP, DNMP and CGMP have been established and are performing their respective roles.

3.3.2 **Lessons from previous similar experiences:** the following lessons are drawn from implementing previous operations: (i) the relevance and quality of the programme as well as the authorities' determination to implement it are factors underpinning the success of the operation; (ii) the need to adapt the scope of the programme to the implementation timeframe; and (iii) the need to support complex reform programmes with institutional support projects in order to build the technical and operational capacity of departments responsible for implementing such programmes. The PARG-2 design has taken these lessons into consideration since the on-going PARCI-2 (institutional support) will contribute in the best way possible to the implementation of measures retained in PARG-2. The linkage between PARG-1 and PARCI-1 has indeed produced good results.

### 3.4 Linkages with Other Bank Operations in the Country

3.4.1 **This operation will consolidate the achievements of the reforms implemented under PARG-1 insofar as it will deepen them in the area of public finance management.** It complements the on-going PARCI-2. The programme will also benefit from the other operations, especially in the infrastructure and social sectors, through one of its components ("continuing improvement of the business environment"). This will promote private sector development and, indirectly, sustainable growth for poverty reduction. Furthermore, the Youth Entrepreneurship Training Project on FSF financing approved in October 2010 for USD 50,000 will help to maximize the impacts of the reform measures aimed at enhancing the business environment. Lastly, the programme will participate in regional integration efforts by fostering the application of WAEMU standards and Directives in public finance, in general, and public procurement, in particular.

### 3.5 Bank's Comparative Advantages

3.5.1 Being the first development partner to re-engage in the country following over fifteen years of suspension of dialogue with the international community, the Bank has acquired some experience in governance and, in particular, public finance - an area in which it played a catalytic role with the Institutional Capacity Building Support Project (PARCI-1) approved in 2006. By supporting capacity building activities in public finance management, PARCI has contributed to the resumption of cooperation between Togo and the entire international community. Several donors, especially the European Union and the UNDP, have drawn on PARCI-1, and consolidated and continued PARCI-1 activities through the preparation of complementary projects.

### 3.6 Application of Principles of Good Practices in Conditionality

3.6.1 **In the PARG-2 design, the five principles of good practices in conditionality were followed,** namely: (i) with regard to strengthening ownership, the programme was designed with the active collaboration of the authorities and is based on the F-PRSP; (ii) regarding coordination, the government and the technical partners agreed to retain the COAB as the Budget Support Coordination Framework; and lastly (iii) the number of disbursement conditions has decreased, and the Bank's support is aligned on the country's budget cycle.

### 3.7 Application of Bank Group Policy on Non-Concessional Borrowing

3.7.1 **The programme complies with the Bank’s concessional borrowing principles.** Under the implementation of the Extended Credit Facility (ECF) concluded with the International Monetary Fund, no non-concessional borrowing may be contracted by the government during the PARG-2 implementation period.

## IV PROPOSED PROGRAMME

### 4.1 Programme Objectives

4.1.1 **The programme objective** is to support the structural reforms for sustained and durable growth. The specific objectives aim to improve the business environment and consolidate public finance management reforms.

### 4.2 Programme Pillars, Components, Expected Outcomes and Impacts

4.2.1 **Programme components and reform measures:** the programme comprises the following two components: **(a) Continuing Improvement of the Business Environment; and (b) Consolidation of Public Finance Management Rationalization.** The measures associated with these two components have the same objective, namely the achievement of sustained and durable growth as well as improved budget execution

#### Component A: Continuing Improvement of the Business Environment

4.2.2 **Context and challenges of private sector promotion:** overall, the business environment in Togo is still constrained by two decades of under-investment in infrastructure, especially in transport and energy. The government’s ability to create an enabling private sector development environment considerably declined during the long socio-political crisis and since donor disengagement. Indeed, this environment is now characterized by an **unsuitable legal, regulatory and institutional framework** that must be addressed.

- **The judicial system:** has weaknesses related to the plethora of texts, their non-operationality and the length of time taken to settle disputes, which tends to limit its transparency and efficiency.
- **The legal and regulatory framework:** the administrative procedures are unnecessarily complex and overlapping. By their very complexity and lack of incentive provisions for the business community, the fiscal regulations appear inadequate and need to be revised. **At the level of the Codes: the Customs Code** dates back over 40 years and its provisions are no longer adapted to the new national and international economic environment. In addition, for a country with huge mineral deposits, the **Mining Code** published in February 1996 and revised in 2003 (Act No. 2003-012), but never the subject of any implementing decree, is no longer compliant with international practices in the area and needs to be revised.
- **At the institutional level:** the decision-making centres are fragmented, which makes administrative procedures lengthy and complex for investors. Alongside

the Ministry of Trade, there are a large number of public, semi-public and private organizations whose initiatives are difficult to coordinate.

**4.2.3 Recent actions: the government has initiated a number of actions in recent years to address these challenges, namely:** (i) the adoption in November 2010 of an SME/SMI Charter containing SME support measures and mechanisms for their financing through the establishment of venture-capital organizations, undertakings for collective investments in transferable securities (UCITS), guarantee funds, regional development funds as well as aid funds for transport and exports. The Inter-ministerial Order implementing this Charter was signed in September 2011; (ii) overhaul of business start-up procedures with the objective of reducing the related costs by 48% for ECOWAS citizens and 30% for non-ECOWAS citizens, as well as simplification of procedures; (iii) restructuring of the Business Formalities Centre to turn it into a real one-stop shop in a bid to address the fragmentation of decision-making and support centres for economic operators; (iv) establishment of the Court of Arbitration (CATO) to settle all trade and non-trade business disputes, thereby addressing the weaknesses identified in the judicial system; (v) preparation of the national trade development policy; (vi) adoption of a new law on the free-trade zone; (vii) preparation of a new Investment Code, which has been approved by the Council of Ministers; and (viii) preparation of a financial sector development strategy.

4.2.4 Furthermore, (ix) in a bid to assist small enterprises in the traditional sector<sup>vi</sup> that would have opted to integrate the formal sector, the government adopted a legal framework (Law No. 2004-013 of 15 June 2004) in 2004 for the establishment of Authorized Management Centres (CGA). These are empowered to provide assistance to their members on fiscal, management and accounting matters. Members receive a 10% tax rebate. However, the Law's implementing decree has not yet been adopted. This creates a legal vacuum. Although highly encouraging, these government actions need to be consolidated. PARG-2 is consistent with this context.

4.2.5 To consolidate the achievements of the previous reforms implemented under PARG-1 and support the government in the above efforts to enhance the country's business environment, the programme will focus on the following measures:

**4.2.6 Programme Measures. (A) For the business, legal and regulatory framework:** (i) finalization of the preparation of the new Customs Code; (ii) entry into force of tax procedures and the Taxpayers' Charter as part of the simplification of the Tax Code; (iii) finalization of the revised 1996 Mining Code and application of the related implementing texts; and (v) implementation of the Small- and Medium-Sized Enterprises' Charter. **(B) For the institutional framework:** (i) preparation of the regulatory texts relating to Act No. 2004-013 of 15 June 2004 governing the establishment of Authorized Management Centres (CGA) pursuant to the related WAEMU Directives; and (ii) establishment and operationalization of the one-stop shop.

**4.2.7 Expected Outcomes.** The expected outcomes are: (i) fiscal legislation is simplified and becomes more transparent for taxpayers, be they individuals or corporate entities; (ii) business start-up times are shorter; (iii) accounting and management assistance is now provided to SMEs/SMIs as well as to traditional sector units through the Authorized Management Centres; and (v) participation of foreign strategic partners in tapping the country's mining potential is being encouraged.

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<sup>vi</sup> Meaning the informal sector

## **Component B: Consolidation of Public Finance Management Rationalization**

4.2.8 This second programme component comprises the following two sub-components: (i) SIGFIP consolidation and public procurement reform; and (ii) strengthening of public finance management control.

### ➤ **Sub-component B1: SIGFIP Consolidation and Public Procurement Control**

4.2.9 **Context and Challenges:** The establishment of the Integrated Public Finance Management System (SIGFIP) is part of the Government's overall reforms to modernize public finance management and, in particular, the expenditure chain. A recent assessment of the system was carried out by an independent firm at the Bank's request. According to the conclusions of this assessment, the organization established to manage the system is not operating efficiently and has indirectly led to a malfunctioning in the implementation of network infrastructure and public finance management application modules, which is likely to jeopardize ownership and sustainability of the SIGFIP project. **With regard to the public procurement system**, the legal, regulatory and institutional framework has been reinforced following promulgation of the Public Procurement Law<sup>vii</sup> and adoption of the Public Procurement Code by the government. Since then, several departments have been set up and within them, procurement committees, in accordance with the new legislation in force. However, the upgrading of the legal, regulatory and institutional frameworks of the public procurement systems requires further consolidation.

4.2.10 **Recent actions:** with regard to the system's security mechanism, in general, and the accounting module in particular, many reservations were expressed by users at the provisional acceptance between the government and SNDI. Consequently, the government designated Ministry of Finance officials, computer experts with whom SNDI (the service provider) will now work closely in order to, among others, facilitate ownership of the system by the Togolese Administration. **With regard to the public procurement system**, necessary training has been provided to some stakeholders (priority ministries, Lomé Municipality, the private sector and civil society) of the system at both the Ministry of Economy and Finance (the supervising ministry) and sector ministry level. Significant progress has been made in the area of public procurement control since early 2011. The new Public Procurement Code has entered into force and public contracts are effectively approved under the provisions of the Code with the prior non-objection of the National Public Procurement Control Directorate. However, the system requires further consolidation.

4.2.11 To consolidate government's reforms in the on-going public finance modernization process and enhance the impact of measures recently taken, the authorities have agreed with the Bank to support the supplementary measures under the programme.

4.2.12 **Programme measures:** since the current partial operationalization of SIGFIP prevents the completion of the expenditure chain up to payment by the Public Treasury as well as the production of management accounts to ensure timely preparation of the Budget Review Laws, the programme measures retained are: (i) full operationalization of SIGFIP, including its accounting module; and (ii) establishment of a technical committee at the Ministry of Economy and Finance, responsible for lifting reservations raised by SIGFIP users **Regarding public procurement**, in synergy with PARCI-2, the programme will pursue capacity building and operationalization of the different organs (the Public Procurement

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<sup>vii</sup> Act No.2009-013 of 30 June 2009 governing public procurement and public service delegation.

Control Services, the National Public Procurement Control Directorate and the Public Procurement Regulatory Authority) by providing them with the necessary resources for their operation, within the framework of a training programme.

4.2.13 **Expected outcomes:** (i) all SIGFIP functions are fully operational; (ii) the expenditure chain culminates in the Public Treasury payment stage and production of accounts is now easier; (iii) the public procurement management structures (National Public Procurement Control Directorate, Public Procurement Management Units and Public Procurement Regulatory Authority) are fully operational and fulfil their respective missions.

› **Sub-Component B2: Strengthening Public Finance Management Control**

4.2.14 **Context and challenges:** the 2010 Budget was executed through SIGFIP with rigour and transparency and without accruing domestic and external arrears or resorting to exceptional public expenditure implementation procedures. Revenue acquisition and expenditure execution reflect the implementation of the reforms embarked upon by the government and backed by the World Bank, the IMF, the European Union and the Bank. The 2011 Budget Bill<sup>viii</sup> also prepared through SIGFIP was adopted by the Council of Ministers and passed by the National Assembly on 22 December 2010. To ensure the continuation of these good budget management practices, the control system must be strengthened by providing the organs concerned (IGF, IGE and Court of Auditors) with adequate resources (continuing training and operating expenses) to help them to effectively fulfil their respective missions.

4.2.15 **Recent actions:** with a view to improving transparency, control and the dissemination of reliable information on revenue, expenditure and central government cash management in real time, the restructuring of the Directorate-General of Treasury and Public Accounting (DGTCP) was conducted in accordance with the WAEMU Directives. The three core central government accounting structures and the regional accounting structures were set up in July 2009. These measures are likely to contribute to the production of reliable and consistent accounting data on budget execution and considerably improve reporting, which is **indispensable for adequate control. The control structures themselves**, while backed by the European Union and France, are still faced with the limited capacity of the IGF, the IGE and the Court of Auditors, and require further strengthening over the 2011-2013 through the provision of training and logistic resources to enable them to effectively fulfil their respective missions.

4.2.16 Although significant, the recent actions initiated by the government to strengthen the public finance control and external audit system require further support through capacity building. The following PARG-2 measures are consistent with this context.

4.2.17 **Programme measures:** the programme will support government's efforts in synergy with PARCI-2 approved in September 2011 by the Bank's Board, specifically by backing: (i) the preparation of the Court of Auditors' Procedures Manual; (ii) the training of judges and support staff of the Court of Auditors; (iii) the preparation of the IGF Inspection Guide; and (iv) the conduct of the Diagnostic Study on the rationalization of financial control. These measures will consolidate public finance management by reducing the fiduciary risk.

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<sup>viii</sup> Like the previous one, this budget prioritizes, among others, infrastructure rehabilitation, agriculture and the on-going clearance of domestic arrears

4.2.18 **Expected outcomes:** the technical and control capacity of control institutions are strengthened, and these institutions properly discharge their respective missions. In particular, the IGF will increase the number of its inspection reports from 0 in 2009 to 7 in 2013 and the IGE will produce at least 3 reports before the end of 2012 for submission to the Court of Auditors.

4.2.19 **Status of implementation of government reforms:** to allow the Bank to assess government's determination to continue implementing the reforms, the authorities have undertaken to take the following measures prior to presentation of the programme to the Boards of the African Development Bank Group:

**Conditions Precedent to Board Presentation**

1. Issue the Inter-ministerial Order for implementation of the Small- and Medium-Sized Enterprises' Charter  
**Proof:** Provide a copy of the Order
2. Establish the technical committee responsible for lifting reservations raised by SIGFIP users  
**Proof:** Submission of the Order establishing the Technical Committee
3. Set up the Board of Directors of the Public Procurement Regulatory Authority  
**Proof:** Submission of the Decree on the appointment of members of the Board of Directors.
4. Submit the 2010 management accounts to the Court of Auditors  
**Proof:** Provide a copy of the Ministry of Finance's forwarding slip

### 4.3 Financing Needs and Sources of Financing, 2011-2012

Table 1: Financing Needs, 2011-2012 (in CFAF billion)

Expenditure Sources	2011	2012	TOTAL 2011-2012
<b>Revenue and Grants (projects)</b>	<b>377.1</b>	<b>413.3</b>	<b>790.4</b>
of which: tax revenue	268.8	299.7	568.5
<b>Total Expenditure</b>	<b>443.3</b>	<b>488.6</b>	<b>931.9</b>
of which: Current Expenditure	292.5	279.2	571.7
Capital Expenditure	150.8	209.9	360.7
<b>Deficit (commitment basis, including grants)</b>	<b>-65.9</b>	<b>-75.3</b>	141.2
Arrears Clearance	-13.2	-5.5	-18.7
<b>Deficit (cash basis, including grants)</b>	<b>-79.4</b>	<b>-80.8</b>	<b>-162.2</b>

**Source:** Togolese Authorities and IMF Estimates (Report No.11/240 of August 2011)

**Table II 2011-2012 Programme Financing (in CFAF billion)**

Source of Financing	2011	2012	TOTAL 2011-2012
<b>Total Financing</b>	<b>71.7</b>	<b>37.2</b>	<b>116.7</b>
Domestic Financing	13.0	1.8	14.8
External Financing	22.8	35.4	58.2
Exceptional Financing (budget support)	35.9	7.8	43.7
<b>Residual Financing Gap</b>	<b>-7.8</b>	<b>-35.8</b>	<b>-43.6</b>

**Source:** Togolese Authorities and IMF Estimates (Report No 11/240 of August 2011)

4.3.1 **Total financing requirements, including arrears variation, will be CFAF 162.2 billion for the two-year PARG-2 implementation period,** corresponding to the respective budget gaps (on a cash basis and including project grants) of CFAF 79.4 billion for 2011 and CFAF 80.8 billion for 2012. Financing identified and mobilizable in 2011 amounts to CFAF 71.7 billion, including exceptional financing of CFAF 35.9 billion representing the amount of budget support identified to-date, of which the Bank's UA 10 million (First Tranche). For

2012 and with regard to budget support, only the Bank's Second Tranche of UA 10 million can be retained. Thus, based on the disbursement of the grant in two equal tranches of UA 10 million, the residual financing gap will be CFAF 7.8 billion in 2011 and CFAF 35.8 billion in 2012, for which financing will have to be sought by the government from the different multilateral and bilateral partners. Under these conditions, the budget aid of UA 20 million, i.e. CFAF 14.6 billion, from FSF resources will only represent 9% of the total financing requirements for the two-year 2011-2012 PARG-2 implementation period.

#### **4.4 Programme Beneficiaries**

Overall, the main indirect beneficiary of the programme will be the Togolese population and especially the most disadvantaged segments of the population to which the government could allocate more resources for poverty reduction programmes by improving public resource management. The other beneficiaries are: (i) the central government financial services, which will be strengthened through the implementation of reforms to rationalize public finance management; and (ii) civil servants in active employment as well as Civil Service retirees who will benefit from the more rapid processing of documents for payment of their salaries and pensions through SIGFIP.

#### **4.5 Impact on Gender**

In Togo, the presence of women in the economic circuits is especially pronounced in the traditional sector since 48% of entrepreneurs in this sector are women. They lack technical supervision and experience difficulties in completing business start-up administrative formalities and maintaining management accounting. Therefore, reform measures retained under the Programme (for instance simplification of tax legislation and in particular the establishment of the Authorized Management Centres as well as the one-stop shop aimed at fostering private sector development) will benefit these Togolese businesswomen. To enable them to reach the SME/SMI stage, women will be able to take advantage of the provisions of the Small- and Medium-Sized Enterprises' Charter, implementation of which has been retained in the programme as one of the grant disbursement conditions. These provisions of the Charter relate to the Guarantee Fund, the Regional Development Fund and Funds for assistance to transport and exports. Furthermore, the strengthening of public finance management should provide the government with an opportunity to increase budget allocations to the social sectors (education and health), which will have a positive impact on the education of children and especially girls in the rural community, as well as on mother and child health.

#### **4.6 Impact on the Environment**

By its nature and the measures retained, PARG-2 should not have any impact on the environment. The programme has been classified in Category III by the Bank's services.

#### **4.7 Other Impacts**

**4.7.1 Impact on governance:** the strengthening of public finance management control through a better trained and equipped control body as well as the upgrading of the technical skills of the different links in the public procurement chain are all measures that will guarantee transparency in public resource management and, consequently, a significant improvement in the country's financial governance.

4.7.2 **Impact on the private sector:** the simplification of tax legislation, the establishment of a one-stop shop that will make it possible to reduce the time taken to start a business from 75 days to two weeks and the establishment of the Authorized Management Centres will create the conditions for greater private sector development, in particular for SMEs/SMIs and, consequently, the creation of permanent jobs. Public procurement transparency and, especially the systematic use of competitive bidding, will foster healthy competition among economic operators submitting bids for government contracts and will help to improve public expenditure effectiveness.

4.7.3 **Impact on poverty reduction:** the ultimate goal of PARG-2 is to establish the conditions for strong growth that will create sustainable employment through the implementation of targeted and complementary structural reforms. Indeed, the reform measures to improve the business environment will create a better framework for the development of the private sector which is the main driver of economic growth. This is why one of the expected outcomes of the reforms retained under PARG-2 is to generate supplementary resources for use in implementing Togo's Poverty Reduction Programme. This ambitious programme is achievable due to the authorities' commitment to allocate more resources to the priority sectors, with support from the technical and financial partners, based on the F-PRSP thrusts.

## V IMPLEMENTATION, MONITORING AND EVALUATION

### 5.1 Programme Implementation

5.1.1 **Executing Agency:** the Ministry of Economy and Finance will be responsible for PARG-2 implementation. To that end, it will ensure that the Togolese ministries and structures concerned fully play their respective roles in implementing the reforms and measures that fall within their areas of action. The programme technical executing agency will be the Permanent Secretariat for Reform Policy and Financial Programme Monitoring (SP-PRPF) at the Ministry of Economy and Finance. This structure is responsible for monitoring all budget support programmes under the arrangement as agreed upon by the Bank, the other Technical and Financial Partners (TFP) and the government. Under the oversight of the Ministry of Economy and Finance, the SP-PRPF will be responsible for submitting to the Bank: (i) the six-monthly reports on the status of implementation of PARG-2; (ii) the 2010 and 2011 budget execution reports; and (iii) the management accounts as well as the 2008 Budget Review Act.

5.1.2 **Procurement of goods and services:** since the programme is a non-targeted budget support, procurement of goods and services will be made in accordance with national procurement rules. The reformed national public procurement system is of satisfactory quality. PARG-2 and PARCI-2 will help to improve the integrity of the public procurement system.

5.1.3 **Disbursements:** in accordance with the guidelines on operations in fragile States, the Grant will be disbursed in two equal tranches of UA 10 million into the Treasury Account opened at the BCEAO National Agency. This arrangement will allow for assessing and closely monitoring the status of implementation of the reforms prior to disbursement of the two tranches.

5.1.4 **Financial management and audits:** since the programme is a non-targeted budget support, management of the financial resources to be allocated will use the entire public expenditure circuit. The fiduciary risks identified based on the 2009 PEFA give an overall fiduciary risk rating of ‘substantial’. Annex 8 provides the relevant details as well as the recommended mitigation measures. Since Togo is a fragile State and although this concerns a budget support, two special audits will be conducted: a first audit following disbursement of the first tranche and the second following disbursement of the second tranche. The audits will be carried out by an external audit firm based on terms of reference approved by the Bank and at the Government’s expense. These two audits will focus on the financial flows of the Treasury Account opened at the BCEAO National Agency, with a view to establishing: (i) the inclusion of the resources disbursed by the Bank in the 2011 and 2012 budgets; and (ii) the use of these resources for public expenditure execution. The audit report must be submitted to the Bank latest 30 June of the year following the disbursement year.

## 5.2. Monitoring and Evaluation

The Bank will ensure programme monitoring at two levels. The first level of monitoring will be carried out in coordination with the other partners providing budget support, which have agreed, under the COAB, to initiate joint dialogue with the Government regarding implementation of the F-PRSP and the reform programmes. The second level of programme monitoring and evaluation will be conducted as part of Bank supervision, based on the matrix of measures in Appendix 2 of the report and the logical framework matrix. The Togo Field Office will be responsible for dialogue and routine monitoring with the authorities regarding programme implementation, and will participate actively in the supervision missions.

## VI LEGAL INSTRUMENTS AND AUTHORITY

### 6.1. Legal Instrument

For the financing of the programme on FSF resources, a Grant Agreement will be signed between the FEF and the Republic of Togo.

### 6.2 Conditions Precedent to Grant Effectiveness and Disbursements

#### A - Conditions Precedent to Effectiveness of the Grant Agreement

6.2.1 Effectiveness of the Grant Agreement will be subject to the signing of the Grant Agreement.

#### B - Special Conditions Precedent to Disbursement of the First Tranche of UA 10 million

Special Conditions Precedent to Disbursement of the First Tranche of UA 10 million	
Condition 1:	Satisfactory assessment of the macroeconomic framework through IMF press release. <b>Proof:</b> IMF press release.
Condition 2	Opening of a special Treasury account at the National Agency of the Central Bank for payment of the grant resources <b>Proof:</b> Submission of the Central Bank account number.

C - Special Conditions Precedent to Disbursement of the Second Tranche of UA 10 Million

Condition 1	Satisfactory assessment of the macroeconomic framework through IMF press release. <b>Proof:</b> IMF press release.
Condition 2 :	Issue the Ministerial Order on the adoption of the tax procedures guide as part of the simplification of the Tax Code (§ 4.2.6). <b>Proof:</b> Submit the original or the duly certified copy of the Order.
Condition 3 :	Issue the Ministerial order on adoption of the Taxpayers' Charter as part of the simplification of the Tax Code (§ 4.2.6). <b>Proof:</b> Submit the original or the duly certified copy of the Order.
Condition 4 :	Fully implement all the SIGFIP functions, including the accounting module (§ 4.2.12). <b>Proof:</b> Submit the closing balance of the 2011 management account through SIGFIP.
Condition 5 :	Issue the Implementing Order of Act No. 2004-013 of 15 June 2004 governing the establishment of Authorized Management Centres (CGA) (§ 4.2.6). <b>Proof:</b> Submit the duly certified copy of the Implementing Order.
Condition 6	Take measures to enhance the visibility and appeal of the one-stop shop in the business community. (§ 4.2.6). <b>Proof:</b> Submit the copy of the letter from the Minister of Finance stating that a suitable building with business community visibility will be made available to the one-stop shop.

### 6.3 Compliance with Bank Group Policies

6.3.1 The programme complies with the Guidelines on Development Budget Support Lending in the Bank's Regional Member Countries set forth in Document ADF/BD/WP/2003/182/Rev.2 of 28 April 2004 and the Operations Guidelines of the Fragile States Facility in Document ADF/BD/WP/2008/60/Corr.1 of 11 July 2008.

## VII RISK MANAGEMENT

### 7.1 Risks and Mitigation Measures

Risk	Risk Probability	Mitigation Measures
Socio-political destabilization	Moderate to low	Political and social tensions could intensify in view of the country's difficult socio-economic context and budgetary constraints. This situation could undermine investor confidence and slow the pace of the economic and structural reforms. However, this risk is mitigated from a political standpoint as a result of the signing of an agreement to form a Government of National Unity following the 4 March 2010 presidential elections. The historical participation of the opposition parties in this government is likely to further calm Togo's political climate.
Macroeconomic instability	Moderate	The authorities continue to show their goodwill and determination in implementing on-going reforms backed by all TFPs including the IMF, the World Bank and the Bank. On 14 December 2010, Togo reached the HIPCI completion point, which will lead to debt relief of up to USD 1.8 billion, i.e. an 82% reduction. This reduction in the debt burden should enable the central government to invest in the social sector.
Fiduciary risks	Moderate	PARG-1 enabled the Government to start the process of improving the public finance management system by building the capacity of the control structures (Court of Auditors and Inspectorate-General of Finance). In particular, it has helped to improve transparency in public finance management through the establishment of SIGFIP (an integrated management system). Management accounts and Budget Review Laws have been produced for the first time as a result of PARG-1. The public procurement system has also been reformed and is operational since 2001.
Weak reform implementation capacity	Moderate to low	Implementation of PARCI-1 and the on-going PARC-2 have helped to build the technical and operational capacity of Togolese government services responsible for implementing the reforms retained in the programmes, including PARG-2.

## **VIII. RECOMMENDATION**

In light of the foregoing, it is recommended that the Board of Directors approve an FSF Grant not exceeding UA 20 million in favour of the Government of Togo for implementing the Reform and Governance Support Programme, Phase 2 (PARG-2), subject to the conditions set forth in this Report.

**APPENDIX 1: LETTER OF DEVELOPMENT POLICY**

**MINISTRY OF ECONOMY AND FINANCE**

**Work-Freedom-Homeland**

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**OFFICE OF THE MINISTER**

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N0. \_\_\_\_\_/MEF/CAB/SP

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Lomé, \_\_\_\_\_

*The Minister of Economy and Finance*

to

Mr. Donald KABERUKA  
President of the African Development Bank Group  
13, Avenue du Ghana  
BP 323  
1002 Tunis-Belvédère  
**Tunisia**

**Subject:** Letter of Development Policy.

Mr. President,

1. This Letter of Development Policy (LDP) presents the progress made in recent years and outlines the current socioeconomic situation and outlook for the 2011-2013 period. It describes the development policies and objectives identified by the authorities with the aim of continuing their reform programme started in 2008, which seeks to accelerate economic growth and reduce poverty. To achieve these objectives, the authorities are continuing to seek technical and financial assistance from all the technical and financial partners, in particular, the African Development Bank through the second Reform and Governance Support Programme.

**I. Political and Socioeconomic Context**

2. The peaceful presidential elections of March 2010 were welcomed by the international community. In order to consolidate the rediscovered tranquil political climate, a political agreement was signed between the two main political parties and led to the formation of a Government of National Unity. The Truth, Justice, and Reconciliation Commission (CVJR), established to investigate the political violence that has plagued the country since independence, aims to reconcile the Togolese people. This Commission has done outstanding field work which has led to over twenty-five thousand statements that are being reviewed by national and international experts followed by public and private hearings.

3. Following the full resumption of cooperation with the technical and financial partners and establishment of the major democratic and economic institutions, the Government turned its attention to achieving economic recovery through economic development and poverty reduction programmes, while continuing its work to improve the population's well-being.

4. The economic recovery and poverty reduction programme seeks to restore macroeconomic stability, establish sound public finances, improve the public procurement system, and strengthen public enterprise governance with a view to promoting economic growth. This programme is set forth in the Poverty Reduction Strategy Paper (PRSP), prepared on the basis of a participatory approach, which the Government approved on 20 June 2009, implementation of which started through the Priority Action Programme (PAP). The process of preparing a new PRSP has begun and the Government intends to pursue the same objectives by focusing on the growth-bearing and employment-generating sectors.

5. The three-year programme (2008-2010), supported by the Extended Credit Facility concluded with the International Monetary Fund (IMF), has been satisfactorily executed to-date, despite the difficult economic situation related to the global financial crisis. All measures related to triggers have been implemented, as a result of which Togo was able to reach the completion point under the Heavily Indebted Poor Countries (HIPC) Initiative on 14 December 2010. Furthermore, the Government has held negotiations with the International Monetary Fund with a view to a new programme. The financial situation has also improved, owing to sustained efforts to make public finance management rigorous and transparent. Reforms in the banking, cotton, energy, and phosphate sectors are being pursued.

6. The growth registered following the Government's efforts to jump start the economy was positive and is starting to be confirmed. Based on information, the real growth rate in 2010 was 3.4 per cent – higher than 2009 (3.2 per cent). The growth projections for 2011 give a real growth rate of 3.9 per cent. This modest growth is attributable to the time taken for the tangible effects of the various economic reforms implemented by the Government to reach all sectors of the economy, and it remains insufficient to meet the poverty reduction requirements. The Government intends to pursue these efforts to achieve a growth rate likely to have a significant impact on poverty reduction.

7. The recent global economic situation is characterized by recession in most developed countries but less pronounced in the emerging countries, in particular in Asia and especially China. The prospects for global economic recovery are grounds for cautious but sufficient optimism, raising hopes in Togo for the strong growth highly anticipated by the population.

## **II. The 2011-2013 Programme**

### **Overall Objectives**

8. During the 2011-2013 period, the Government expects to step up its economic recovery programme by continuing and consolidating the economic reforms that have already been initiated. These reforms target the maintenance of a stable macroeconomic framework conducive to sustainable economic growth, capable of improving the people's living conditions. The goals for 2011-2013 are: (i) to improve the business environment; (ii) pursue the economic reform programme, which focuses on achieving greater transparency by combating fraud and corruption; (iii) improve access to health and education; (iv) continue the construction and rehabilitation of infrastructure; and (v) pursue the restructuring of the financial sector.

### **Governance, Transparency and Structural Reforms**

9. The Government is firm in its resolve to continue to improve public finance management in a context of economic and financial governance. To this end, a Reform Strategy was adopted by the Government in September 2010 by Presidential Decree. It places special emphasis on public finance management reforms and undertakes to continue work to combat corruption and fraud, and to create a legal and regulatory environment conducive to economic activity.

### **Government Structural Reforms**

#### **Public Expenditure Management Reforms**

10. Public expenditure management has improved considerably owing to the: (i) smooth execution of the 2010 budget; (ii) effective implementation of a cash flow plan based on a monthly budget execution performance chart; (iii) strengthening of internal budget execution controls; and (iv) strengthening of public enterprise governance. With regard to budget execution, the Government will continue to improve cash flow management and procurement procedures.

11. Over the 2011-2013 period, the Togolese authorities intend to implement additional actions to strengthen public finance management.

12. The Government will continue to improve PEFA scores through the implementation of the public finance management reform strategy. It will also continue to address the challenges pertaining to public expenditure management, which was highlighted in the recent Public Expenditure Management and Financial Accountability Review (PEMFAR) report.

### **Financial Sector Reforms**

13. Significant progress has been made with the restructuring of the banking system to enable it to play its role with respect to financial intermediation and economy financing, with a view to contributing to sustainable growth. The Government remains committed to disengaging the State from the capital of the four public banks and to actively seek reference partners with a solid financial base and recognized expertise to proceed with the privatization of these banks. The Privatization Committee, established in November 2010, has been working since April 2011 with the privatization advisers on the strategic choices related to privatization and the timeline for the necessary stages that would culminate in the sale of the government's equity. To this end, the Committee has already proposed a privatization strategy that will be adopted by the Council of Ministers, thus authorizing the Minister of Economy and Finance to continue the process leading to the effective privatization of these banks. At the same time, the banks' files are being updated by consulting firms in order to prepare data rooms. Calls for expressions of interest for pre-qualification have been issued and evaluations are on-going. The Government intends to issue final bid invitations end October 2011.

14. The process to establish a recovery system for non-performing loans acquired by the State during the Bank restructuring process is on track. The Decree on the establishment of the Togolese Debt Recovery Company (*Société de Recouvrement du Togo*, SRT) was adopted on 8 September 2011 by the Council of Ministers. A law is being prepared to provide this company, which will soon be operational, with all the resources and privileges to enable it to achieve satisfactory results.

15. The Government has initiated the process of preparing the financial sector development strategy process with the technical and financial support of our partners (including the IMF). The Committee responsible for preparing this strategy was established by an Order issued by the Minister of Economy and Finance in February 2011. A pre-workshop aimed at harmonizing the initial work of the five thematic groups set up for this purpose was organized on 17 August 2011. The national workshop aimed at validating the strategy is scheduled for February 2012. It is worth mentioning that the discussions of the different groups will focus on the banking, microfinance, social security and insurance, business environment and public debt management sectors.

16. The problems experienced by Togo's pension system are a source of concern to the Government. Consequently, a financial and organizational audit of the Togolese Pension Fund (*Caisse de Retraites du Togo*, CRT) was carried out and the actuarial study, initiated in September 2010, was completed in December 2010. The one on the National Social Security Fund has also been completed.

17. The Government intends to consolidate gains made in the financial system for the 2010-2011 period by using a specific strategy for each component, namely the banking sector, the pension system, and the microfinance sector.

### **Business Environment Reforms**

18. Improvement of the business climate is critical to private sector strengthening and growth. The Government remains determined to implement measures so that private investors and operators will focus their investment decisions on Togo. To this end, measures are being taken to simplify business start-up procedures and to ensure the continuing implementation of fiscal measures to foster the emergence of job-creating SMEs and SMIs. The one-stop shop at the Lomé Autonomous Port will

very shortly be operational and result in revitalization of the country's foreign trade. A foreign direct investment promotion strategy will be adopted through a foreign capital mobilization policy. To this end, the Head of State has recently established the Presidential Investment Advisory Council.

19. The poor functioning of the associations of surveyors, lawyers, solicitors, judicial officers, official auctioneers, architects and urban planners, impacts on the entire economy. The Government's objective is to encourage these different associations to propose solutions that might provide significant improvements to the business climate in Togo. These proposals for solutions will be based on Togo's Doing Business and Millennium Challenge Corporation rankings.

20. The Government's objectives are to: (i) improve the overall business framework; (ii) revitalize the Industrial Free Trade Zone; (iii) step up private sector support; (iv) improve conditions for the emergence of entrepreneurship in general and women's, in particular; and (v) bring down the cost of credit and improve access to financing

### **Agricultural Sector Reforms**

21. The measures planned to increase agricultural productivity will contribute to the achievement of a real GDP growth rate of 3.9% in 2011 and an improvement in future growth rates. The National Agricultural Investment and Food Security Programme (PNIA-SA) adopted by the Government is at the implementation stage. Some projects linked to this programme are at the finalization stage with the technical and financial partners (in particular, the World Bank, the West African Development Bank, the ECOWAS Bank for Investment and Development and the International Fund for Agricultural Development) that support the Government in this Programme. All this will inject new dynamism into the agriculture sector.

### **Cotton Sector Reforms**

22. Major reforms have been implemented and the Government intends to put mechanisms in place to exploit the potential and the upturn in world prices. Cotton production is projected to increase in 2011. However, problems pertaining to the financing of inputs persist. The Government also plans to launch feasibility studies to gradually open up the capital of *Nouvelle Société Cotonnière* (New Cotton Company) to private operators.

### **Energy Sector Reforms**

23. Continuing to strengthen the financial position of the Togo Electricity Company (*Compagnie Energie Electrique du Togo*, CEET) is a priority for the Government. We have adjusted electricity rates in order to take cost prices for the CEET into account and help maintain its viability. Other major reforms have been instituted, in particular the settlement of debt owed to the CEET by the State, local governments, state-owned hotels and public entities with independent budgets.

24. The performance contract concluded between the Government and the CEET is being executed, and the State intends to provide the company with support to ensure the successful implementation of the contract.

25. With a view to boosting energy capacity, a contract was concluded with the *Contour Global* Company for the production of 100 MW of thermal energy. This company commenced production in October 2010, which has eased energy supply constraints and helped to enhance the reliability of energy supply. In addition, a plan to construct a hydroelectric power plant in Adjarala is currently under consideration. Along with Benin and Ghana, Togo is also a member of the West African Power Pool (WAPP) for the development of a 330 KV line aimed at significantly increasing electricity supply in countries of the sub-region.

## Transport Sector Reforms

26. In the area of land transport, the Government intends to improve road infrastructure by rehabilitating and building highways and roads. In the 2011 budget, considerable resources have been allocated for this purpose. In view of this sector's tremendous needs, the Government has made a bond issue, and the funds will be channelled to this sector as a priority. The Government plans to create a public transport system that will help to create jobs, resolve problems relating to the movement of people and mitigate the impact of oil price hikes on the population's purchasing power. It is necessary to build roads that are adapted to our needs to reduce road accidents. To protect our roads from early degradation, it is vital to develop a rail transport network and create a dry port in the country's interior to better serve the hinterland countries and decongest the ports. Special emphasis will be placed on road maintenance based on a system concessioning sections to private enterprises following open competitive bidding financed by a second generation road maintenance fund.

27. Furthermore, the Government highly anticipates the support of the African Development Bank for the modernization of road infrastructure in Togo over the next five years.

28. With respect to maritime transport, major reforms aimed at improving the quality of services offered at the Lomé Autonomous Port (PAL) have been under way for several years. In that regard, the Port Authority, which seeks to provide quality services to its customers, designed a port development program that includes, *inter alia*, the construction of a third dock, work on which has begun, and a harbour basin to transform the Lomé Port into a hub for the sub-region through increased port capacity, the development of several parking areas and the construction of an inland dry port. The Government also plans to define a long-term vision for the development and positioning of PAL, for which a strategic study is planned.

29. The extension and modernization of Lomé Tokoin Gnassingbé Eyadéma International Airport (AIGELT) will turn it into a high capacity platform, a real hub in the sub-region and a key driver in the development of air transport activities. The increased exploitation of Niamtougou International Airport through the establishment of a domestic air route will facilitate business and tourist travel.

## Mining Sector Reforms

30. Togo became an Extractive Industries Transparency Initiative (EITI) candidate country on 20 October 2010 and is expecting to implement the detailed action plan over the next two years in order to become a compliant country. There are on-going reforms to enable the mining sector to make a major contribution to the country's growth. Two new clinker and marble processing units are about to start operations.

## Social Sector Reforms

31. **With respect to the health sector**, the Government plans to consolidate implementation of the national health development plan in the medium term (2008-2012), including a medium-term human resource development component for the health sector. The Government also intends to conduct an institutional audit of the Ministry of Health as well as organizational and financial audits of the main public hospitals in Togo.

32. **In the education sector**, the Government seeks to continue efforts to incorporate volunteer and assistant teachers into the civil service and: (i) construct and rehabilitate educational infrastructure; (ii) train trainers and educators; (iii) continue improving teaching conditions in technical training and vocational education; (iv) continue promoting the education of girls by reducing school fees; (v) further improve the quality of, and promote gender equality in higher education; and

(vi) strengthen intake facilities to accommodate the increasingly large number of students enrolled in the country's universities.

33. **The water and sanitation sector:** this sector remains a priority for the Government, which plans to continue its efforts to improve access to drinking water and sanitation infrastructure. To that end, the Government designed and adopted the National Water Policy, and prepared the draft policy letter for drinking water supply in urban areas. A draft Integrated Water Resources Management (IWRM) action plan and the water code were prepared. Several drinking water supply projects are being implemented, significantly increasing the rate of access by the population to water with the construction and rehabilitation of boreholes. The lagoon in Lomé is currently being cleaned and stagnant water is being drained. We will continue to carry out emergency storm water collection works in Lomé and the development of sanitation master plans for all other towns. The Government will continue to raise awareness among households on the importance of water and sanitation.

### **III. Other Activities**

#### **Monitoring and Evaluation**

34. The Ministry of Economy and Finance is responsible for the overall implementation of the program supported by the second Reform and Governance Support Programme (PARG-2). The Permanent Secretariat for Reform Policy and Financial Programme Monitoring (PS-PRPF) is tasked with the programme's day-to-day monitoring and evaluation. This entity coordinates the implementation of the Government's programme and is assisted by a Programme and Reform Monitoring Committee. The Government will provide quarterly reports to the ADB on the programme status of implementation, which is measured against the timelines and agreed performance indicators.

35. The Government hopes that these political, economic, and social reforms will help to strengthen its ties with the ADB and all the other bilateral and multilateral partners in order to mobilize the resources needed to achieve the Millennium Development Goals by 2015 and to ensure Togo's sustainable development.

#### **Financing Request**

36. The Government is determined to consolidate its achievements regarding political stability, continue the structural reforms initiated in 2006, and benefit from the spinoff from the country's debt relief. To that end, the Government is requesting technical and financial assistance from the African Development Bank to implement its ambitious programme through the second Reform and Governance Support Programme (PARG-2).

Please accept, Mr. President, the assurances of my highest consideration.

**Adjï Otèth AYASSOR**

**APPENDIX 2:** REFORM AND GOVERNANCE SUPPORT PROGRAMME - MATRIX OF MEASURES

S/Component Objectives	Measures Already Taken	Measures to be Taken under PARG-2	Timeframe	Outcomes	Responsible Entities
<b>Macroeconomic Framework</b>	Maintenance of ECF Programme with IMF, 2008-2011	Maintain the ECF Programme with the IMF, 2011-2013	2011-2013	Sound economic performance	MEF
<b>Poverty Reduction Programme</b>	Implementation of F-PRSP	Implement the F-PRSP 2011-2013		Sound economic and social performance	Government
<b>A. Continuing Improvement of the Business Environment</b>					
		- Adopt the Revised Customs Code;	4th quarter 2011	- Tax legislation is simplified and made more transparent for taxpayers.	Ministry of Economy and Finance (MEF)
		- Adopt the new Decree on the organization and responsibilities of the Customs Administration	4th quarter 2012	- Operation of the customs services is rationalized and made more efficient	Ministry of Economy and Finance
		- Adopt the Tax Procedures Guide and Taxpayers' Charter verified as part of the simplification of the Tax Code;	1st quarter 2012	-The Tax Code is simplified and made more transparent for taxpayers	Ministry of Economy and Finance
		- Adopt the Inter-ministerial Order for the implementation of the Small- and Medium-Sized Enterprises' Charter;	1st quarter 2012	The SME/SMI Charter enters its operational phase	MEF and Ministry of Trade
		- Adopt the Implementing Decree of Law No. 2004-013 of 15 June 2004 on the establishment of the Authorized Management Centres (CGA)	1st quarter 2012	- Management supervision of SME/SMI as well as informal sector unit is effective	MEF and Ministry of Trade
		- Establish the one-stop shop comprising the representatives of the different administrations involved in the delegation of signature	1st quarter 2012	- Time taken to start a business is shortened and the cost is more affordable	Ministry of Trade
		- Assign adequate functional premises to the new one-stop shop that will ensure both rational operation and heighten the institution's visibility in the business community	4th quarter 2011	- The one-stop shop operates under better conditions and its visibility in the business community is heightened	Ministry of Trade

S/Component Objectives	Measures Already Taken	Measures to be Taken under PARG-2	Timeframe	Outcomes	Responsible Entities
		- Adopt the Revised 1996 Mining Code.	2nd quarter 2012	- Participation of foreign strategic partners in tapping the country's mining potential is now encouraged	Ministry of Mines and Energy
<b>B. Consolidation of Public Finance Management Rationalization</b>					
<b>B-1. Consolidation of SIGFIP and Public Procurement Reform</b>	- Adoption of a Three-year Action Plan by the Council of Ministers on 29 September 2010 - Appointment by the Government of civil service officers (computer engineers at the Ministry of Finance) with whom the SNDI, service providers will now work closely to complete the installation of SIGFIP. With regard to public procurement: (i) adoption of the Public Procurement Code Law; (ii) establishment of the different public procurement management organs (ARMP, DNCMP and CGMP); and (iii) training of the senior staff of these organs	Establish an institutional mechanism for SIGFIP implementation	3rd quarter 2011	1.1- SIGFIP is fully operational	MEF & interested Sector Ministries
		- Adopt and implement a training programme for the following different organs: the public procurement control services, the National Public Procurement Control Directorate and the Public Procurement Regulatory Authority.	2011 and 2012	2.1- The public procurement management structures are fully operational and satisfactorily fulfil their respective missions.	MEF & interested Sector Ministries
<b>B-2. Strengthening Public Finance Management and Control</b>	- Restructuring of the Directorate-General of Treasury and Accounting (DGTCP) in accordance with WAEMU Directives	.-Prepare the Court of Auditors' Procedures Manual	4th quarter 2011	The Procedures Manual is available	Court of Auditors
		.- Train the Court of Auditors' judges and support staff	2011 and 2012	The judges and their support staff are trained	Court of Auditors
		.- Prepare the IGE Verification Guide	1st half of 2012	The IGE Verification Guide is available	State Inspectorate-General
		.- Conduct the Diagnostic Study on the Rationalization of Financial Control	1st half of 2012	The Diagnostic Study is conducted	MEF

**APPENDIX 3 : RELATIONS WITH THE INTERNATIONAL MONETARY FUND**



**Statement by an IMF Mission to Togo**

Press Release no.1/18316 May 2011

An International Monetary Fund (IMF) mission headed by Mr. Marshall Mills visited Lomé from April 26 to May 13, 2011 to conduct discussions on the sixth review of Togo's economic program supported by the Extended Credit Facility (ECF) and consultations under Article IV of the IMF Articles of Agreement. The mission met with National Assembly President, El Hadj Abass Bonfoh, Prime Minister Gilbert Houngbo, Minister of Economy and Finance, Adji Otèth Ayassor, National Director of the regional central bank, Kossi Tenou, and other senior officials. The mission also had productive discussions with parliamentarians, academics, and representatives of civil society, trade unions, donors, and the private sector.

At the conclusion of the mission, Mr. Marshall Mills issued the following statement:

"Economic growth continues to accelerate steadily in a context of macroeconomic stability. Growth is estimated at 3.7 per cent in 2010, compared to 3.2 per cent in 2009, and is driven mainly by the primary sector, port activities, and public investment. Inflation has remained moderate at 1.4 per cent in spite of the increase in international food and petroleum prices, reflecting abundant local food production consumed by the population and petroleum product price subsidies. Fiscal performance was satisfactory in 2010; the budget deficit stood at 1.6 per cent of GDP, well below its 2009 level, reflecting very strong revenue collection and spending discipline. Meanwhile, the current account deficit of the balance of payments is expected to widen to 7.2 per cent of GDP in 2010, mainly reflecting rising international oil prices and imports of capital goods related to public works but is adequately financed.

Concerning the monetary situation, growth in credit to the economy picked up reflecting private sector confidence and the on-going economic recovery. After reaching the completion point under the Highly Indebted Poor Countries initiative (HIPC), the total government debt of Togo fell by 37 percentage points of GDP to about 30 per cent of GDP, thus providing the country a renewed, strong solvency. The need to close a significant infrastructure gap continues to justify a fiscal stance that enables an acceleration of public investments while at the same time maintaining the sustainability of public finances and public debt.

In this context, the implementation of the 2011 budget has been broadly satisfactory during the first 3 months of 2011. However, the composition of expenditure for the year could be affected by unexpected expenses to subsidize petroleum product prices. Given the continuing high international oil prices, the government plans to re-establish its policy of reflecting market prices in 2011, following a social dialogue on targeted social support measures, and to take the measures necessary to safeguard the sustainability of public finances. Thus, the budget is expected to have a deficit of 2.9 per cent of GDP and to maintain the acceleration of investment spending despite budget modifications.

The implementation of the economic and financial program supported by the ECF has been generally satisfactory. The 2010 budget execution was consistent with the objectives of the program, and structural reforms have progressed well despite delays in some areas. The arrears clearance process is continuing, although it is proceeding more slowly than the authorities desire because creditors have been slow to claim the amounts due to be paid. The authorities remain committed to the process for the privatization of public banks; this process is advancing with the establishment of a new privatization commission which is expected to propose a timetable leading to a call for expressions of interest by the end of June 2011. The mission urged the authorities to continue implementing their structural reform agenda to improve the efficiency of public finance management and to accelerate growth. The reform of the phosphate sector is particularly urgent, in light of the further fall in production in 2010. Continued reforms are also pressing in the electricity and telecommunications sectors to reduce costs to consumers and improve competitiveness.

The mission conducted discussions under Article IV of the IMF and suggested that the authorities start reflecting on the possibility of adopting fiscal rules that would enable them to safeguard the significant gains, achieved including by reaching the completion point of the HIPC initiative. The adoption of these rules should also be accompanied by a debt strategy that would guide the choice of financing instruments in the context of increasing public investment. Moreover, the acceleration of the implementation of structural reforms to improve the non-price competitiveness of the economy remains a priority for growth. From this point of view, the mission urged the authorities to further improve the business climate to attract private investment, which Togo will need to further accelerate productivity growth and create wealth.

With the completion of the sixth and final review, which the staff plans to recommend to the IMF Executive Board at a meeting expected in July, Togo would have successfully completed the program supported by the IMF. The program has broadly achieved its objectives, and the authorities intend to sustain the gains. The IMF stands ready to continue cooperation with the Togolese authorities to support them in these efforts.

The mission wishes to thank the authorities for their warm hospitality and high quality of discussions."