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INTERNATIONAL DEVELOPMENT ASSOCIATION

PROGRAM DOCUMENT

FOR A PROPOSED GRANT

IN THE AMOUNT OF SDR 37 MILLION (US$51.9 MILLION EQUIVALENT)

TO THE REPUBLIC OF TOGO

FOR THE

FISCAL MANAGEMENT AND INFRASTRUCTURE REFORM FIRST DEVELOPMENT POLICY FINANCING

November 21, 2017

Macroeconomic and Fiscal Management Global Practice
Africa Region

REPUBLIC OF TOGO

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of November 20, 2017)

Currency Unit	CFA Franc
US$1.00	XAF 559.05
US$1.00	SDR 0.71

ABBREVIATIONS AND ACRONYMS

AFCW1	Africa Region Western 1	ITU	International Telecommunications Union
AfDB	African Development Bank	IXP	Internet Exchange Point
ARCEP	*Autorité de Régulation du Secteur de la Communication Electronique et des Postes* (Regulatory Authority of Posts and Electronic Communication Sector)	Kva	Kilo-volt-ampere
ARSE	*Autorité de Réglementation du Secteur de l'Electricité* (Regulatory Authority of the Electricity Sector)	kwH	Kilo-watt Hour
ARTP	*Autorité de Réglementation des Secteurs de la Poste et des Télécommunications* (Regulatory Authority of the Post and Telecommunication Sectors)	L	Low
BCEAO	*Banque Centrale des Etats d'Afrique de l'Ouest* (Central Bank of West Africa)	LDP	Letter of Development Policy
BoP	Balance of payments	LIC DSA	Low-Income Country Debt Sustainability Analysis
BTCI	*Banque Togolaise pour le Commerce et l'Industrie* (Bank for Commerce and Industry of Togo)	M	Moderate
CEB	*Communauté Electrique du Bénin* (Electric Community of Benin)	Moov	Atlantic Telecom
CEET	*Compagnie Energie Electrique du Togo* (Power Company of Togo)	MoU	Memorandum of Understanding
CDDI	*Commissariat des Douanes et des Droits Indirects* (Office of Customs and Indirect Duties)	OTR	*Office Togolaise des Recettes* (Togolese Revenue Office)
CFA F	*Franc de la Communauté Financière Africaine* (Franc of the African Financial Community)	PEFA	Public Expenditure and Financial Assessment
CI	*Commissariat des Impôts* (Office of Taxes)	PEMFAR	Public Expenditure Management and Financial Accountability Review
CPF	Country Partnership Framework	PER	Public Expenditure Review
CPI	Consumer Price Index	PFM	Public Financial Management
CPIA	Country Policy and Institutional Assessment	PIMA	Public Investment Management Assessment

DPO	Development Policy Operation	PIU	Project Implementation Unit
DPF	Development Policy Financing	PND	*Plan National de Développement* (National Development Plan)
DSA	Debt Sustainability Assessment	PPIAF	Public Private Infrastructure Advisory Facility
EBITDA	Earnings before Interest, Tax, Depreciation and Amortization	PPP	Public Private Partnership
ECGC	Economic Growth and Governance Credit	PRSP	Poverty Reduction and Strategy Paper
ECF	Extended Credit Facility	PSIA	Poverty and Social Impact Assessment
ECOWAS	Economic Community of West African States	ROGEP	Regional Off Grid Electrification Project
E-gov	Electronic Government	S	Substantial
EGP	Economic Governance Project	SCAPE	Strategy for Boosting Growth and Promoting Employment
Etisalat	Emirates Telecommunications Corporation	SCD	Systematic Country Diagnostic
FDI	Foreign Direct Investment	SDG	Sustainable Development Goals
FMIR	Fiscal Management and Infrastructure Reform (replace FMIFVSD)	SDR	Special Drawing Rights
FY	Fiscal Year	SOE	State-owned Enterprises
GDP	Gross Domestic Product	SORT	Systematic Operations Risk-Rating
GiZ	German Corporation for International Cooperation	TA	Technical Assistance
GMF	Macroeconomics and Fiscal Management Global Practice	TG	Togo
GNI	Gross National Income	Togocel	*Togo Cellulaire* (Togo Mobile Phone Company)
GoT	Government of Togo	Togo Tel	Togo Telecom Company
GPA	Global Political Agreement	TTL	Task Team Leader
H	High	UN	United Nations
HFO	Heavy Fuel Oil	UNDP	United Nations Development Programme
ICT	Information and Communications Technology	UNIR	*Union pour la République* (Union for the Republic)
ICRR	Implementation Completion and Results Report	US	United States
ID	Identification	USAID	United States Agency for International Development
IDA	International Development Association	UTB	*Union Togolaise des Banques* (Union of Banks of Togo)
IGF	*Inspection Générale des Finances* (General Inspectorate of Finance)	VAT	Value Added Tax
IMF	International Monetary Fund	WAEMU	West African Economic and Monetary Union
IPF	Investment Project Financing	WAPP	West African Power Pool

ISA	International Standards on Auditing	WARCIP	West African Regional Communications Infrastructure Project
ISP	Internet Service Providers	WASC	West Africa Submarine Cable
IT	Information Technology	WBG	World Bank Group

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REPUBLIC OF TOGO

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The Togo Fiscal Management and Infrastructure Reform First Development Policy Financing was prepared by a team consisting of: Thomas Laursen (TTL, Lead Economist, GMF07), Jean-Pascal N. Nganou (TTL, Sr. Economist, GMF02), Godwill Tange (Co-TTL, Sr Economist, GMF07), David Cal MacWilliam (Senior Economist, GMF08), Shahrzad Fard (Consultant), Jerome Bezzina (Senior Regulatory Economist, GTI11), Franklin Koffi S. W. Gbedey (Senior Energy Specialist, GEE07), Maimouna Mbow Fam (Senior Financial Management Specialist, GG026), Felicien Accombressy (Senior Economist/Statistician, GPV, 07) and Leif Jensen (Senior Economist, GMF07). The team benefitted from the overall guidance of Lars Christian Moller (Practice Manager, GMF08), Pierre Laporte (Country Director, AFCW1), Charles Joseph Cormier (Practice Manager, GEE07), and Joelle Businger (Country Manager, AFMTG). The team also benefited from useful comments from Jacques Morisset (Program Leader, AFCF2) and Christine Richaud (Lead Economist, GMF07) and peer reviewers Volker Treichel (Lead Country Economist, GMF06) and Mamadou Ndione (Senior Economist, GMF01).

SUMMARY OF PROPOSED CREDIT AND PROGRAM

REPUBLIC OF TOGO

FISCAL MANAGEMENT AND INFRASTRUCTURE REFORM

FIRST DEVELOPMENT POLICY FINANCING

Borrower	Republic of Togo.
Implementation Agency	Ministry of Economy and Finance
Financing Data	IDA Grant. Amount: SDR 37 million (US$51.9 million equivalent).
Operation Type	Programmatic Development Policy Financing Operation, First in a series of two operations, Single tranche.
Pillars of the Operation and Program Development Objective(s)	The proposed program is articulated around two pillars: Pillar 1: Improving Fiscal Management – Tax Revenue Mobilization and Public Investment Efficiency; Pillar 2: Improving Financial Viability and Service Delivery in Key Infrastructure Sectors – Energy and ICT. The Program Development Objectives are to support the Government of Togo to enhance tax revenues and improve the efficiency of tax collection and public investment spending, and to strengthen the financial viability and service delivery in key infrastructure sectors.
Result Indicators Baseline: 2016 Target: 2019	**Pillar 1: Improving Fiscal Management – Tax Revenue Mobilization and Public Investment Efficiency** 1. Reduction in tax exemptions. Baseline (2016): 3.5% of GDP; Target (2019): 2.1% of GDP 2. Increase in property tax revenues. Baseline (2016): 0.58% of GDP; Target (2019): 0.68% of GDP 3. PIMA rating of public investment spending efficiency relative to potential. Baseline (2016): 30%; Target (2019): 60% 4. Terms of past pre-financed investments (interest rate/maturity): Baseline (2016): 8.0%/3 years; Target (2019):7%/7 years (3 years grace) **Pillar 2: Improving Financial Viability and Service Delivery in Key Infrastructure Sectors – Energy and ICT** 5. Increase in revenue collection rate of CEET from the general government. Baseline (2016): 36%; Target (2019): 75% 6. Improved financial performance of CEET as measured by days receivables: Baseline (2016): 185 days; Target (2019): 60 days or less 7. International internet bandwidth Bit/s per internet user. Baseline (2016): 7,310; Target (2019): 8,000 8. Wholesale price of international capacity (bandwidth price for 1 STM1 in Euro/mbps/month). Baseline (2016): 136; Target (2019): 68
Overall risk rating	High
Climate and disaster risks	*Are there short and long-term climate and disaster risks relevant to the operation (as identified as part of the SORT environmental and social risk rating)?* Yes, there are moderate risks, and these risks are discussed in the risk section of this document.
Operation ID	P159844

**INTERNATIONAL DEVELOPMENT ASSOCIATION (IDA) PROGRAM DOCUMENT FOR
A PROPOSED GRANT TO THE REPUBLIC OF TOGO
FOR FISCAL MANAGEMENT AND INFRASTRUCTURE REFORM
First Development Policy Financing**

I. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Development Policy Financing (DPF) in the amount of SDR 37 million (equivalent to US$51.9 million) supports a set of reform measures to restore Togo's fiscal stability and promote a more sustainable development path.** This operation is the first of two operations in a programmatic series. The reform program supported by the DPF seeks to support the Government of Togo to: (i) enhance tax revenues and improve the efficiency of tax collection and public investment spending, and (ii) strengthen the financial viability and service delivery in key infrastructure sectors. The series is based on two pillars: 1. Improving Fiscal Management – Tax Revenue Mobilization and Public Investment Efficiency; and 2. Improving Financial Viability and Service Delivery in Key Infrastructure Sectors – Energy and Information and Communications Technology (ICT). The fiscal management component includes improvements in the tax system, the creation of a Public Investment Committee to scrutinize future public investment projects and the development of clear and transparent criteria for the selection of projects, and refinancing past expensive pre-financed investment projects. The infrastructure component will improve the financial viability of the energy sector through the clearance of cross-debts, timely payment by the Government of services received, least-cost power generation, and optimal pricing of electricity. It will also improve service delivery in the ICT sector through increased competition and improved regulation. These reforms are critical to attract new private investment into these sectors thereby maximizing financing for development.

2. **Despite negative external shocks, Togo has experienced five years of relatively robust economic growth partly supported by costly non-concessional borrowing, but poverty remains high**. Gross Domestic Product (GDP) growth averaged 5.5 percent and per capita GDP growth averaged 2.8 percent over the past five years (2012-16). Implementation of an overambitious public investment program, largely financed by non-concessional borrowing and pre-financing contracts, led to a sharp deterioration of the country's fiscal and debt position in 2015 and 2016. While Togo's poverty rate declined in 2015 relative to 2006, extreme poverty remains widespread, and socio-economic conditions have significantly deteriorated since 1980 in both absolute and relative terms. The poverty rate has declined from 61.7 percent in 2006 to 55.1 percent in 2015, but extreme poverty remains very high at 49.2 percent in 2015. Moreover, Togo's real GDP per capita of US$558 in 2016 is lower than the peak of US$683 registered in 1980[1]. Finally, the country's ranking in the United Nations Human Development Index has significantly deteriorated over time, with the country falling from the 95th position out of 124 countries (i.e., bottom 23 percent) in 1980 to the 166th position out of 187 countries (i.e., bottom 10 percent).

3. **This proposed operation is prepared three years after the cancellation of a previous DPF series**. The Economic Growth and Governance Credit (P132208) approved by the Board of Executive Directors of the World Bank in late 2013, which was the first in a programmatic series of three operations, was cancelled shortly after the disbursement of the first operation. The disbursement of the first operation was also delayed by a year after Parliament adopted an expansionist budget for 2014 which was inconsistent with the macro-framework agreed with the World Bank and because of unorthodox public

[1] Income per capita has, however, been supported by large inflows of remittances, which were estimated at 8.2 percent of GDP in 2014.

finance management practices, especially in the areas of public investment and debt management. These policies led to rapidly rising fiscal deficits and unsustainable public debt accumulation and the programmatic series was canceled. This DPF series benefits from the current reform momentum in Togo and the lessons of the EGGC to proposes a program that is more selective and appropriate for the country context, as discussed in paragraph 44.

4. **In 2016, the Government recognized the need to restore debt sustainability through fiscal adjustment and for ambitious reforms to support private-sector growth with assistance from the International Monetary Fund (IMF), the World Bank, and other development partners.** A three-year Extended Credit Facility (ECF) for the period 2017-19 was approved by IMF on May 5, 2017, with the main objective of bringing public debt in line with the targets of the West Africa Economic and Monetary Union (WAEMU). Eliminating the use of pre-financing public investments is a key measure included in the ECF program. The program also helps address weaknesses identified in the banking sector, notably the two public banks. The proposed Fiscal Management and Infrastructure Reform (FMIR) series would provide further support for the budget in 2017-2018 and key fiscal and infrastructure sector reforms to enhance the quality of public finances and support private sector-led growth. Budget support is also being provided by the European Union (EU) and the African Development Bank (AfDB).

5. **The Government has launched an ambitious fiscal adjustment and structural reform program**. The fiscal adjustment program features strong upfront action through eliminating costly and inefficient pre-financed investments, curtailing the wage bill, and enhancing revenue collection while protecting investment financed through foreign concessional borrowing as well as social spending. Steps are also being taken to address persistent weaknesses in expenditure management. Further, a decision has been taken to merge and recapitalize the two public banks. In parallel, critical reforms are under way to enhance the financial viability of the energy sector and to strengthen competition and regulation in the ICT sector, both essential to attract new private investment and improve service delivery in these sectors. The World Bank is also supporting reforms in these sectors through Investment Project Financing (IPF), and would provide complementary policy support in the context of the proposed operation.

6. **The lending program is being developed in an environment where the political risk is high.** Since August 2017, Togo has been experiencing the most significant political unrest in more than a decade. Large opposition demonstrations have taken place in Lomé and other regional cities, with some incidents of clashes between security forces and demonstrators. The coalition of 14 opposition parties leading the marches says it plans to continue demonstrating until the president resigns. They call for the return to the 1992 Constitution—which limited presidential term to two terms (totaling 10 years)—and for voting rights for the diaspora. Parliament has called for a Constitutional referendum to take place towards the end of 2017 with the aim of addressing partially these demands, but the opposition remains unsatisfied. President Gnassingbé, in his third term since 2015, assumed the presidency after his father's death in 2005. The elder Gnassingbé had served as President since 1967. A national dialogue has been announced between the regime and opposition leaders to seek a political consensus.

7. **The objectives of this DPF series are in line with the priorities of Togo's National Development Program and the World Bank Group (WBG) Country Partnership Framework (CPF) FY17-FY20 and the IMF's ECF program.** They are aligned with the development objectives of the Government of Togo, which aim to boost the productivity and competitiveness of sectors with strong growth potential and strengthening supporting infrastructure. These objectives are described in the Government's Strategy for Boosting Growth and Promoting Employment (SCAPE), which ends in 2017 and will be succeeded by the

2018-2022 National Development Plan (PND) under preparation. The DPF objectives are also consistent with the priorities of the recently endorsed CPF, which seeks to promote more effective government policies and create an environment more conducive to private sector-led growth. The CPF priorities are informed by the recommendations of the 2016 Systematic Country Diagnostic (SCD) for Togo which identified weak government effectiveness in formulating and implementing policies that foster private economic activity (including in agriculture), in prioritizing and delivering public goods and services and ensuring sound fiscal governance. Finally, the series complements the IMF's ECF program, which strives to restore fiscal stability while protecting the most vulnerable segments of the population, and the strategies of many other development partners operating in Togo.

8. **Achieving the program development objectives will require an appropriate balance between multiple challenging targets, while taking into account Togo's limited institutional capacity**. Many of the proposed policy actions will support areas where the Government has demonstrated strong buy-in and produced initial results. New policy targets to be introduced incrementally include the establishment of improved legal and institutional frameworks (especially for the design of tax policies and the management of the ICT sector), and the development of the knowledge base required for designing and implementing future reforms. Lessons will be drawn from past development policy operation (DPO) experiences in Togo and other fragile states.

II. MACROECONOMIC POLICY FRAMEWORK

2.1 ECONOMIC DEVELOPMENTS

9. **Togo's economic growth performance has been relatively stable over the past five years.** Although Togo was affected by several negative shocks – notably the economic decline in Nigeria and lower prices for some of its main exports (phosphates and clinker) – GDP growth averaged 5.5 percent over the past five years (2012-16), which is higher than the Sub-Saharan Africa average. Growth was mainly driven by an ambitious public investment program. On the supply side, the main drivers of economic growth were agricultural production, extractive industries, and trading activities. Agricultural production, which accounts for approximately half of the country's GDP and over 60 percent of its employment, benefitted from good climatic conditions and recent initiatives, including the promotion of new farming techniques, the distribution of improved seeds to poor farmers, and the creation of water retention systems, that led to increases in the productivity of cereals, cash crops, and livestock breeding.

10. **Growth appears to be holding up reasonably well at just under 5 percent in 2017 despite a major fiscal adjustment and a difficult business environment.** Energy consumption increased by 11.2 percent in May 2017 (y-o-y), and traffic at both the port and airport has also increased, driven primarily by transshipment. The construction of two new ports (the third dock at the Lome Sea Port and the Lome Container Terminal) as well as an international airport, financed through foreign direct investment (FDI), has also contributed to growth recently.

11. **There are, however, some incipient signs of economic weaknesses**. The turnover of some large companies has reportedly stagnated in the first half of 2017, particularly in the construction sector. These weaknesses may potentially be linked to the retrenchment of capital spending. Following a strong expansion in the second half of 2016, commercial bank credits remained broadly stable in the first half of 2017.[2] Further, the deteriorating political atmosphere appears to be having a negative impact on private sector commercial activities.

[2] According to banks; BCEAO data shows an 18 percent increase this year.

12. **The current account deficit has remained substantial, reflecting Togo's narrow export base**. Exports of goods and services fell from 46.5 percent of GDP in 2013 to 35.2 percent of GDP in 2016 due to lower demand from Togo's main trading partners. Meanwhile, imports fell from 66.3 percent of GDP in 2013 to 55.1 percent of GDP in 2016 due to lower imports of machinery and other equipment used by the Government for the construction of road infrastructure. The current account deficit fell from 13.2 percent of GDP in 2013 to 9.7 percent of GDP in 2016 as net services as well as primary and secondary net income increased.[3] It was financed by a combination of non-concessional government borrowing from local and regional banks and some net FDI flows. The trade balance improved in the first quarter of 2017 due to the combination of lower imports and strong export volumes (despite unfavorable export prices); preliminary data for the second quarter of 2017 point to a slight deterioration of the trade balance.

13. **Monetary and exchange rate policies are managed at the regional level by the Central Bank of West African States (BCEAO) which has recently tightened monetary conditions**. In December 2016, the BCEAO changed its monetary policy by raising the cost of refinancing in local currency for commercial banks operating on the regional market. This policy has contributed to increasing the cost of funds for commercial banks operating in the region and therefore limited their lending capacity. However, in March 2017, the Monetary Policy Committee (MPC) reduced the Reserve Requirement ratio to 3 percent deposit from 5 percent. The objective was to help provide additional liquidity on regional financial markets. Foreign exchange reserves are pooled at the regional level. In 2016, a wider current account deficit at the West Africa Economic and Monetary Union (WAEMU) level and a lower financial account surplus have led to a reduction in the region's external buffers, with regional reserves falling to 3.7 months of imports, down from 4.5 months in 2016

14. **The CFA franc's appreciation against the US$ combined with strong agricultural production across the WAEMU member states have led to an easing of inflationary pressures on the economy.** Following an annual inflation rate of 0.9 percent in 2016, headline inflation rate through July 2017 was 2.5 percent (y-o-y) and -1.2 percent (m-o-m), driven primarily by lower food prices; the core inflation rate, excluding food prices, was 0.6 percent (y-o-y). The BCEAO has maintained its main policy rate unchanged at 2.5 percent since mid-2013. Average lending rates were in the range of 8-10 percent, similar to the Monetary Union average.

15. **Large and rising public investment during 2013-2016 using an in-transparent and expensive pre-financing mechanism resulted in escalating fiscal deficits and rapid, unsustainable debt accumulation.** Total government spending increased from 26.6 percent of GDP in 2013 to 31.4 percent of GDP in 2016, and the fiscal deficit rose from 5.8 percent of GDP in 2013 to 9.6 percent of GDP in 2016, with growth in tax revenues[4] being insufficient to meet the growth in expenditures. Public investment increased from 9.3

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[3] Active lending and grants by the World Bank to Togo include Safety Nets and Basic Services (P157038), Employment for Vulnerable Youth (P157036), Agriculture Sector Support Project (P118045), the West Africa Productivity Program (P122065), Trade and Competitiveness (P158982), WARCIP Broadband Connectivity (P123093), Maternal and Child Health Support (P143843), Regional Disease Surveillance System Enhancement (P159040), African Centers for Excellence (P126974), Education for All (P146294) administered by the Bank, Economic Governance (P158078), and Mining Governance and Development (P149277).

[4] The Government took several steps to reform its tax and customs administration with a view to boosting revenue collection and efficiency. The reforms included, most notably: (i) the merger of the tax and customs administrations into a single entity, i.e., the Office of Tax Revenue; (ii) the dismissal of redundant and unqualified workers; (iii) the

percent of GDP in 2013 to 14 percent of GDP in 2016, mainly explained by the rise in domestically-financed investment to 8.4 percent of GDP from 4.5 percent of GDP over the same period. Most of the domestically financed investment was done through pre-financing arrangements organized outside of normal budget and procurement processes. These arrangements were done through local and regional banks on costly commercial terms, including short maturities and high interest rates.[5] As a result, Togo's debt rose from 42.1 percent of GDP in 2013 to 81.0 percent of GDP in 2016, exceeding the WAEMU threshold of 70 percent of GDP. Furthermore, the Government accumulated significant arrears at the end of each fiscal year—with arrears at end-2016 amounting to 5.7 percent of GDP—which adversely affected the operating budget in subsequent fiscal years. The Government's operating budget was also adversely affected by the significant and rising debt service cost.

16. **In the context of the ECF-supported program approved in May 2017, the Government initiated strong fiscal consolidation in the first half of 2017**. While revenue performance has fallen short of expectations, expenditure have been cut back drastically both through stopping the practice of pre-financing and restraining other capital spending. Social spending also appears to be held back despite a commitment to maintain and even increase this slightly, though there are institutional weaknesses in monitoring this information. During the first half of 2017, the primary fiscal balance registered a surplus of 1.4 percent of GDP, compared to an average deficit of about 6 percent of GDP per year during 2013-16. At the same time, new arrears accumulated, amounting to about 0.5 percent of GDP (on a net basis) during January-June 2017.

17. **Based on the fiscal performance through end-June 2017, the overall deficit is expected to decline from 9.6 percent of GDP in 2016 to 5.7 percent of GDP in 2018.** With capital spending running well-below programmed levels, the Government plans to use the available fiscal space to settle part of the outstanding stock of arrears to the private sector, starting in 2017.[6] The World Bank and the IMF have also stressed the need to ensure that social expenditures are maintained as planned.

reduction in the time allotted to paying taxes; and (iv) the fighting of corruption. As a result of these measures, tax revenues rose from 15.9 percent of GDP in 2013 to 16.9 percent of GDP in 2016.

[5] Pre-financing entails the Government contracting with a private sector company, typically on a sole-source basis, to undertake a public investment project. The private sector company then takes out a loan for the project from a commercial bank with the Government guaranteeing the loan and subsequently assuming responsibility for all payments.

[6] The IMF has agreed to allow the additional fiscal space created in 2017 by lower than programmed capital spending to be used for payment of part of the nearly 6 percent of GDP arrears to the private sector (2.5 percent of GDP in 2017).

Table 1. Togo: Key Macroeconomic Indicators

	2013	2014	2015	2016	P2017	P2018	P2019	P2020
				Annual percentage change unless otherwise indicated				
Real Economy								
GDP (CFAF billions)	2,134	2,259	2,443	2,628	2,779	2,962	3,166	3,400
Real GDP growth	6.1	5.4	5.3	5.0	4.9	5.0	5.2	5.3
Real Per-Capita GDP	3.3	2.6	2.5	2.2	2.1	2.2	2.4	2.5
GDP deflator	0.6	1.2	2.7	1.7	0.9	1.5	1.6	2.9
Consumer Price Index (average)	1.8	0.2	1.8	0.9	0.6	1.2	1.4	2.0
				Percent of GDP, unless otherwise indicated				
Fiscal Accounts								
Expenditures	26.6	27.5	31.1	31.4	27.6	28.0	25.1	26.2
Revenues	18.1	18.3	19.7	18.9	20.0	21.7	21.3	21.4
Grants	3.4	2.3	2.3	2.9	5.3	3.9	4.1	4.1
Overall Primary Balance	-4.7	-6.5	-5.4	-7.2	-2.7	-2.2	2.0	2.0
Overall Government Balance	-5.8	-8.0	-7.8	-9.6	-5.8	-4.6	-1.1	-0.8
				Annual percentage change unless otherwise indicated				
Selected Money Accounts								
Base Money (M2)	10.3	9.8	20.2	12.9	12.2	12.4	12.5	12.7
Credit to non-government	9.0	7.9	11.3	11.2	5.9	7.4	8.6	9.0
Credit to government (net)	-4.1	3.1	-1.4	-5.8	-5.0	-0.3	-0.2	-0.2
Net foreign assets	4.6	-7.7	10.5	6.3	-1.1	0.9	1.4	1.8
				Percent of GDP, unless otherwise indicated				
Balance of Payments								
Current Account Balance	-13.2	-9.9	-11.1	-9.7	-8.2	-7.2	-6.4	-5.1
Imports	-66.3	-57.3	-58.0	-55.1	-52.4	-50.3	-50.4	-49.5
Exports	46.5	39.4	36.0	35.2	34.3	33.4	34.3	34.7
Foreign Direct Investment	--	6.4	-1.7	-2.2	-2.0	-2.3	-2.7	-3.0
Terms of Trade (index)	1.5	10.6	-16.5	0.4	-2.4	-0.9	0.7	1.1
External Debt	14.3	17.1	21.1	19.7	21.1	23.2	26.0	26.6
Exchange rate (CFAF/US$ average)	493.9	493.6	591.2	592.7				

Source: Togo authorities; and World Bank and IMF Staff estimates.

Table 2. Togo: Key Fiscal Indicators

Percentage (%) of GDP	2013	2014	2015	2016	P2017	P2018	P2019	P2020
Total Revenues								
Revenues excluding Grants	18.1	18.3	19.7	18.9	20.0	21.7	21.3	21.4
Tax Revenues	15.9	16.4	17.5	16.9	18.1	19.2	19.1	19.2
Tax administration (CI)	7.2	7.7	8.7	9.1	9.8	10.8	10.8	10.8
Customs administration (CDII)	8.6	8.6	8.8	7.9	8.3	8.4	8.4	8.4
Non-tax revenues	2.2	2.0	2.2	1.9	1.9	2.4	2.2	2.2
Grants	3.4	2.3	2.3	2.9	5.3	3.9	4.1	4.1
Total Expenditure								
Current Expenditures	17.4	16.2	17.9	17.4	16.6	17.4	18.1	17.7
Wage Bill	6.1	6.3	7.0	7.0	6.9	6.9	6.8	6.8
Goods and Services	3.7	2.8	3.7	3.8	3.5	3.9	3.9	3.9
Transfers and subsidies	6.5	5.5	4.7	4.2	4.1	4.2	4.3	4.3
Interest Payments	1.1	1.5	2.4	2.4	2.1	2.4	3.1	2.8
Capital Expenditure	9.3	11.3	13.1	14.0	11.0	10.6	7.1	8.5
Domestically financed	4.5	6.8	7.4	8.4	3.3	3.2	2.1	2.5
Foreign financed	4.7	4.6	5.7	5.6	7.7	7.5	6.0	6.0
Financing	10.9	13.9	15.1	12.3	7.3	6.2	2.2	4.6
Domestic financing (net)	6.6	9.6	9.6	7.0	1.1	-0.4	-2.1	-2.0
External financing	4.3	4.2	5.5	5.3	6.2	6.7	5.6	6.3
Overall balance								
Overall primary balance, including grants	-4.7	-6.5	-5.4	-7.2	-2.7	-2.2	2.0	2.0
Overall balance, including grants	-5.8	-8.0	-7.8	-9.6	-5.8	-4.6	-1.1	-0.8
Overall balance, excluding grants	-9.2	-10.4	-10.2	-12.5	-10.1	-8.6	-5.2	-4.9

Source: Togo authorities; and World Bank and IMF Staff estimates.

18. **The accumulation of government arrears to the private sector has resulted in a high level of non-performing loans for commercial banks, which has reached approximately 20 percent at end-2016.** The two public banks, i.e., *La Banque Togolaise pour le Commerce et l'Industrie* (Togolese Bank of Commerce and Industry - BTCI) and the *Union Togolaise des Banques* (Togolese Union of Banks - UTB) have become insolvent, and several micro-finance institutions are also reporting large and increasing shares of bad loans, partly because of inadequate regulation.

19. **The authorities have decided to merge the two weak public banks and developed a preliminary restructuring plan.** An important first step—an independent audit of the two banks—confirmed that their capital is negative after revaluation. The authorities decided to merge the two banks through purchasing all minority shares in the weakest bank (BTCI) and then merging this into the stronger bank (UTB). Following the decision on the merger, the temporary management of the two banks led by UTB has prepared a preliminary restructuring plan based on the principles of no bail-out of minority shareholders, least cost for the state, ensuring adequate capital, and restoring financial viability of the new merged bank. The merger is planned to become effective from June 30, 2018, but the magnitude of the required recapitalization remains uncertain (though likely significantly less than the initial estimate of 4 percent of GDP). Once the needed recapitalization is known, the Government would prepare a supplementary budget for 2018 to cover the cost.

20. **The Government is taking action to prevent the accumulation of arrears in the future.** Three complementary actions are being taken to prevent further accumulation of arrears: (i) The IMF program

is based on a sharp cut in fiscal spending and an increase in public revenue, necessary to restore fiscal space and reduce the debt burden; (ii) the Minister of Finance is committed to settling the existing stock of arrears which are being audited; and (iii) the Economic Governance Project (P158078) will support the development of cash management tools to improve forecasts of cash requirements from MDAs and speed up the payment process of investment expenditure. These tools will ensure that the forecast cash flow plan is supported by credible procurement plans and credit consumption plans which are updated on a quarterly basis to be incorporated into the quarterly Treasury plans. In addition, a technical assistance (TA) operation from the IMF and EU is being prepared to support cash and debt management. This DPF includes action to centralize general government utility payments through the budget.

2.2 MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

21. **Medium-term growth prospects remain broadly positive but rests on a number of uncertain assumptions.** Annual growth is projected to increase marginally to 5 percent in 2018 with continued fiscal retrenchment (though much less than in 2017) assumed to be gradually replaced by a more dynamic private sector activity. The 5 percent growth rate also assumes that rainfall is regular and well-distributed throughout the national territory and that the Government holds to its promise to build more water retention systems. Real GDP is forecast to edge slightly higher to reach 5.3 percent by 2020, in line the historical trend. The projections also assume that the political environment would remain stable.

22. **Togo's current account deficit is projected to decrease gradually over the medium term.** Reduced public investment should lead to the reduction of imports of investment equipment, and a reduced overall fiscal deficit will increase domestic savings. Exports is expected to increase as cotton, phosphate, and clinker return to more traditional production levels. The current account deficits should be financed by foreign direct investments and external concessional borrowing.

Table 3. Togo: Balance of Payments Financing Requirements and Sources

Billions of CFA Francs	2014	2015	2016	P2017	P2018	P2019	P2020
Total Balance	-28.1	-113.0	-53.4	-46.2	-43.6	-8.9	16.7
Financing	28.1	113.0	53.4	46.2	43.6	8.9	-16.7
Reserves assets	16.9	25.0	-52.2	16	-15.2	-26.1	-39.1
Operations accounts	23.0	33.7	-34.9	-15.3	-47.9	-90.7	-31.6
IMF (net)	-6.0	-8.7	-17.3	31.3	32.6	64.6	-7.5
Disbursements	0.0	0.0	0.0	50.4	50.4	75.6	0.0
Amortization	6.0	8.7	17.3	19.1	17.8	111	7.5
Financing Gap (+ = financing need)				76.2	67	85.4	0
Awaited financing (excluding IMF)				36.5	28.3	27.4	
IDA DPO				30.2			
IMF ECF				39.7	38.7	58.0	

Note: The WBG CPF assumes continued DPO lending in 2018-2019.

Source: World Bank and IMF Staff estimates.

23. **Fiscal policy over the medium term is guided by the objective to comply with the WAEMU target of reducing public debt below 70 percent of GDP by 2019, requiring a continued substantial fiscal**

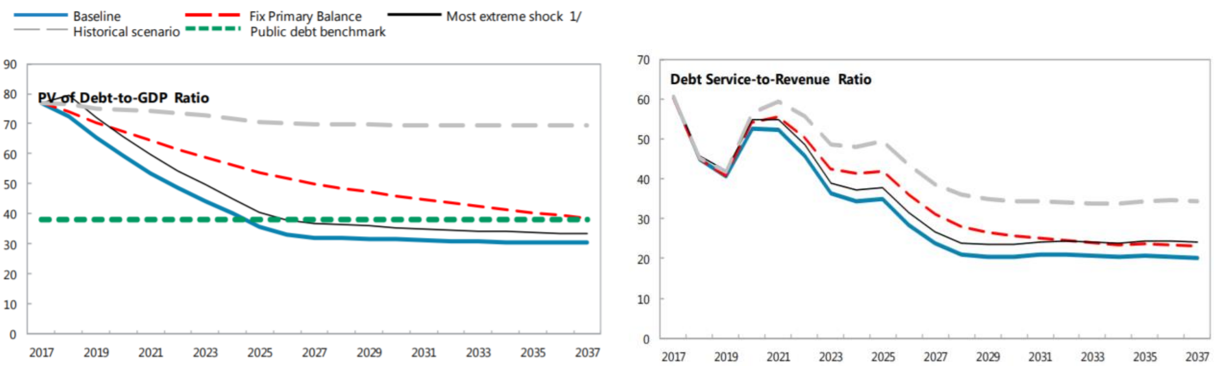
adjustment. This will require achieving a primary fiscal surplus of 2 percent of GDP in 2019 (0.5 percent of GDP after arrears payment), while the overall fiscal deficit would decline to less than 1 percent of GDP (2.2 percent of GDP after arrears payment)—below the WAEMU convergence criterion of 3 percent of GDP.[7] This would entail a fiscal adjustment (as measured by the primary balance excluding bank recapitalization) of 9 percentage points of GDP from 2016 to 2019 (7.7 percentage points of GDP after arrears payment). The 2018 budget is being prepared on this basis and will feature further significant fiscal consolidation. The primary deficit (excluding bank recapitalization) would be reduced from a projected 2.7 percent of GDP in 2017 to 2.2 percent of GDP in 2018 (including 2.0 percent of GDP in arrears payment[8]). As explained earlier, the cost of the restructuring of the two public banks is likely to require a fiscal transfer that will increase the projected deficit in 2018. This exceptional but necessary fiscal cost will be financed by additional borrowing on the regional market.

24. **The Government is pursuing ongoing efforts to improve revenue collection and contain spending.** Total tax revenue is expected to increase from 16.9 percent of GDP in 2016 to 19.8 percent of GDP in 2019. The increase in revenue should come from additional efficiency gains resulting from the operationalization of the Revenue Authority (OTR) and efforts made to broaden the tax base and rationalize tax expenditures. Tax reforms aimed at rendering the tax and customs administration more efficient should also attract new economic operators to the Lomé sea port and boost tax and customs revenue. Nontax revenue is expected to be maintained at its current level of 1.9 percent of GDP. Spending is programmed to decline from 31.4 percent of GDP in 2016 to 25.7 percent of GDP in 2019, mainly through continued reductions in domestically financed public investment (with total public investment declining from 14 percent of GDP in 2016 to 7.9 percent of GDP in 2019). The wage bill will be rationalized by 0.1 percent of GDP annually to reach 6.7 percent of GDP by 2019, and fuel subsidies would be contained through improving efficiency and lowering generation costs in the energy sector. To limit the impact of cuts in public investment on the poor, the Government would slightly increase pro-poor social spending.

25. **The latest DSA (2017) indicates that Togo's risk of external debt distress is moderate, but Togo is at a heightened risk of overall debt distress reflecting the high level of total public debt**. Under the baseline scenario, the external debt sustainability ratios are expected to remain below indicative thresholds throughout the projected period (2017-2035). Under historical scenarios and stress tests, thresholds would be breached in later years. Togo's external debt is vulnerable to adverse shocks. The targeted primary fiscal surplus, combined with growth in the 5 percent range, would put the public debt, including public enterprise debt, on a firm downward trajectory, reaching 73.5 percent of GDP at end-2019 (69.5 percent excluding bank recapitalization). Assuming that the 2 percent of GDP primary surplus is sustained in the post-IMF program period, the present value of public debt would be brought below the threshold of 38 percent of GDP for heightened risk of public sector debt by 2025. The overall debt dynamics highlight the vulnerability of the Togolese economy to certain shocks (notably low exports, declining commodity prices, less favorable financing terms and lower revenue). This underlines the need for a prudent approach to new borrowing (including continuation of the zero-limit on non-concessional borrowing), and the importance of improving debt management capacity for realistic assessments of the risks posed by various sectors, especially in the infrastructure sector. Significant tensions in the DSA may arise if the government will be required to provide guarantees for new private sector investment, e.g. in the energy sector as is likely.

[7] Arrears are already included in public debt and payment of arrears does thus not affect the debt stock.
[8] This would leave about 1.5 percent of GDP in arrears to be paid in 2019 (included in Table 2).

Figure 1. Togo DSA: Indicators of Public Debt and Debt Service under Different Scenarios



Source: IMF and World Bank staff estimates (2017).

Table 4. Togo: Debt Composition

Percentage (%) of GDP	2014	2015	2016	PE2017	P2018	P2019	P2020
Total public debt	65.2	75.6	80.8	80.4	78.1	73.5	68.8
External public debt	17.1	21.1	19.7	21.1	23.2	26.0	26.6
Interest on external debt	0.4	0.6	0.4	0.5	0.6	0.7	0.8
Domestic debt	48.1	54.5	61.0	59.3	54.8	47.6	42.2
Interest on domestic debt	1.1	2.1	2.5	3.4	0.4	3.3	3.1

Source: IMF and World Bank Staff Estimates.

26. **The macroeconomic policy framework for 2017-20 is considered adequate for the purpose of the operation.** Togo's economic outlook is broadly positive and underlies the Government's commitment to economic reforms as evidenced by the IMF's Board approval of the three-year ECF in May 2017 and expected approval of the first review under the arrangement in mid-December 2017. One major sign of the Government's commitment has been to stop the use of pre-financing as an instrument to finance public investments. This has led to a significant reduction in public investment. Also, the Government's stated ambition to move toward Public Private Partnerships (PPP) shows its desire to bring in private investments as the main growth driver of the economy. Togo's prudent monetary policy is anchored on the WAEMU regional policy. Inflation has been contained below the WAEMU norm of 3 percent over the past few years and should remain below the norm in the medium term. Furthermore, the ECF arrangement with the IMF provides confidence that financial sector vulnerabilities are being addressed. Finally, program financing is assured through exceptional support from the IMF and the proposed operation. However, given the high debt level, possible signs of debt distress will have to be monitored carefully.

27. **Nevertheless, macroeconomic risks remain high.** First, lingering political tensions may adversely affect economic performance through dampened consumer and investor sentiment, which may pressure the Government to slow down the ambitious fiscal consolidation program should public discontent

continue to grow.[9] Second, the fiscal consolidation process may also be hampered by increased security and election related spending in 2018. Third, the country's poor business environment may continue to impinge on the country's growth, with the performance of public banks continuing to weaken the financial sector. These sources of risk would potentially jeopardize the achievement of the overarching public debt convergence objective and erode political and social support which are necessary for the implementation of structural reforms, such as the restructuring of the ailing banks and the opening-up of some key sectors to greater competition (e.g. telecoms, mining, and energy). Furthermore, institutional capacity constraints may pose risks to program implementation. From the regional and global perspectives, a potential insecurity surge in the region, weaker-than-expected global growth, and tighter financial conditions may cloud program implementation. And Togo remains highly exposed to commodity price shocks and potential adverse weather conditions. The vulnerability of agricultural production to climatic conditions could be mitigated by providing more water retention and irrigation facilities to farmers.

2.3 IMF RELATIONS

28. **The IMF Board approved a three-year (2017-19) Extended Credit Facility (ECF) for Togo on May 5, 2017**. The arrangement was for more than 120 percent of quota (US$241.5 million over the next three years), higher than the usual ECF norm of 90 percent of quota. The key objective of the program is to reinforce debt sustainability through strong fiscal adjustment. Domestically financed capital expenditures would be reduced, while government revenues would increase. Current spending would also be contained, with a slightly lower wage bill making room for slightly higher social spending. The program would exclude any recourse to non-concessional borrowing (or pre-financing) and would help resolve the insolvency of the two public banks. The ECF program should help release additional concessional financing from development partners and new foreign direct investment. The first review under the ECF is expected to be concluded by the IMF Board on December 18, 2017. The program is broadly on track, with all quantitative performance criteria for end-June met and most structural benchmarks for end-June and end-September either met or likely to be met prior to Board consideration of the first review. A staff-level agreement was reached at end-October on conclusion of the first review under the arrangement, including repayment of government arrears to state-owned enterprises (including the electricity distribution company) and the private sector over 2017-2018, the budget for 2018, and next steps on preparing the merger of the two public banks.

III. THE GOVERNMENT'S PROGRAM

29. **The Government's priorities are defined in the 2013-2017 SCAPE** and the successor strategy, the National Development Plan for 2018-2022. The NDP is inspired by long-term national and international development visions, including Togo's Vision 2030, Vision 2020 of the Economic Community of West African States (ECOWAS) and the WAEMU, Agenda 2063 of the African Union (AU), and the Sustainable Development Goals (SDGs) adopted in September 2015. The NDP is underpinned by eight fundamental principles: national leadership, accountability, results-based management, sustainability (social, economic and environmental), equity (including gender), inclusiveness (especially the most vulnerable), monitoring, and partnerships with domestic and foreign development stakeholders. The NDP takes into

[9] Evidence on fiscal multipliers in the region suggest that a one percentage point of GDP reduction in the fiscal deficit through lower capital spending could result in a 0.4 percentage point reduction in real GDP growth in the same year. Allowing for the fact that significant inefficiencies were likely involved in the pre-financing schemes, the fiscal contraction in 2017 of around 4.5 percent of GDP could thus well lower real GDP growth by at least 1 percent.

account the lessons learned during implementation of SCAPE and the priorities of the 2015-2020 administration, which put a renewed emphasis on social inclusion.

30. **The goal of the NDP is to promote Togo's structural transformation into an emerging market economy.** The NDP emphasizes good governance, improved public financial management (PFM), creation of strong institutions, and effective partnerships between the public and the private sector. It also focuses on improving the quality and reducing the cost of energy, telecommunications and transport services would make the Togolese economy more competitive. Promoting tourism, culture, sports and other sectors are also highlighted to contribute to jobs and economic wealth. Decentralization, transfer of skills and resources to the regions, protection of the environment and sound management of natural resources are also priorities.

IV. THE PROPOSED OPERATION

4.1 LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

31. **Strong measures to ensure macroeconomic stability and remove binding constraints to growth are needed.** Restoring macroeconomic stability and fiscal sustainability is critical to meet obligations under the Monetary Union and encourage private investment. Improving fiscal management, including to enhance revenue collection and ensure better public investment decisions, is an important part of this agenda. Unreliable and expensive energy and ICT services are viewed by the private sector as key weaknesses in the business environment, and they also impact negatively on consumer welfare. Improving the financial viability of the energy sector and strengthening competition and regulation in the ICT sector are needed to attract new private investment and improve service delivery in these sectors and thus key elements of the government's reform program.

32. **Tax reform and the development of a more efficient and equitable tax system are among Togo's main priorities**. Togo's tax system remains overly complicated and burdensome and is viewed as a major obstacle to investment, formalization of informal sector enterprises, firm growth, and poverty reduction through productive employment (World Bank, 2016). The Togolese Government recently launched a second generation of tax reforms that culminated in the integration of the former Customs and Tax Directorates into a single structure (OTR). Tax revenue as share of GDP improved by more than 0.7 percent over 2014-2016. While Togo's tax revenue to GDP ratio at 17.4 percent in 2015 exceeded the WAEMU average, it lagged Senegal (19.8 percent of GDP) as well as the overall WAEMU target for 2019 of 20 percent of GDP. Reforming the tax system is critically needed to increase available fiscal space and mobilize the funds necessary to finance priority projects. Ongoing reforms aim to improve domestic revenue mobilization to 19.8 percent of GDP in 2019 by improving tax policy design; promoting tax compliance; and improving the quality of service provided to taxpayers.

33. **Following the bad experience with pre-financed investments, the Government is keen to strengthen public investment management and ensure the most efficient use of scarce resources in addressing critical infrastructure bottlenecks**. Public investment expenditure increased substantially over the past few years as a result of systematic use of the pre-financing mechanism, and the quality of public investment became a major issue. Driven by large infrastructure spending, total public investment increased from 9.3 percent of GDP in 2013 to 14 percent of GDP in 2016. Togo ranks in the bottom quartile with respect to the public investment management index. The IMF's Public Investment Management Assessment (PIMA) estimates the efficiency of Togo's public investment at 0.3 (on a scale 0-1). The PIMA

diagnostic proposes specific recommendations on how to improve efficiency in public investment. Some of these proposals are included in the new IMF program. Ending the "pre-financing" system is already an important measure that should increase public investment efficiency.

34. **Power outages in Togo are commonplace with adverse consequences for the economy and the wider population.** Supply disruptions are caused by a variety of factors including inability to pay imports of electricity, hydrological conditions and operational constraints. In 2015, about 25 percent of businesses reported power cuts for more than 20 percent of business hours; 56.7 percent reported cuts for less than 20 percent of their operating hours; and only 16.5 percent of formal enterprises had not experienced electricity cuts in the past year. Losses due to outages are estimated at 6 percent of sales, a much higher percentage than is typical for the region. Many Togolese firms consider that the high cost and lack of reliability of electricity supply is a major constraint.

35. **Togo's two power utilities are experiencing financial distress due to a combination of low tariffs, poor revenue collection and operational inefficiency.** Togo's electricity sector is unusual in combining two utilities: one bi-national and one national. The bi-national utility, *Communauté Electrique du Benin* (Electric Community of Benin - CEB), owned jointly with Benin, develops and operates the national grid and supplies wholesale electricity primarily through import contracts from neighboring countries. The national utility, *Compagnie Energie Electrique du Togo* (Power Company of Togo - CEET), operates the medium- and low-voltage distribution network and provides retail services. Both companies are experiencing substantial financial difficulties. CEB's revenue is based on a wholesale power tariff of US$0.11 per kilowatt-hour (kWh) that falls short of power purchase plus wheeling costs that are estimated in excess of US$0.13 per kWh. At the same time, CEET's operational cash flow turned negative in 2014 and 2015. This was partly due to very weak revenue collection from public sector entities, which account for about 20 percent of electricity sales but pay only 36 percent of their bills. The utility also suffers from broader operational inefficiencies, with distribution losses of at least 16 percent.

36. **This situation results in a non-payment chain that affects the entire electricity sector and increasingly spills over into neighboring countries.** The arrears accumulated by public sector entities to the CEET amounted to CFAF 44 billion at end-2016. As a result, CEET has not been able to honor its payments to CEB, accumulating arrears of CFAF 29 billion at end-2016. Given that a similar situation exists with respect to the national distribution utility in Benin, CEB is doubly affected and has not been able to honor payment of power import contracts, accumulating debts of US$148 million (or 1.1 percent of the combined GDP of Togo and Benin) at end-2016: US$101 million with the Transmission Company of Nigeria; US$32 million with the Volta River Authority of Ghana; and US$15 million with the *Compagnie Ivorienne d'Electricite of Cote d'Ivoire* (Cote d'Ivoire Electricity Company). Concern about the magnitude of these debts has prompted diplomatic actions of various kinds on behalf of the power exporting countries. At the request of a number of governments, the World Bank has initiated analytical work on the securitization of payments under the West Africa Power Pool (WAPP).

37. **Going forward, Togo's challenge is to expand power generation in a way that balances cost-efficiency with energy security considerations.** Togo's reliance on power imports from the WAPP, which provided nearly 90 percent of the country's electricity consumption in 2015, has enabled Togo to benefit from relatively low cost hydropower and gas-fired generation in neighboring countries, with import prices currently ranging between US$0.08 per kWh from Nigeria to US$0.12 per kWh from Cote d'Ivoire. More recently, energy security considerations prompted Togo to develop additional domestic generation capacity in the form of an Independent Power Project signed with Contour Global in 2010 for a 100 MW Heavy Fuel Oil (HFO) plant. Energy security brings important benefits but also carries an additional cost as

oil-based generation was so far the only available technology for domestic production. This represents a cost of US$0.15 per kWh to run, even at current low prices for oil, and would rise considerably if oil prices were to rebound. The Power Purchase Agreement for the HFO plant moreover includes capacity charges to cover the fixed costs of capital investment that need to be paid even when the plant is not running. Going forward, it is critical that additional investments be based on least-cost generation principles. The Government of Togo should also explore solar with storage, as prices are becoming cost competitive with some fossil fuel generation in some markets.

38. **Three main actions are needed for reducing the cost of service for consumers**. These are: (i) an increase in imports of electricity in the short term; (ii) the introduction of solar IPPs and other renewable energy projects; and (iii) loss reduction. With regards to the first action, Togo is unable to increase imports of electricity unless it improves its ability to pay foreign suppliers. This, in turn, requires an increase in the billing collection rate, which stands at 30 percent for public sector consumption and 90 percent for private consumption in order to improve the operational and financial performance of the distribution utility. The analytical work on securitization of payments is ongoing, and will likely result in a series of proposed reforms to truly launch the electricity market pursuant to the WAPP. While these results will become available around the end of the year and will require regional consultations, countries will be required to commit to paying for public consumption. With regards to the renewable energy agenda, *Deutsche Gesellschaft für Internationale Zusammenarbeit* (German Corporation for International Cooperation - GIZ), which has also recently re-engaged in the sector, is conducting an analysis to improve the independent power producer (IPP) framework and propose amendments to the electricity law, but this will not be ready within the timeframe of the DPO.

39. **ICT services in Togo are costly, inefficient and of poor quality, thereby preventing Togolese firms from taking advantage of new opportunities offered by mobile technology and internet services**. In addition, the lack of competition in the sector negatively affects service delivery and the sector's contribution to growth. In 2016, the country ranked 179th for the cost of mobile telephone service, and 172th for the cost of fixed broadband service out of a total of 180 countries (International Telecommunications Union - ITU 2015). Mobile telephone costs are especially high, at 28 percent of gross national income (GNI) per capita. The cost of calls is much lower in countries where private competition is robust like Ghana, Kenya, and Tanzania. Furthermore, the quality of mobile voice calls is low in Togo, even in Lomé. Despite high prices and poor quality, demand is strong relative to Togo's income level. The market expanded relatively quickly, from 56,000 subscribers in 2000 to 2.9 million in December 2016. The telecommunications and postal regulatory authority (*Autorité de Régulation du Secteur de la Communication Electronique et des Postes* - ARCEP) estimates that in December 2015, 75 percent of the population had a telephone subscription (fixed and/or wireless). According to the 2015 household survey, almost 70 percent of households had access to mobile services-60 percent in rural areas and over 83 percent in urban areas. Yet affordability remained a major issue for the poorer segments of the population, and subscription rates were lower among those in the bottom quintiles.

40. **The weak performance of the ICT sector is costly for the Togolese economy.** The SCD noted that the majority of Togolese enterprises view the poor quality of internet and telecom services as the most important constraint to doing business. Seventy-one percent of firms utilize more than one mobile telecom provider; 42 percent of these multiple subscribers do so to reduce costs and 57 percent to circumvent quality and reliability issues. Similarly, among businesses with Internet service, 41 percent utilize more than one type of connection to improve reliability. Sixty-four percent of internet business users experience disruptions during more than 20 percent of their operating hours and for 14 percent of

these enterprises, cuts disrupt more than 80 percent of their operating hours. To compete internationally, both foreign and domestic investors need higher-quality services at more reasonable prices.

41. **The ICT market is plagued with uncompetitive practices.** While monopolistic markets are not uncommon in telecom and internet services, many countries have recognized the benefits they can derive from introducing private sector competition, combined with appropriate regulation. In Togo, the introduction of *bona fide* competition has been slow and limited. The fixed-line telephone market is controlled by Togo Telecom, a state-owned monopoly, which also had de facto monopoly over international connectivity and fiber infrastructure. The wireless market is a duopoly as opposed to all neighboring countries with three mobile operators (Senegal and Burkina Faso), four (Benin, Liberia, Sierra Leone, Cote Ivoire and Niger) or more (eight operators in Ghana or Nigeria). It includes Togo Cellulaire (Togocell), the mobile arm of Togo Telecom, with 55 percent of the market, and Atlantique Telecom (Moov), controlled by Emirates Telecommunications Corporation (Etisalat), with 46 percent (December 2016). For several years, the Government considered the possibility of authorizing a third operator, but progress has stalled. Moreover, regulatory red tape has limited Moov's capacity to compete fairly with Togocell. For instance, until January 2016, Moov was not authorized to operate a 3G mobile service, hindering its ability to compete in the high-end mobile segment. This contributed to the low penetration of broadband mobile technology (such as 3G and 4G): only 9 percent of the population in Togo, as of December 2015, per the GSM Association. This compares to 14 percent in Senegal, 24 percent in Sierra Leone and Niger, 31 percent in Ghana and 36 percent in Côte d'Ivoire.

42. **Improvements in this sector are essential to unleash competition, improve the performance of all economic sectors (including agriculture), and make growth more sustainable and inclusive**. Without an efficient telecommunications sector, Togo misses out on opportunities for important positive spillover effects to the rest of the economy. The efficiency in other sectors and improved delivery of social services are negatively affected by poor telecommunications services. Without a more dynamic ICT market, Togo will continue to lag other countries in the region in terms of opportunities for mobile-based innovation in the financial, agriculture, education, health, transport and logistics sectors. The Government has recently restructured the state-owned Togo Telecom and Togo Telecell to create one holding company, TogoCom, with three affiliates: one for information technology (IT) infrastructure, another for retail of IT services, and a third for IT maintenance. The participation of a private strategic partner in the new structure is envisaged. The Government is also working on a social plan associated with the restructuring strategy of the two companies. However, it remains uncertain how much this will do to improve the functioning of the telecoms market.[10] While the SOE is not underperforming compared to other SOEs in Africa, but is overprotected resulting in a high cost of service and pent-up demand.

43. **The proposed first FMIR is the first in a series of two programmatic operations.** The new series draws upon the lessons learnt from the previous failed DPO and will support the Government's efforts to enhance fiscal management and improve service delivery in the energy and ICT sectors. In particular, the new series will support (i) enhanced and more efficient tax revenue mobilization and improved public investment management; and (ii) strengthening the financial viability of the energy sector and enhancing

[10] The restructuring of Togo Telecom is a very politically and socially sensitive issue. Initially the World Bank and the International Finance Corporation (IFC) entered into negotiations with the Government to propose options for the for utilization of state-owned telecom assets. The WBG was inclined to the option of spinning off the wholesale business/assets into a neutral entity which would be open for a private/strategic investor. However, the Government decided to carry out the process without the WBG.

competition and regulation in key segments of the ICT sector. These two components are fully consistent with the objectives of the SCAPE and the NDP.

44. **The proposed operation takes into account the World Bank's experience with previous development policy operations in Togo.** In the past, development policy lending in Togo (stand-alone or programmatic) produced mixed results in terms of the Government's performance and eventual outcomes. The Economic Growth and Governance Credit, the DPO program approved in 2013, did not achieve all of its development objectives because fiscal policy, public investment management and general expenditure management were inadequate. The EGGC Implementation Completion and Results Report (ICR, February 2017), as well as the IEG evaluation of the ICR, point to the importance of realism and selectivity in the reform program, particularly in a low capacity and fragile context. The EGGC operation covered structural reforms in five sectors (agriculture, banking, energy, mining and telecommunications) in addition to PFM measures, whereas the FMIR focuses on structural reforms in two sectors, in addition to PFM measures. The decision not to include the 2017 restructuring of the telecoms sector in the FMIR also reflects a more realistic and focused approach to the reform program. This builds on the lessons learned in both the ICR and IEG evaluation around political economy and realism considerations. IEG also found that the Bank could have done more to build consensus around reforms, and the FMIR builds on the consultations of the SCD and CPF, as well as during the preparation of the DPF, to identify reforms on which there is broad-based consensus among stakeholders, including development partners. These conditions are all believed to be satisfied in the context of the proposed new DPO program.

4.2 PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

45. **This section describes in more detail the proposed policy actions in the new FMIR series**. The first operation lays the groundwork for continued reforms in targeted priority areas to be supported through the programmatic series. It explains the prior actions and triggers for the next operation in the series, and the rationale behind these. It also describes the indicators selected for monitoring progress and evaluating results. The program is summarized in Tables 5 and 6.

Pillar 1. Improving Fiscal Management: Tax Revenue Mobilization and Public Investment Efficiency

46. **The proposed programmatic series aims to strengthen fiscal policy and PFM on two fronts.** First, revenue mobilization will be improved through tax reforms aimed at streamlining/simplifying the taxation system, including reducing tax expenditures, thereby increasing the tax base and tax collection performance of OTR. Second, it will improve efficiency in the public investment spending by strengthening the institutional framework and reducing the burden of past investment decisions on public finances. The IDA Economic Governance Project approved on October 3, 2017, will support the implementation of Pillar 1 reforms. The project finances TA to improve public investment management, domestic revenue mobilization and public accountability and monitoring mechanisms for improved service delivery in priority sectors. The project is co-financed by the EU.

Mobilizing tax revenue and increasing the efficiency of revenue collection

47. **Further steps have been taken in 2016-2017 to strengthen the formulation of tax policy.** Despite recent progress, inefficient tax policy and tax administration remain key constraints for both fiscal sustainability and private investment. Since its creation, the OTR has been overseeing both tax policy and tax administration functions. Improving revenue mobilization requires a stronger engagement of the

Ministry of Economy and Finance, particularly on setting directions on tax reforms, ensuring simplified tax design, better dialogue with the OTR to ensure improved tax administration, and reducing existing tax exemptions. In 2017, a new Tax Policy unit under the Ministry of Economy and Finance was formed and tasked with making concrete proposals aimed at increasing tax collection. Tax exemptions are excessive, have limited impact on the conditions for doing business, and are often awarded to enterprises on an ad-hoc and discretionary basis. A prior action for FMIR is to carry out an audit of tax exemptions with a view to identifying irregularities and eliminating them, and to introduce specific measures to reduce regular tax exemptions (including on VAT) starting with the 2018 Budget Act **(Prior Action 1)**.

48. **Another set of measures aim at facilitating tax payments by improving the tax filing system and increasing the tax base.** To speed up the tax filing system and increase efficiency of the tax process, OTR has launched a new system of electronic tax filing by large enterprises. In addition, to broaden the tax base and add new tax payers, the OTR has established a program that facilitates tax payments through mobile phones, especially for small and medium-sized enterprises. This measure is expected to bring a portion of businesses in the informal sector into the tax net, with the size of the informal economy estimated at about 80 percent of the economy **(Prior Action 2)**.

49. **A series of triggers will strive to further enlarge the tax base and streamline the tax system, including through amendments to the Tax Code**. A very large number of taxes paid by a limited number of enterprises in Togo tend to increase the tax burden for both enterprises and the tax administration. The FMIR will support a reduction in the number of taxes paid by enterprises through consolidation and cancellation of taxes in line with WAEMU fiscal directives on corporate tax, VAT and excise taxes **(Trigger 1)**. In addition, to further enlarge the tax base through increased property tax collections, the Government plans to reduce inefficiencies in land administration, including computerization of the land registry. Furthermore, the identification and monitoring of taxpayers (firms) will be improved through harmonization of the databases controlled by Customs (*Commissariat des Douanes et Droits Directs*) and Domestic Taxes (*Commissariat des Impôts*) **(Trigger 2)**.

50. **The IDA-EU Economic Governance Project (P158078) will complement these reforms by providing TA to strengthen tax policy decisions and implementation**. This will be done notably through support to operationalize the newly established Tax Policy Unit; build capacity at the OTR (compliance management, revenue risk analysis and enforcement capacity with a view to also widen the tax base); and finance the implementation of an electronic system of taxpayer filing and documentation. The EGP will also implement a survey of taxpayer services, archiving of taxpayer files, and will generate gender-disaggregated data which could inform how tax policies affect women's incomes and employment decisions. The measures to enhance tax revenue mobilization and efficiency are expected to lead to a reduction in tax exemptions, higher property tax revenues, and enhanced overall revenue mobilization.

Improving the management of public investment by strengthening the institutional framework and lowering the cost of past investment decisions

51. **Prior actions and triggers aim at enhancing the efficiency of public investments and reducing the financial burden of past investment decisions**. The Government in October 2017 created a high-level inter-ministerial Public Investment Committee to improve the planning and selection of public investment projects using transparent economic criteria to prioritize projects in the Public Investment Plan. The Public Investment Committee would have the required technical capacity and access to detailed methodological guidelines to identify, assess and prioritize investment proposals including, social and environmental

impacts. **(Prior Action 3).**[11] Also, to reduce the burden of past public investment decisions (e.g., pre-financed investments) on public finances, the Government in 2017 reached an agreement with banks to refinance all outstanding obligations and prolong maturities along with lowering interest rates **(Prior Action 4)**. To ensure higher quality investments and better coordination with available resources, the Government plans to include in the 2019 Budget Act a three-year rolling Public Investment Plan with priorities established by the Public Investment Committee and coordinated with the PPP unit based on proper feasibility studies and cost-benefit and value-for-money analysis. This does not imply, however, that the World Bank would be supporting specific projects (including PPPs) through this DPO series **(Trigger 3).**

52. **The IDA-EU EGP will support the implementation of these reforms through a number of activities**. These include, *inter alia*, financing the Public Investment Committee, the development of tools to manage the PIP, establishing clear instructions and criteria for investments – including gender and climate impacts, and monitoring and evaluating investments. The EGP will finance activities to ensure the selection and budgeting of quality public investment projects by helping to identify a comprehensive pipeline of investment projects and securing allocation of budget for these projects. The World Bank has financed a study on the PPP institutional and regulatory framework (Public Private Infrastructure Advisory Facility, PPIAF, 2016) which is informing the set-up of a PPP unit in the Ministry of Finance, to be initially supported by a PPIAF grant in 2017/18. Lastly, the EGP will strengthen public procurement practices and capacity in the education, health, agriculture and infrastructure line ministries and strengthen the management of cash to meet commitment obligations for service delivery and eliminate arrears accumulations. It is expected that these measures to strengthen public investment management would improve efficiency and help select priority projects through informed decisions and ensure better implementation as well as monitoring of investment projects over time.

[11] The composition of the Committee will be as follows: the Secretary General of the Ministry of Development Planning; the Secretary General of the Ministry of Economy and Finance; the Technical Secretary of the poverty reduction strategy document; the Director General of Development Planning; the Director General of the Treasury and Public Accounts; the Director General of Aide Mobilization and of Partnership; the Director General of Town Planning; the Director of Development Planning and Policies; the Budget Director; the Director of Financing and Control of the Execution of Plan; the Director of the Economy; the Public Debt Director; the Director of General Studies; a representative of the Permanent Secretary in charge of Reforms and Financial Programs; the Planning Director of the Ministry of Agriculture, Breeding and Water; the Planning Directors of the Ministries of Primary and Secondary Education, Technical Education Professional Training, and Higher Education; the Planning Director of the Ministry of Health and Social Protection; the Planning Director of the Ministry of Infrastructures and Transport; and the Planning Director of the Ministry of Environment and Forest Resources.

Table 5. Fiscal Management Reforms: Summary of Proposed Prior Actions, Triggers, Result Indicators, and Analytical underpinning

Mobilizing tax revenue and increasing the efficiency of revenue collection

Prior Actions for FMIR 1:

Prior Action 1. To increase revenues, the Recipient has: (i) completed an audit of tax exemptions to identify irregularities and eliminate them; and (ii) initiated in the context of the 2018 Budget Act measures to reduce regular tax exemptions (including on VAT).

Prior Action 2. To facilitate tax payments, the Recipient has launched: (i) a new system for electronic tax filing by companies under the Large Taxpayers Department of the Togo Revenue Authority; and (ii) a program for micro and small enterprises to enable tax payments through mobile phones.

Triggers for FMIR 2:

Trigger 1. To simplify the tax system, the Recipient has amended the Tax Code to rationalize taxes in line with WAEMU fiscal directives (on corporate tax, VAT and excise tax), without any loss of tax revenue.

Trigger 2. To broaden the tax base, the Recipient has increased property tax revenues by reducing inefficiencies in land administration, including computerizing the land registry; and (ii) harmonized the Customs and Domestic Taxes databases to improve the identification and monitoring of taxpayers (firms).

Strengthening public investment management

Prior Actions for FMIR 1:

Prior Action 3. To improve public investment planning and selection, the Recipient has established, through an inter-ministerial ordinance, a high-level inter-ministerial Public Investment Committee to scrutinize and prioritize all public investment proposals including PPPs using rigorous standardized economic appraisal criteria, including social and environmental impacts.

Prior Action 4. To lower the cost of past pre-financed investments, the Recipient has settled all outstanding obligations to the involved commercial banks through the issuance of securities with longer maturities and lower interest rates.

Triggers for FMIR 2:

Trigger 3. To strengthen medium-term investment planning, the Recipient has included in the 2019 Budget Act a three-year rolling Public Investment Plan with all priority projects including PPPs established by the Public Investment Committee in coordination with the PPP unit, that are selected based on proper feasibility, cost-benefit, and value-for-money analysis.

Results Indicators	Baseline (2016)	Target (2019)
1. Reduction in tax exemptions	3.5% of GDP	2.1% of GDP
2. Increase in property tax revenues	0.58% of GDP	0.68% of GDP
3. PIMA rating of public investment spending efficiency relative to potential	30%	60%
4. Interest rate on and maturity of pre-financed investments	8.0% 3 years	7.0% 7 years (3 years grace period)
Analytical Underpinning		
• Government of Togo: draft background papers on tax simplification, tax exemptions, and property tax (2016) • World Bank: Togo SCD (2016) • World Bank: PEMFAR (2016) • IMF: Togo Technical Assistance Report (IMF Fiscal Affairs Department) (2016) • IMF: Togo Technical Assistance Report on Public Investment Efficiency (2016) • IMF/World Bank: Joint Technical Assistance Report on Public Investment Management Assessment, PIMA, (2016)		

Pillar 2. Improving Financial Viability and Service Delivery in Key Infrastructure Sectors: Energy and ICT

Strengthening financial viability and service delivery in the energy sector

53. **The energy prior actions and triggers address the most pressing needs in the sector, and complement the World Bank IPF project under preparation to improve the operational and financial performance of the distribution utility**. The settlement of arrears between the Government, the CEET and the CEB is critical to ensuring the continuous supply of energy in Togo. The least cost generation plan is key to providing the proper energy mix between low cost imports, renewable energy and domestic fossil fuels (existing plants) through economic and technical tools in order to reduce the cost of supplying energy over time. Without a least cost generation plan, a number of project sponsors might be interested in advancing projects that are not in the best interest of the country. Togo remains constrained in its ability to increase energy imports, unless it manages to enter into PPAs in a credibly manner. This will require Togo to settle its current arrears and avoid the accumulation of arrears in the future, through improved billing collection and loss reduction. Further, it is necessary to redress the tariff between distribution and transmission to provide additional incentives for efficiency gains. The binational transmission utility will likely need to reform the single-buyer model and introduce a wheeling charge for transport.

54. **Since the root of the non-payment problem lies with CEET, the focus of the first operation is to clear past payment arrears and prevent further arrears from arising in the future. Prior Action 5** involves an agreement to clear government arrears to CEET and CEET arrears to CEB. **Prior Action 6** provides a sustainable solution to the problem of non-payment of electricity bills by public sector institutions by establishing the principle that the Ministry of Finance should be directly responsible for covering the electricity bills of all government entities in a single payment. This avoids the problem of budget not being allocated for electricity bills, or budget being allocated but later diverted to other spending items. In parallel, the Ministry of Finance is working with CEET to ensure discipline in the use of energy by various

ministries and general government agencies in order to reduce the risk of not having allocated sufficient budget to the Ministry of Finance for payment of electricity bills **(Trigger 5)**.

55. **While these policy actions are important, they need to be followed through with further measures to strengthen the tariff-setting process and improve the efficiency of the sector.** These complementary measures have been identified as triggers for FMIR 2. The tariff for electricity service comprises various elements: the cost of wholesale power provided by CEB that should cover both the cost of power imports (and some limited domestic generation) and the cost of wheeling power across the transmission network; and the cost of distribution and retail services provided by CEET.

56. **In the case of CEB, there is no transparent methodology for determining the price of wholesale power on a cost-reflective basis.** CEB's wholesale power price has been frozen since 2013, even while prices under power import contracts have been revised upwards on a bi-annual basis. Since CEB's wholesale prices are in CFAF while some of the import contracts are dollar-denominated, CEB also bears foreign exchange risk on behalf of the sector. Furthermore, wholesale power prices do not make provision for transmission costs. **Trigger 4** entails the development of a methodology and institutional framework for calculating these costs and revising the resulting wholesale power purchase price on an annual basis, in the context of a five-year plan to restore commercial viability to the sector. Without this policy measure, CEB will continue to be financially distressed, even when CEET fully pays its wholesale power bills, leaving the risk of further default against import contracts.

57. **In the case of CEET, there is a need to improve current tariff-setting procedures to ensure that the utility can cover its costs.** The existing tariff procedure requires CEET to make a tariff revision request to the electricity regulator, ARSE, which then makes a recommendation to the Ministries of Energy and Economy and Finance. Due to social concerns regarding the level of the end-user tariff, which is already high at US$0.19 per kWh, no tariff increases have been approved since 2013. In reviewing the tariff methodology, it will be particularly important to establish how operational inefficiencies of CEET will be treated in determining the utility's revenue requirement and how improvements can be incentivized. Another critical issue is to ensure that, if tariffs cannot be increased, there is a transparent procedure for estimating the necessary fiscal subsidy to the sector as part of the tariff methodology, thereby ensuring that the combination of subsidies and tariff revenues are adequate to cover costs.

58. **Given the high costs of electricity in Togo, efficiency improvements need to be an integral part of any effort to improve the financial viability of the sector.** A quick win for improving the efficiency of revenue collection is to adopt and implement a revenue protection program for medium- and high-voltage customers, as envisaged in **Trigger 6**. However, the most important driver of high costs of service are the costs of power generation. Togo does not have a least-cost power system development plan, and the country's limited experience with developing domestic generation capacity has taken the form of direct negotiation with project sponsors. For this reason, **Trigger 7** concerns the adoption of a methodology for the development of a least-cost power system expansion plan in order to provide a clear prioritization of investments in different types of power generation plants so as to achieve energy security objectives in a cost-effective manner. The new Public Investment Committee should play a key role in this. It is envisaged that projects identified under this plan would be competitively tendered, so that the least-cost projects are also implemented at the least cost. Attracting new investment into the energy sector may require a government guarantee until the sector becomes commercially viable.

59. **The achievement of financial viability is likely to be a medium-term undertaking that needs to be carefully planned and monitored.** The policy measures described above would all contribute to the

improved financial viability of the sector, but it is important that they are integrated into an overarching plan that charts a path towards financial viability, as envisaged in **Trigger 4**. Based on a thorough financial and operational analysis of the sector, the plan would need to set trajectories for tariffs, subsidies and efficiency that over time allow the utility to recover its financial balance, while providing sufficient revenue to keep the sector afloat during the transitional period. Togo will eventually be required to reconsider its tariffs, bearing in mind that current tariffs are quite high and that there are very few examples worldwide on successful tariff increases when initial prices were high while quality of service was deteriorating. Togo also increased retail prices of fossil fuels by 10 percent in March 2017, which briefly triggered protests. There are indeed a number of reforms that can be made to improve the quality of service and to reduce electricity costs in Togo, but additional assessments and more time is required to reach consensus on the appropriate policy response with the World Bank having only recently re-engaged in the sector following a two-decade absence.

60. **The proposed DPO program is complemented by a US$35 million IDA Energy Sector Support IPF (TESSIP, P160377, Board presentation scheduled in December 2017)** . The IPF project will develop a CEET management approval plan to reduce technical and non-technical losses and aims to connect 20,000 new consumers with pre-payment meters. An investment prospectus is under preparation and a donors' roundtable is planned for the first quarter of next year. With regards to off-grid access, there is currently an ongoing government program with the private sector called CIZO (which means "light up" in Ewe, local Togolese language) which relies on the pay-as-you-go scheme with the objective of providing Solar Home Systems to 200,000 households in the coming three years. A Regional Off Grid Electrification Project (ROGEP, P160708, Board presentation September 2018), in which Togo would participate, is under preparation to enable a private sector-driven approach to off grid solar electrification development, with a special focus on the quality of the product (which is similar to the Lighting Africa Approach). The analysis demonstrates that access can be provided to 95 percent of the population given the shape and size of the country. The IPF will also finance a tariff study, which will first consider how to improve efficiencies along the value chain as a means of reducing cost of service. A reform of CEB is also envisaged under TESSIP and with funding from the Energy Sector Management Assistance Program (ESMAP).

Improving competition, regulation, and service delivery in the ICT sector

61. **The proposed operation focuses on enhanced competition, better regulation, and improved service delivery in the retail internet broadband segment.** The approach of the DPO is to tackle Togo Telecom's dominance and *de facto* monopoly from the angle of regulatory intervention to ensure fair and open access as well as lower prices to end users. The proposed approach: (i) looks at different segments of the internet value chain from international connectivity (first mile); through domestic connectivity (middle mile), to the end user (last mile); and (ii): proposes measures that tackle the dominance issues mainly through regulatory interventions.

62. **Two prior actions included in the DPO focus on preparing the country for competition in the sector though policy formulation and regulatory action**. The first action entails adoption of a sector plan including priority actions that embraces competition and regulatory strengthening (**Prior Action 7**). This strategic vision of the ICT sector in Togo is long awaited, and will hopefully bring more clarity and discipline to the sector. The sector plan is expected to include a detailed action plan outlining activities, responsibilities, and measurements for evaluation. It is expected to include, *inter alia*, a universal access policy, the development of infrastructure based competition, the implementation of number portability and national roaming, and the implementation of regulatory tools for quality of service. The second action entails issuing of a standard model and guidelines to be used for the granting of Internet Service Providers

(ISP) authorizations by the Ministry for Posts and ICT (**Prior Action 8**). This measure will allow the Government to start issuing ISP licenses and facilitate the entry of new infrastructure based service providers.

63. **To ensure the continuity of these reforms, two triggers are proposed for FMIR 2 to tackle different segments of the internet value chain** from international connectivity (first mile) through domestic connectivity (middle mile): The first trigger addresses *issues related to international connectivity*: So far, Togo Telecom has a monopoly over the landing station and submarine cable connectivity. The West African Regional Communication and Infrastructure Project (WARCIP, P123093) project aims at creating a National Carrier Hotel and Internet eXchange Point (IXP) where capacity will be pooled and managed through a Public-Private Partnership. Togo Telecom and competing operators will have access to capacity on more equal terms. **Trigger 8** creates a Special Purpose Vehicle (SPV) that will operate the Carrier Hotel and manage the IXP. With open access to international capacity, wholesale prices[12] will drop for all carriers and this will result in lower tariffs to end users. The second trigger addresses *issues related to building and operating backbone networks*: So far, Togo telecom is abusing its monopoly power on the middle mile segment of the market by offering access to its network at rates and conditions that are unfair to competitors. **Trigger 9** is a regulatory measure requiring the regulator to publish a wholesale reference offer from Togo Telecom which provides the terms and conditions which will ensure fair, non-discriminatory and transparent access to wholesale broadband services. This measure is expected to establish an Open Access Regime in the international and national bandwidth capacity markets. The regulator will make sure that this measure results in lower tariffs for end users and eventually increases usage and unleashes demand of broadband services.[13]

64. **This reforms supported under the DPO are complemented by a parallel IPF and support from other development partners and represents a major step forward under the given circumstances.** The regional IDA WARSIP operation aims at challenging Togo Telecom's monopoly through promoting and strengthening cross-border coordination and purchase of frequency spectrum management regulatory tools. It also supports creation of an IXP which decreases the cost of internet services, finances the creation of a Carrier Hotel (data management center) to manage the international bandwidth market, and supports a PPP transaction for the management, commercialization, and maintenance of the Carrier hotel. The Millenium Challenge Corporation (MCC) is expected to approve a US$35 million threshold program for Togo in December focused on increased competition, independent regulation, and expanded access in the ICT sector.

[12] The "wholesale price of international capacity" is the most appropriate indicator to measure progress on this front. The selected metric is defined by the ITU as "the bandwidth price for 1 STM1 in euro/Mbps/month".

[13] The "International Internet Bandwidth Bit/s per internet user", as also defined by ITU, is the chosen indicator to measure progress on this front.

Table 6. Key Infrastructure Reforms: Proposed Prior Actions, Triggers, Result Indicators, and Analytical Underpinning

Improving financial viability and service delivery in the energy sector

Prior Actions for FMIR 1:

Prior Action 5. To strengthen the financial position of the electricity production and distribution companies, the Recipient has ensured regularization of the payment obligations of the General Government to the Togo Electricity Company (CEET) and of the CEET's payment obligations to the jointly-owned Benin Electricity Company (CEB) through: (i) offsetting central government payment arrears to CEET at end-2016 against tax arrears; and (ii) agreement with two commercial banks to provide bridge financing in 2017 for cash payment directly to CEB on behalf of CEET.

Prior Action 6. To ensure timely payment of the statutory fuel subsidy and the electricity bills of the General Government, the Recipient has established a centralized system of payment through the Ministry of Finance in the context of the 2018 Budget Act.

Triggers for FMIR 2:

Trigger 4. To enhance commercial viability of the energy sector, the Recipient has agreed with CEET and CEB on a five-year plan with yearly targets for efficiency improvements and adjustments in tariff structure to ensure a better partitioning of the tariff among the distribution and transmission companies.

Trigger 5. To ensure continued discipline in the use of and payment for electricity, the Recipient has implemented an effective plan for enhancing energy efficiency in the General Government and ensured that no new arrears to CEET have been incurred.

Trigger 6. To strengthen the management of high-voltage and medium-voltage customer accounts, the CEET has approved a Revenue Protection Program which provides for the deployment of smart meters and a monitoring mechanism, and a management contract has been established with the Ministry of Economy and Finance.

Trigger 7. To improve sector planning and governance, the Recipient has adopted a least-cost methodology to guide the expansion of power generation that integrates both domestic and regional options.

Improving competition, regulation, and service delivery in ICT

Prior Action 7. To improve the institutional framework of the ICT sector and promote competition in the retail internet broadband segment, the Recipient has adopted a Sector Policy including a plan of priority actions (comprising, *inter alia*, a universal access policy, the development of infrastructure based competition, the implementation of number portability and national roaming, and the implementation of regulatory tools for quality of service) for the development of the sector over the period 2018-2022.

Prior Action 8. To remove the barriers preventing investors and operators from deploying their own infrastructure, the Recipient has issued a standard model and guidelines (Cahier des Charges) to be used for the granting of ISP authorizations by MPEN which contain only limited and reasonable restrictions to service provision and geographic coverage.

Triggers for FMIR 2:

Trigger 8. To improve the efficiency of the management of ICT infrastructure, the Recipient has created a national company (with private participation under a Public Private Partnership) specialized in capacity wholesale to operate the National Carrier Hotel and National IXP.

Trigger 9. To improve competition and ensure an Open Access Regime in the international and national bandwidth capacity market, the Recipient has published a wholesale reference offer from TOGO TELECOM providing the terms and conditions which will ensure fair, non-discriminatory and transparent access to wholesale broadband services.

Results Indicators	Baseline	Target at end 2019
5. Increase of revenue collection rate of CEET from the general Government.	36%	75%
6. Improved financial performance of the state-owned electricity provider as measured by days receivables	185 days	60 days or less
7. International internet bandwidth Bit/s per internet user	7,310	8,000
8. Wholesale price of international capacity (broadband price for 1 STM in euro/mbps/month)	136	68
Analytical Underpinning		
• World Bank: Togo SCD (2016) • World Bank: Energy Sector Review (2017, draft) • World Bank: WARCIP PAD (2014) • International Telecommunications Union		

4.3 LINK TO CPF AND OTHER WORLD BANK OPERATIONS

65. **The key areas of support under the DPF are consistent with the key pillars of the Togo CPF FY17-FY20,** discussed by the Board of Executive Directors on May 16, 2017 (Report number 112965). The DPF supports the CPF cross-cutting theme of governance – the foundation of the WBG' program in Togo, building on the SCD – through measures aimed at strengthening key government institutions and bringing in private actors to deliver results under each of the CPF Focus Areas. The DPO supports directly Focus Area I, Private Sector Performance and Job Creation, by contributing to the objectives of strengthening fiscal policy and debt management; and improving the business environment and strengthening energy and ICT services; and CPF Focus Area II, Inclusive Public Service Delivery, by increasing available fiscal space through improved domestic revenue mobilization and promoting more efficient public investment.

66. **The proposed DPF series takes into account the World Bank's interventions in Togo through its investment financing projects**. Most of the prior actions and triggers are supported by the World Bank's investment projects in the chosen sectors. The Economic Governance Project (P158078) approved by the Board on October 3, 2017, is helping to realize some of the reforms linked to improving revenue

mobilization and enhancing the efficiency of public investment. The Economic Governance Project will help build capacity in the recently created tax policy unit and will do the same with the Public Investment Committee. The energy and ICT reforms are also supported by two World Bank operations in the energy and ICT sectors. In the ICT sector, the WARCIP (P123093) has been supporting the ICT reforms of the DPF series. For example, the WARCIP project helped to recruit a consultant to draft the Sector Plan for the Togo ICT sector. The consultant is also supporting the team with the recruitment of the Director General of ARCEP. The Energy Sector Support project (TESSIP, P160377) is divided into two components: a reform component and an investment component. Both components of the planned energy intervention are supporting the energy reforms of the DPO series.

4.4 CONSULTATIONS, COLLABORATION WITH DEVELOPMENT PARTNERS

67. **The proposed policy reforms contribute to the Government's reform program supported by other development partners in Togo.** This includes the AfDB, the IMF and the EU which are also providing fast disbursing support; and the French Agency for Development (AFD), the German Cooperation (GIZ and KfW), and the US Millennium Challenge Corporation**.** AfDB's reform and investment program focuses on governance and fiscal reforms, notably support for OTR and tax administration reforms, debt management reform, and policies and investments to promote the agriculture sector. The EU supports reforms promoting decentralization and improved service delivery, among others, and is co-financing with IDA the Economic Governance Technical Assistance Grant supporting the implementation of PFM, public investment management and the institutional framework for public-private partnerships, domestic resource mobilization and fiscal management reforms, and oversight institutions such as the general inspector of finances and the court of accounts. The reforms to strengthen the governance and financial viability of the energy sector have also been designed to complement the support of the EU, AFD and German Cooperation and other donors financing a program including institutional strengthening and investments to rehabilitate energy infrastructure. Regarding telecommunications reforms, the program has been developed in close collaboration with the MCC, which is preparing a threshold program to strengthen the governance and performance of the ICT sector. Finally, the DPF program has been developed in close coordination with the IMF in the context of the 2016 Article IV consultation and the 2017 ECF preparation and first review in October 2017. Joint World Bank-IMF discussions were also held with the Togolese delegation during the October 2017 Annual Meetings regarding arrears settlement and potential tensions in the fiscal adjustment program versus growth projections.

V. OTHER DESIGN AND APPRAISAL ISSUES

5.1 POVERTY AND SOCIAL IMPACT

68. **In broad terms, the DPF program would not have any direct impact on poverty and social outcomes but several of the proposed measures should have significant positive distributional impacts in the medium term.** First, poor households should benefit from the expected improvements in public spending as access to social services and basic infrastructure improves for a broader range of the population. Second, increased fiscal space through tax reform and improved tax collection should enable the Government to increase its contribution to the new National Development Plan, which aims at promoting inclusive growth and achieving the objectives of the sustainable development goals. Lastly, improvements in the business environment (through energy, ICT and tax simplification reforms) should encourage the creation of new enterprises (as well as foreign investment), which in turn would generate additional jobs and help absorb a young and fast growing population in the labor market.

69. **More specifically, Prior Actions 1 and 2, and Triggers 1 and 2, concerning revenue mobilization should have a long-term indirect positive impact on poverty through the creation of increased fiscal space and expanded delivery of government services.** These measures should also indirectly encourage private sector investment and job creation, particularly among small- and medium-sized enterprises as these economic agents will be able to better understand a less complex taxation system, increasingly comply with its rules, and be encouraged to "formalize" their operations. In terms of the direct effects of these measures, the rationalization of tax exemptions (Prior Action 1) focuses on eliminating irregularities and avoiding exemptions that are currently being improperly extended. The elimination of exemptions on food imports, or other items typically consumed by the poor, do not factor into the reforms and thus the distributional impact of this reform on the poor is seen to be minimal. While the distributional impact of tax simplification measures through a new Tax Code (Trigger 1) has not yet been independently assessed by the World Bank through a poverty and social impact assessment (PSIA), the authorities are nonetheless cognizant of the need to ensure that such reforms are progressive and dialogue with the authorities has emphasized this need. For example, the adjustment of income tax brackets and related rates, from seven distinct brackets to four, is being implemented by the authorities in a manner that will ensure the change is progressive. Other tax simplification measures will be further assessed, both by the authorities and by the Bank, as they are proposed and finalized as part of the new Tax Code. Small and microenterprises will also benefit from a program to enable tax payments through mobile phones (Prior Action 2) and the growth and formalization of this important segment of the private sector should have a positive impact on employment and income of the poor.

70. **Strengthening public investment planning and implementation (Prior Actions 3 and 4 and Trigger 3) are expected to have long-term indirect positive impacts on poverty reduction**. Increasing the allocative effectiveness of scarce public investment resources and improving the efficiency of public investment spending should result in increased returns on public investment and improved delivery of infrastructure services to the population, including the poorest households. As these measures are focused on strengthening PFM, direct poverty and social impacts are minimal.

71. **Improving the performance of the electricity sector (Prior Actions 5 and 6 and Triggers 4, 5 and 6) should have substantial positive impacts over time – direct and indirect – on poor households**. Increasing efficiency in the energy sector, ensuring that the Government pays for its services, and getting the tariff structure right will all help restore financial viability of the sector without the need for increasing tariffs, especially for lower-income households. In turn, improved financial viability will help attract additional needed investment in the sector, which will improve the access to and quality of services, including for the poor. Better access to electricity liberates non-paid family time demands, particularly for women and girls, and further increases the quality of life and opportunities for investment in human capital. Increased and more reliable access to electricity at affordable prices should also boost the productivity of large and small enterprises, helping them expand their business and creating additional demand for labor. It should also have a significant impact on firm creation, firm growth and resultant employment opportunities, particularly in the higher productivity formal sector. Finally, the reduction in government transfers to the electricity sector as financial viability is restored will release budgetary resources that can be allocated to pro-poor activity.

72. **A PSIA on electricity tariff reforms was undertaken as this reform is potentially the most significant under the program in terms of poverty and social impacts**. The results of the PSIA have not yet been made public to stakeholders but it concluded with the following recommendations, which will be pursued by the CEET and in dialogue with the authorities:

- Improving the financial situation of the CEET and thus reducing the gap between CEET's service unit cost and revenues per kWh are prerequisites for the expansion of CEET's operations and ensuring greater access for poor households to electricity. Poor households represent 45.5 percent of the population, but only 28.4 percent are connected to the grid and, only 13.9 percent are CEET's customers.

- The current social policy of subsidizing the tariff per kWh to small consumers rather than the tariff per kilo-volt-ampere (kVa) is ineffective.

- A new tariff policy based only on usage in kWh with no fixed kVa fee for small customers would improve the welfare of the poor as it would help boost their electricity consumption, liberate household resources and contribute to the reduction of the electricity poverty rate (currently 37.4 percent) and poverty in general. About half of CEET's clients (44.7 percent) consuming 40 kWh or less are poor. The direct impact of the policy on current bills could help 2.4 percent of those poor households connected to the grid escape poverty (assuming no behavioral changes).

- A new tariff policy that would eliminate fixed costs for small consumers (up to 40 kWh) would reduce the price of the first 40 prepaid kWh acquired per month and would increase poor and vulnerable households' readiness to connect to the grid. This would favor productivity and income growth, women's ability to participate more actively in the labor market, and reduce the use of energy sources detrimental to the environment and health.

- In general, prepaid meters help poor people control their immediate monthly expenditures on electricity. Switching current users from conventional to prepaid meters, as planned by CEET, would be welcomed by small consumers, as for consumption levels up to about 25 kWh the effective cost per kWh is considerably higher with conventional meters than with prepaid meters.

- Geographical targeting (for example based on INSEED poverty rates by communes) supporting the connection to the grid of poor neighborhoods would further increase the favorable impact on poor households of reducing the effective cost of using small quantities of electricity.

73. **Fostering competition and increased private sector participation in the ICT sector, along with an improved regulatory environment (Prior Actions 7 and 8 and Triggers 7 and 8), will improve service delivery for households and private businesses alike**. Reform of the ICT sector, including improved access to higher quality and cheaper services, should enhance the productivity of most Togolese businesses, thus stimulating growth and increasing the demand for labor. To date, inefficiency in the provision of ICT services has prevented Togolese firms from taking advantage of new business opportunities provided by expanded mobile telephony and internet services. By addressing these inefficiencies, the DPO series will support private sector led growth and job creation.

5.2 ENVIRONMENTAL ASPECTS

74. **Most of the prior actions or triggers of the proposed FMIR program are unlikely to have any significant impact on the country's environment, forests and other natural resources.** Supported measures in the areas of fiscal management, revenue mobilization and public investment management have been determined to be environmentally neutral. Supported measures in the electricity and ICT areas raise some minor environmental concerns, though in the energy sector they would be of a second order nature since only the investment environment is improved rather than new investments supported.

75. **Prior Action 8 linked to the removal of barriers preventing licensed operators from deploying their own fiber optic infrastructure backbone could potentially have a negative though modest impact on the environment.** The construction of a fiber optic throughout the entire territory by a licensed operator will involve the destruction of some flora and fauna during extension and installation. However, the potential environmental impact of installing fiber optic networks could be minimized by avoiding areas where the impact will be more substantial. Also, licensed operators would be encouraged to begin revegetation of excavated sites immediately once the sites have been backfilled.

76. **In Togo, projects with a potential impact on the environment are subject to an environmental assessment**. In accordance with Article 38 of the Togolese Environmental Law, development activities, projects, programs and plans that are likely to harm the environment are subject to prior authorization by the Minister of the Environment. Such authorizations are usually granted on the basis of an impact assessment. The assessment evaluates the potential negative or positive environmental consequences of the proposed activities, projects, programs and plans.

5.3 PFM, DISBURSEMENT AND AUDITING ASPECTS

77. **The institutional framework for PFM was improved with the adoption of Organic Law No. 2014-013 of June 27, 2014, to bring budgeting in line with the WAEMU Directives.** This law redirects the public financial system toward a more results-based approach in budgetary management to improve the effectiveness of expenditure and public policies; increase transparency in public expenditure management; and adopt a performance approach based on programs, goals, and results indicators. The results expected from this comprehensive reform are: (a) realistic and sustainable budget estimates by programs; (b) comprehensive budget packages determined within the framework of multiyear budgetary and economic planning; (c) a more rational allocation of budgetary resources based on performance indicators so that the goals of accelerated growth and employment creation are actually targeted; (d) increased responsibility for the principal commitment authorizers (ministers and Presidents of institution) so as to improve de-concentration and impose accountability; (e) effective supervision by the Parliament of the execution of budget laws fostered by budget performance projects and reports by programs and ministries; and (f) ex post controls to assess the effectiveness of management and performance.

78. **However, the 2016 Public Expenditure and Financial Accountability (PEFA) assessment revealed continued weaknesses in Togo's PFM system**: (a) poor budget credibility due to major variations between forecasts and budget execution, changes made in the initial composition of expenditures, particularly through supplementary budgets, and underestimation of tax expenditure forecasts; (b) a high level of off-budget operations (over 10 percent of total expenditures); and (c) poor predictability and inadequate supervision of budget execution. The Treasury single account system is still not in place in Togo, annual cash flow plans are developed but not systematically updated and not operational, and the current budgetary regulation mechanism is not effective as it is not based on a regularly updated cash flow plan. Payroll supervision is limited by the nonexistence of a direct link between the civil service and payroll files, and it is incomplete with respect to the documentation of changes made. However, the general government budget is made publicly available on the government website (Togoreforme). The public procurement system has improved considerably compared to the 2008 PEFA review. The procurement system respects baseline assessment in terms of quality standards defined in the 2005 WAEMU directives. However, there are still areas of improvements such us the efficient use of procurement plans. As discussed above, the Economic Governance Project approved in September 2017 assists the Government of Togo in improving core areas of economic governance, including PFM.

79. **The 2013 Safeguards Assessment of the BCEAO found a continuing strong control environment.** All recommendations from the assessment have been implemented. These include strengthening the external audit arrangements by the appointment of an international firm with International Standards of Auditing (ISA) experience for the audits of FY 2015-2017, reinforcing the capacity of the audit committee with external expertise to oversee the audit and financial reporting processes, and adoption of IFRS starting with the financial year 2015.

80. **Togo's fiduciary risks are moderate and IDA reserves the right to request an audit of the dedicated foreign currency account**. The credit will follow the World Bank's standard disbursement procedures for development policy operations. Once the operation becomes effective, the Government of Togo will submit a withdrawal application to IDA requesting that the proceeds of the credit be deposited in the BCEAO into a Dedicated Euro Account that forms part of the country's official foreign-exchange reserves. Within five working days of the credit's being deposited into that account, the Government will ensure that an equivalent amount is credited to its budget management system in a manner acceptable to the World Bank. It will report to the World Bank on all amounts deposited in the foreign currency account and credited to the budget management system. Disbursement will not be linked to specific purchases. When funds are disbursed from the dedicated account to finance budgeted government expenditures, the official exchange rate for that day will be used. If the proceeds of the credit are used for ineligible purposes as defined in the Financing Agreement, IDA will require that the Government refund an amount equal to the amount of the ineligible payment to IDA promptly upon notice from IDA. Amounts refunded to the World Bank upon such a request will be canceled. The World Bank reserves the right to seek an audit of the dedicated account by independent auditors acceptable to the World Bank.

5.4 MONITORING AND EVALUATION

81. **The Ministry of Economy and Finance will be responsible for overall monitoring and evaluation of the proposed operation and for coordinating actions among other concerned ministries and agencies.** This also includes the regulatory authorities for the electricity and the post and telecommunication sectors, and state-owned enterprises in these two sectors. The Government will form a steering committee as counterpart to the World Bank in the policy dialogue and the monitoring and evaluation process. Regular discussions will take place with the Government and the donor community on progress made, results achieved and possible next steps. The monitoring and evaluation process by the Government and the World Bank will be based on a systematic review of implementation and impact of prior actions and will compare results achieved with agreed results indicators in the Policy Matrix. The Government will provide quarterly report to the World Bank on progress achieved in the implementation of the program. This will be measured with respect to agreed timelines and performance indicators. The operation closes December 31, 2018.

82. **Grievance Redress**. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For

information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org".

VI. SUMMARY OF RISKS AND MITIGATION

Table 7: Summary Risk Ratings

Risk Categories	**Rating (H, S, M or L)**
1. Political and governance	H
2. Macroeconomic	H
3. Sector strategies and policies	H
4. Technical design of project or program	S
5. Institutional capacity for implementation and Sustainability	S
6. Fiduciary	M
7. Environment and social	L
8. Stakeholders	M
9. Other	-
Overall	H

83. **The overall risk to the DPF program is rated as high (Table 7)**. This assessment is consistent with the CPF risk assessment and is based on the ratings for political and governance, macroeconomic, sector strategies, institutional capacity and fiduciary, each of which present substantial risks to the achievement of the PDOs under this DPF.

84. **Political and governance risks are rated as high**. The political and security situation in Togo is currently quite unstable. Questions regarding presidential term limits and the return of the 1992 Constitution remain unresolved and contentious issues, and create major risks. In addition, the sharp fiscal adjustment could cause social unrest, especially if social spending is not upheld despite the fiscal space to do so. As the next presidential elections approach in 2020 and if some of the political reforms from the 2006 GPAs remain stalled, it could be difficult for Government to maintain the reform momentum or take difficult decisions. In addition, political economy issues and vested interests could seek to delay certain reforms. Improving the WBG communication on the benefits of reforms for the success of the country's development priorities, and helping the Government improve its communication, could help reduce the potential for tensions and provide space for the authorities to implement the needed.

85. **Macroeconomic risks are high**. The escalated level of public debt and needed major fiscal adjustment poses high risks for the growth outlook, the sustainability of fiscal reforms and the DPF program. These risks are exacerbated by the fact that the government appears to have reduced capital spending even beyond requirements under the IMF program and is also falling short on minimum thresholds for social spending. On the other hand, the reduction in the fiscal deficit and the cessation of

the pre-financing mechanism should help crowd in private sector credit and investment, further supported by the government's settlement of arrears to the private sector and recapitalization of the new public bank resulting from the ongoing merger of the two main public banks. Substantial financial and reform support from the IMF, the World Bank, and other donors further helps contain risks.

86. **Sector strategies and policies risks are high**. Togo's performance in formulating and implementing sector strategies is mixed, and the SCD concluded that weak governance has led to policies and implementation that are often not sufficiently pro-poor. Government spending in the past years often diverged from the priorities of Togo's second PRSP (SCAPE) and some sector strategies. While certain sectors have relatively good strategies, including agriculture, education and health, they are not adequately funded and implementation and monitoring is mixed. Weak institutional capacity compounds these risks. The Government is committed to ensuring a better alignment of the budget with sector programs. IDA support for sector strategies (by providing investment operations that help implement these strategies) and analysis provided under the FY17 Public Expenditure Management and Financial Accountability Review (PEMFAR) and proposed PER will also help improve allocation of resources for implementation of sector strategies. In the energy sector, the Least Cost Energy Sector Development Plan has been revised and a power supply investment program for the next ten years prepared on this basis. In the ICT sector, a new sector policy will include a plan of priority actions for the development of the sector in 2018-2022.

87. **Institutional capacity risks are substantial**. As a fragile state, with a highly-centralized governance structure and which is rebuilding institutions and human resource capacity, there are institutional risks to successfully implementing World Bank-supported programs. Togo has maintained a Country Policy and Institutional Assessment (CPIA) rating of 3.0 for the past several years, reflecting weak public sector performance due to corruption, weak governance, capacity limitations, and accountability issues. The World Bank has strengthened key institutions that are engaged in implementing WBG programs and has helped establish new public institutions that have filled institutional gaps in service delivery. Further technical support is being provided in the context of the Economic Governance Project.

88. **Fiduciary risks are moderate**. Togo is a moderate-risk fiduciary environment. The fiduciary risk is mitigated through other bank operations by using and strengthening the country systems for staffing, budgeting, accounting, financial control, and disbursement.

ANNEX 1. Policy and Results Matrix

TOGO Fiscal Management and Infrastructure Financial Viability and Service Delivery DPF Program 2017-18

	Prior Actions DPO-1 (November 1, 2017)	Triggers DPO-2 (November 1, 2018)	Results Indicators
Pillar 1. Improving Fiscal Management: Tax Revenue Mobilization and Public Investment Efficiency			
Tax Revenue Mobilization and Efficiency	**Prior Action 1.** To increase revenues, the Recipient has: (i) completed an audit of tax exemptions to identify irregularities and eliminate them; and (ii) initiated in the context of the 2018 Budget Act measures to reduce regular tax exemptions (including on VAT).	**Trigger 1.** To simplify the tax system, the Recipient has amended the Tax Code to rationalize taxes in line with WAEMU fiscal directives (on corporate tax, VAT and excise tax), without any loss of tax revenue.	***Reduction in tax exemptions:*** Baseline (2016): 3.5% of GDP Target (2019): 2.1% of GDP ***Increase in property tax revenues:*** Baseline (2016): 0.58% of GDP Target (2019): 0.68% of GDP
	Prior Action 2. To facilitate tax payments, the Recipient has launched: (i) a new system for electronic tax filing by companies under the Large Taxpayers Department of the Togo Revenue Authority; and (ii) a program for micro and small enterprises to enable tax payments through mobile phones.	**Trigger 2.** To broaden the tax base, the Recipient has: (i) increased property tax revenues by reducing inefficiencies in land administration, including computerizing the land registry; and (ii) improved the identification and monitoring of taxpayers (firms) by harmonizing the Customs and Domestic Taxes databases.	

<table>
<tr><td rowspan="2">Public Investment Efficiency</td><td>Prior Action 3. To improve public investment planning and selection, the Recipient has established, through an inter-ministerial ordinance, a high-level inter-ministerial Public Investment Committee to scrutinize and prioritize all public investment proposals including PPPs using rigorous standardized economic appraisal criteria, including social and environmental impacts.</td><td>Trigger 3. To strengthen medium-term investment planning, the Recipient has included in the 2019 Budget Act a three-year rolling Public Investment Plan with priority projects, including PPPs, established by the Public Investment Committee in coordination with the PPP unit, based on proper feasibility, cost-benefit, and value-for-money analysis.</td><td rowspan="2">PIMA rating of public investment spending efficiency relative to potential:

Baseline (2016): 30%
Target (2019): 60%

Terms of past pre-financed investments (interest rate/maturity):

Baseline (2016): 8.0%/3 years
Target (2019): 7.0%/7 years (3 years grace)</td></tr>
<tr><td>Prior Action 4. To lower the cost of past pre-financed investments, the Recipient has settled all outstanding obligations to the involved commercial banks through the issuance of securities with longer maturities and lower interest rates.</td><td></td></tr>
<tr><td colspan="4">Pillar 2. Improving Financial Viability and Service Delivery in Key Infrastructure Sectors: Energy and ICT</td></tr>
<tr><td></td><td>Prior Action 5. To strengthen the financial position of the electricity production and distribution companies, the Recipient has ensured regularization of the payment obligations of the General Government to the Togo Electricity Company (CEET) and of the CEET’s payment obligations to the jointly-owned Benin Electricity Company (CEB) through: (i) offsetting central government payment arrears to CEET at end-2016 against tax</td><td>Trigger 4. To enhance commercial viability of the energy sector, the Recipient has agreed with CEET and CEB on a five-year plan with yearly targets for efficiency improvements and adjustments in tariff structure to ensure a better partitioning of the tariff among the distribution and transmission companies.</td><td></td></tr>
</table>

Energy Sector Financial Viability	arrears; and (ii) agreement with two commercial banks to provide bridge financing in 2017 for cash payment directly to CEB on behalf of CEET.		***Increase of revenue collection rate of CEET from the general government:*** Baseline (2016): 36% Target (2019): 75% ***Improved financial performance of CEET as measured by days receivables:*** Baseline 2016: 185 days. Target 2019: 60 days or less.
	Prior Action 6. To ensure timely payment of the statutory fuel subsidy and the electricity bills of the General Government, the Recipient has established a centralized system of payment through the Ministry of Finance in the context of the 2018 Budget Act.	**Trigger 5**. To ensure continued discipline in the use of and payment for electricity, the Recipient has implemented an effective plan for enhancing energy efficiency in the General Government and ensured that no new arrears to CEET have been incurred.	
		Trigger 6. To strengthen the management of high-voltage and medium-voltage customer accounts, the CEET has approved a Revenue Protection Program which provides for the deployment of smart meters and a monitoring mechanism, and a management contract has been established with the Ministry of Economy and Finance.	
		Trigger 7. To improve sector planning and governance, the Recipient has adopted a least- cost methodology to guide the expansion of power generation that integrates both domestic and regional supply options.	
	Prior Action 7. To improve the institutional framework of the ICT sector and promote competition in	**Trigger 8.** To improve the efficiency of the management of ICT infrastructure, the Recipient has	

ICT Sector Competition and Service Delivery	the retail internet broadband segment, the Recipient has adopted a Sector Policy including a plan of priority actions (comprising, *inter alia*, a universal access policy, the development of infrastructure based competition, the implementation of number portability and national roaming, and the implementation of regulatory tools for quality of service) for the development of the sector over the period 2018-2022.	created a national company (with private participation under a Public Private Partnership) specialized in capacity wholesale to operate the National Carrier Hotel and National Internet eXchange point (IXP).	***International internet bandwidth Bit/s per internet user:*** Baseline (2016): 7,310 Target (2019): 8,000 ***Wholesale price of international capacity (bandwidth price for 1 STM1 in euro/mbps/month):*** Baseline (2016): 136 Target (2019): 68
	Prior Action 8. To remove the barriers preventing investors and operators from deploying their own infrastructure, the Recipient has issued a standard model and guidelines (Cahier des Charges) to be used for the granting of ISP authorizations which contain only limited and reasonable restrictions to service provision and geographic coverage.	**Trigger 9.** To improve competition and ensure an Open Access Regime in the international and national bandwidth capacity market, the Recipient has published a reference offer from TOGO TELECOM providing the terms and conditions which will ensure fair, non-discriminatory and transparent access to wholesale broadband services.	

ANNEX 2: LETTER OF DEVELOPMENT POLICY

MINISTERE DE L'ECONOMIE
ET DES FINANCES

SECRETARIAT PERMANENT POUR LE SUIVI
DES POLITIQUES DE REFORMES ET DES
PROGRAMMES FINANCIERS

N° 0288 /MEF/SP-PRPF

REPUBLIQUE TOGOLAISE
Travail-Liberté-Patrie

Lomé, le 22 NOV 2017

Le Ministre de l'Economie et des Finances

à

Monsieur Jim Yong Kim
Président de la Banque Mondiale
1818 H Street NW
Washington DC 20433

USA

Objet : Lettre de Politique de Développement.

Monsieur le Président,

La présente Lettre de Politique de Développement (LPD) présente les avancées enregistrées par le Togo dans la mise en œuvre de sa stratégie nationale de développement ainsi que les perspectives pour 2017-2020. Elle décrit les objectifs et les politiques de développement définis par les autorités pour la poursuite de leur programme de réformes qui vise à consolider la croissance économique et à réduire la pauvreté. Pour atteindre ces objectifs, le gouvernement continue de rechercher l'appui technique et financier de l'ensemble des différents partenaires techniques et financiers notamment celui de la Banque Mondiale à travers le Programme d'appui à la gestion fiscale et aux reformes ayant trait aux infrastructures.

I. Contexte socioéconomique

1. En dépit d'un environnement externe difficile, la croissance économique a été soutenue sur la période 2013-2016 avec un taux moyen de 5,2% en raison des bonnes performances des secteurs agricoles et des investissements en infrastructures. Cette tendance devrait être maintenue en 2017 et en 2018 du fait des effets combinés d'une pluviométrie assez bonne et des gains de productivité induits par la transformation du secteur agricole et l'exploitation du réseau de transport amélioré. L'inflation est également contenue et passe de 1,8% en 2015 à 0,9% en 2016 puis projetée à 1,5% en 2017. Cependant, du fait principalement des investissements en infrastructures réalisés en 2015 et 2016, la dette publique totale s'est considérablement accrue, passant de 48,8% en 2010 à 80,8% du PIB à fin 2016, au-dessus de la norme communautaire de 70%. Sous l'effet de l'augmentation des dépenses d'infrastructures susmentionnées et du coût élevé des engagements liés à la pratique des préfinancements, le déficit budgétaire global hors don (base caisse) s'est creusé pour atteindre 7,7% du PIB en 2016 contre 7,5% du PIB en 2015. Ce déficit projeté à 9,7% en 2017 devrait s'améliorer pour se fixer à 3,6% en 2018 selon les estimations du FMI.

2. Une analyse conduite en 2016 par le FMI et la BM montre que le Togo présente un risque de surendettement pour la dette globale. Le nouveau programme (2017-2019) du Togo au titre de la Facilité élargie de crédit (FEC) avec le FMI vise essentiellement à créer les conditions favorables à une réduction substantielle du niveau de la dette publique du Togo, de 80,8% du PIB en 2016 à 67,8% à l'horizon 2020. A ce titre, le Gouvernement a mis fin à la pratique des préfinancements et s'est engagé à mettre en œuvre des mesures de renforcement des capacités institutionnelles de gestion de la dette publique.

II. Mise en œuvre de la stratégie de croissance accélérée et de promotion de l'emploi

3. La stratégie de croissance accélérée et de promotion de l'emploi (SCAPE) est dans sa dernière année. A fin 2016, la mise en œuvre par axe stratégique se présente comme suit :

4. Pour l'axe de **développement des secteurs à fort potentiel de croissance**, les indicateurs de performances montrent des avancés dans le secteur de production agricole, du développement de l'artisanat et des services. Par contre, le secteur de développement industriel est en deçà des objectifs. Les résultats du secteur agricole sont dus à la mise en œuvre des projets du PNIASA. Ainsi, le PIB agricole a connu une croissance de 7% par rapport à 2015. Le taux de couverture des besoins des produits céréaliers se situe en moyenne à 110% sur la période 2013 – 2016 et celui des produits d'élevage est estimé à 56% des besoins nationaux en 2016. Dans le domaine des services, la balance des biens et services, en % du PIB, indique une amélioration du déficit qui passe de -21,1% en 2013 à -9% en 2016. S'agissant du développement industriel, l'indice harmonisé de production est passé de 121,9 en 2011 à 147,5 en 2013 pour chuter à 126,9 en 2014, à 99,7 en 2015 et à 97,3 en 2016.

5. Concernant l'axe relatif au **développement du capital humain, de la protection sociale et de l'emploi**, des progrès ont été enregistrés notamment dans le secteur de l'éducation, la santé et de l'emploi mais classent toujours le Togo dans le dernier quintile de l'Indice de développement humain (IDH). L'IDH 2016 demeure encore faible avec un score de 0,487 faisant occuper le Togo au 166ème rang sur 188 pays classés. Le taux net de scolarisation (TNS) dans le primaire s'est globalement amélioré et a atteint 94,3 % en 2015. L'incidence de la pauvreté est passée de 61,7% en 2006 à 55,1% en 2015 et le taux de l'extrême pauvreté n'a pas connu d'amélioration tangible. L'indice de Gini s'est amélioré, passant de 0,393 à 0,380 entre 2011 et 2015 (ODD 10). En dépit des progrès des cinq dernières années, les inégalités spatiales et par genre persistent. En milieu rural, près de 7 togolais sur 10 sont pauvres et le taux de disponibilité des services de soins curatifs a régressé de 41 % en 2014 à 37,7 % en 2015.

6. Au niveau de l'axe de **renforcement des infrastructures**, les progrès significatifs ont été enregistrés. En effet, pour rattraper le retard pris par le Togo en matière d'infrastructures, la politique de réhabilitation et de constructions des infrastructures sociaux a été l'axe le plus financé de la SCAPE. En effet, les routes revêtues avec un assez bon service ont atteint 60% contre 16,7% en 2011. Ainsi, la durée moyenne de passage d'un camion le long de la route nationale N° 1 (RN1) est passée de 72 heures en 2012 à 48 heures en 2016. Le taux d'électrification est passé de 28,3% en 2014 à 35,5% en 2016 et le taux de pénétration de la téléphonie fixe et mobile est passé de 67,1% en 2011 à 77,6% en 2016.

7. En matière de **promotion d'un développement participatif, équilibré et durable**, l'évaluation des indicateurs à fin 2016 révèle des progrès. Ainsi, 25,7 milliards de micro-crédits ont été octroyés pour accompagner les communautés à la base en 2016 contre 2 milliards en 2013.

S'agissant du nombre de pôles de développement créés, le gouvernement a envisagé, à travers la SCAPE, d'impulser la création de richesses au niveau local à partir des potentialités de chaque région. L'action publique vise à développer les pôles agricoles, les pôles industriels et les pôles de services. Pour ce qui est de l'émergence équilibrée des pôles de développement, aucun pôle n'a encore été créé.

8. Pour le renforcement de la **gouvernance**, des progrès sont également enregistrés dans le domaine du renforcement du système judiciaire, de la promotion des droits de l'homme et du climat des affaires. L'indicateur CPIA est passé de 2,94 en 2011 à 3,55 en 2013 pour stagner à 3 à partir de 2014. Il ressort du rapport 2016 Mo Ibrahim sur l'évaluation de la gouvernance globale en Afrique que le Togo occupe la 33ème place sur 54 pays évalués avec une note de 48,5 sur 100. Nonobstant la faiblesse du classement général, le Togo avec une évolution moyenne de +9,7 points, est classé 2ème meilleur pays réformateur de la gouvernance sur la période 2006-2015. Le rapport 2016 de Transparency International classe le Togo au 116ème sur 176 avec un Indice de perception de la corruption (IPC) de 32 contre 29 en 2014 sur une échelle de 0 (corruption élevée) à 100 (corruption très faible).

III. Les perspectives 2017-2020

9. Dans le cadre de son programme national de développement (PND), le gouvernement s'engage à mener des actions vigoureuses dans les secteurs porteurs de croissance en particulier le secteur agricole. Il accordera une attention particulière à l'amélioration de la gouvernance et de la performance des secteurs sociaux afin de permettre à notre pays de disposer d'une population en bonne santé et bien formée en adéquation avec le marché du travail. La contribution du secteur privé sera stimulée encore davantage par des améliorations du climat des affaires afin d'accroitre sa compétitivité pour lui permettre de devenir le véritable moteur d'une croissance économique forte et inclusive.

Réformes du gouvernement au cours de la période 2017-2020 : gouvernance, transparence et réformes structurelles

10. Le Gouvernement est déterminé à poursuivre l'amélioration de la gestion des finances publiques dans le cadre de la gouvernance économique et financière. A cet effet, des évaluations (PEFA, PEMFAR, PIMA et DeMPA) ont été réalisées en 2016 et permis d'actualiser le plan d'action de la gestion des finances publiques. Ce nouveau plan d'action couvre la période 2017-2021.

11. Le Gouvernement s'engage à poursuivre la lutte contre la corruption et la fraude ainsi que l'établissement d'un environnement judiciaire et réglementaire propice à l'activité économique. Pour prendre en compte les directives de l'UEMOA relatives à la gestion des finances publiques et mettre les corps de contrôle aux standards internationaux, les textes régissant ces différents corps sont en cours de relecture par un comité qui est mis en place à cet effet.

12. Par ailleurs, le budget 2017 est en cours d'exécution avec rigueur, transparence et efficacité et le Gouvernement, dans le processus d'apurement de la dette intérieure, ne va plus accumuler d'arriérés intérieurs et extérieurs ni recourir aux procédures exceptionnelles d'exécution des dépenses publiques. La réalisation des recettes et l'exécution des dépenses reflètent la mise en œuvre des réformes engagées par le Gouvernement. Le budget 2017 s'exécute à partir du Système

Intégré de Gestion de Finances Publiques (SIGFIP) prenant en compte les volets économique et administratif. Le projet de budget 2018 sera adopté en Conseil des Ministres et voté par l'Assemblée Nationale dans les délais constitutionnels. Ce budget, comme le précédent, donne la priorité aux dépenses qui vont être orientées vers les secteurs sociaux notamment l'éducation, la santé, le développement socioéconomique de base en milieu rural et semi-urbain.

13. Le Gouvernement s'engage également à : (i) consolider la réforme des marchés publics ; (ii) renforcer le contrôle de la gestion des finances publiques ; (iii) améliorer le recouvrement des recettes et mobiliser les ressources extérieures ; (iv) adapter et mettre en œuvre dans toutes ses fonctionnalités le SIGFIP et son extension à tous les ministères, institutions et régions, afin d'améliorer la coordination.

Réformes au niveau de l'environnement des affaires

14. Pour améliorer l'environnement des affaires nécessaire à la promotion du secteur privé, l'action du gouvernement sera orientée vers : (i) la poursuite de la simplification des procédures et formalités de création d'entreprises ; (ii) la poursuite de la simplification des procédures et de formalités du commerce transfrontalier ; (iii) la mise en œuvre de la charte des PME/PMI ; (vi) la mise en œuvre du répertoire et la cartographie des PME/PMI ; (iv) le renforcement du dispositif de promotion et d'appui au secteur privé ; (ix) le renforcement des compétences des opérateurs économiques des PME/PMI ; (x) l'appui au renforcement de la Cour arbitrale du Togo pour lui permettre de jouer son rôle de règlement des conflits ou litiges entre opérateurs économiques ; (xi) le renforcement du dialogue et du partenariat public-privé ; et (xii) la facilitation de l'accès au financement et la diversification de l'offre et de produits financiers (Fonds de garantie, crédit-bail, FNFI, etc.).

Réformes dans le secteur agricole

15. En vue de faire face aux défis majeurs et ainsi consolider les acquis pour l'atteinte de l'objectif N°2 de développement durable (ODD) relatif à l'élimination de la faim et à la sécurité alimentaire pour tous, diverses initiatives sont en cours de mises en œuvre par le gouvernement. Au nombre de ces actions, on relève notamment le développement de la mécanisation agricole, la restructuration des acteurs des différentes filières autour des chaines de valeurs porteuses, la définition d'un label qualité et la mise en place des filets nationaux de sécurité sociale.

16. Outre ces actions, et en se projetant déjà dans l'ambition de voir émerger des entreprises agro-industrielles, aux côtés des micro-entreprises de transformation, le gouvernement a entrepris diverses initiatives pour favoriser l'installation d'investisseurs ou groupes d'investisseurs privés dans le secteur agricole notamment en menant des réformes dans le secteur énergétique, financier, social, eau et assainissement.

Réformes dans le secteur énergétique

17. La poursuite de l'assainissement de la situation financière de la Compagnie Energie Electrique du Togo (CEET) est une priorité pour le gouvernement. Ainsi, le gouvernement a lancé, avec l'appui de l'Union Européenne, un audit comptable, financier et organisationnel de la CEET. La mise en œuvre des recommandations qui seront issues de cet audit permettra d'augmenter la

performance de la compagnie. D'autres importantes réformes ont été mises en place notamment l'apurement des arriérés de l'Etat et une politique sectorielle est en cours de finalisation.

Le processus PND

18. La Stratégie de croissance accélérée et de promotion de l'emploi 2013-2017 est dans sa dernière année. Le gouvernement est en train d'identifier les priorités de développement dans la nouvelle stratégie nationale (plan national de développement – PND) pour la période allant de 2018 à 2022 et prévoit intégrer pleinement ces priorités dans le budget. Le PND s'articule autour de cinq piliers, à savoir : i) la lutte contre la pauvreté et l'amélioration du bien-être social ; ii) la promotion d'une croissance économique soutenue et inclusive ; iii) le renforcement du potentiel des secteurs porteurs de croissance ; (iv) la gestion durable de l'environnement et la réduction des inégalités spatiales ; (v) la consolidation de la gouvernance et de la paix. Nous allons établir un plancher pour les dépenses sociales financées sur ressources intérieures, en particulier pour les projets ayant un impact considérable sur la réduction de la pauvreté.

IV. Programme d'appui à la gestion fiscale et aux reformes ayant trait aux infrastructures (PAGFRI))

Objectifs généraux

Le **PAGFRI** vise à (i) accroitre l'espace fiscal et budgétaire à travers une amélioration de l'efficacité et la transparence dans la mobilisation des recettes et la gestion des investissements publics et créer un environnement favorable à l'investissement privé en améliorant la viabilité financière du secteur de l'énergie et en promouvant la concurrence dans les secteurs de l'énergie et des télécommunications. Le programme est structuré autour de trois (02) axes à savoir :

✓ l'amélioration de la gestion fiscale et de l'accroissement de l'efficacité de la dépense publique : cet axe vise une meilleure coordination par le ministère de l'économie et des finances de la mise en œuvre des réformes fiscales à travers la rationalisation du système fiscal et la réduction des exonérations, l'amélioration de la performance de collecte des impôts par l'office togolais des recettes (OTR) et le renforcement de la gestion des investissements publics à travers l'utilisation des analyses et des mécanismes transparents de sélection de projets ;

✓ l'amélioration de la viabilité financière des secteurs d'infrastructures clés – énergie et télécommunications : cet axe vise à (i) promouvoir l'offre de l'électricité à un coût abordable à travers le rétablissement de la viabilité financière du secteur énergie et l'identification des projets prioritaires ; (ii) promouvoir l'offre de l'électricité à un coût abordable à travers : (i) le rétablissement de la viabilité financière du secteur énergie ; et (ii) l'identification des projets prioritaires.

Reformes soutenus par le programme et les résultats attendus

19. **Mobilisation de ressources internes et amélioration de la gestion des investissements publics** : les principales réformes concernent : (i) l'audit des exonérations accordées afin d'identifier les irrégularités et procéder aux redressements; (ii) l'introduction des mesures visant à réduire les exonérations (y compris sur la TVA) dans le projet de budget 2018 ; (iii) le lancement d'un nouveau système de déclaration d'impôt en ligne pour les grandes entreprises ; (iv) le

lancement d'un programme pour les micro- et petites entreprises afin de faciliter le paiement des impôts à travers la téléphonie mobile ; (v) la modification du Code général des impôts afin de rationaliser la collecte des impôts, conformément aux directives fiscales de l'UEMOA (sur l'impôt sur les sociétés, la TVA et la taxe d'accise) sans perte d'impôt ; (vi) l'amélioration de l'efficacité de l'administration foncière entre autre par l'informatisation du registre foncier ; (vii) l'amélioration de l'identification et du suivi des contribuables par l'harmonisation des bases des données des douanes (Commissariat des Douanes et des Droits Indirects) et des taxes domestiques (Commissariat des impôts) ; (viii) la création d'un Comité interministériel d'investissement public de haut niveau, chargé d'évaluer et de prioriser les projets d'investissements en utilisant des critères économiques ; (ix) l'émission des titres avec une échéance longue et des taux d'intérêts plus faibles afin de régler toutes les obligations liées aux préfinancements envers les banques commerciales ; et (x) l'inclusion dans le Budget 2019 d'un plan d'investissement public sur 3 ans avec des projets prioritaires établis par le Comité d'investissement public en coordination avec la Cellule PPP, basée sur des bonnes études de faisabilité et d'analyses coût-bénéfices.

20. **Amélioration de la viabilité financière et la fourniture des infrastructures clés-énergie et TIC** : les principales réformes dans le secteur d'énergie visent : (i) la signature d'un accord avec la Compagnie énergie électrique du Togo (CEET) pour apurer les arriérés du Gouvernement envers la CEET avant la fin de l'année 2017 et l'obligation que la CEET apure ses arriérés envers la Communauté électrique du Bénin (CEB); (ii) la création d'un système centralisé des engagements des dépenses de la CEET au niveau du Ministère de l'économie et des finances ; (iii) la signature d'un accord avec la CEET et la CEB sur un plan de cinq ans, qui comprend des cibles annuelles pour l'amélioration de l'efficacité et les ajustements de la structure des tarifs afin d'assurer une meilleure répartition des tarifs entre les entreprises de distribution et de transport ; (iv) la mise en œuvre d'un plan pour améliorer l'efficacité du secteur de l'énergie du Gouvernement et de ses démembrements puis s'assurer que le Gouvernement n'accumule plus de nouveaux arriérés envers la CEET; (v) le suivi et l'établissement d'un contrat de performance avec le ministère chargé de l'économie et des finances ; (vi) l'adoption d'une politique de l'énergie intégrant aussi bien des options nationales que régionales ; (vii) l'adoption d'une déclaration de politique sectorielle, y compris un plan d'actions prioritaires (qui inclue une politique d'accès universel, le développement des infrastructures, le renforcement de la concurrence dans les différents segments du marché, la prise en charge de la ciber-sécurité et la protection des citoyens) pour le développement du secteur au cours de la période 2018-2022, (viii) la production d'un modèle standard et un cahier de charges qui devraient être utilisé pour l'attribution des licences à des fournisseurs d'accès à l'internet (FAIs) et qui contient des restrictions raisonnables pour la fourniture et la couverture géographique des services; (ix) le recrutement par appel d'un privé qui sera chargé de la gestion du National Carrier Hôtel suivant modèle Partenariat-Public-Privé; (x) la publication d'une offre de référence par TOGOTELECOM sur les conditions d'accès aux services en gros de larges bandes.

21. **Les principaux résultats attendus du PAGFRI sont** : (i) la réduction des exonérations fiscales; (ii) l l'amélioration du taux d'exécution du PIP ; (iii) l'amélioration de la notation PIMA sur l'efficacité de la dépenses d'investissements publics ; (iv) l'augmentation de la collecte des recettes de la CEET sur les institutions publiques ; (v) le renforcement de l'offre d'électricité à des coûts plus compétitifs ; et (vi) l'amélioration de la capacité de desserte et du coût de connexion internet.

Suivi et évaluation du programme

22. Le Ministère de l'Economie et des Finances est chargé de la mise en œuvre générale du **programme d'appui à la gestion fiscale et aux reformes ayant trait aux infrastructures** (PAGFRI). Le suivi quotidien et l'évaluation du programme sont de la responsabilité du Secrétariat Permanent pour le suivi des Politiques de Réformes et des Programmes Financiers (SP-PRPF). Cette structure coordonne la mise en œuvre du programme du Gouvernement et est assisté par un comité de suivi des programmes et des réformes. Le Gouvernement fournira des rapports trimestriels à la Banque Mondiale sur les progrès dans la réalisation du programme, mesurés par rapport aux calendriers et aux indicateurs de performance convenus.

Requête de financement

23. Les perspectives de croissance de l'économie togolaise sur la période 2017-2018 restent favorables avec des taux réels de croissance du PIB projeté en moyenne à 5,30%. Pour l'année 2017, le cadrage macroéconomique projette un niveau des recettes totales (hors dons) de 556,34 milliards de F CFA contre des dépenses de 837,23 milliards FCFA (y compris les paiements des arriérés). Le besoin de financement se situerait donc à 281 milliards de FCFA. Les financements identifiés se chiffrent à 249,5 milliards de F CFA, soit un écart résiduel de 31,4 milliards de FCFA.

Veuillez agréer, Monsieur le Président, l'assurance de ma considération distinguée.

République Togolaise · Le Ministre · Ministère de l'Economie et des Finances

Sani YAYA

MINISTRY OF ECONOMY AND FINANCE

PERMANENT SECRETARIAT FOR REFORM POLICY MONITORING AND FINANCIAL PROGRAMS

REPUBLIC OF TOGO
Labor-Freedom-Homeland

No.__________/MEF/SP-PRPF **Lome, ______________**

The Minister of Economy and Finance

To

Mr. Jim Yong Kim
President of the World Bank
1818 H Street NW
Washington DC 20433

USA

Subject: Development Policy Letter

Mr. President,

This Development Policy Letter (DPL) presents the progress made by Togo in the implementation of its National Development Strategy and the 2017-2020 outlook. It describes the Development Goals and Policies set by the authorities for the continuation of their reform agenda, which aims at consolidating economic growth and reducing poverty. To achieve these goals, the Government continues to seek technical and financial support from all its technical and financial partners notably the World Bank, through the Fiscal Management and Infrastructure Reform DPF Program (FMIR).

I. Socioeconomic background

1. Despite a difficult external environment, economic growth was sustained over the 2013-2016 period, with an average growth rate of 5.2 percent, due to good performance in the agricultural sector and investments in infrastructure. This trend should continue in 2017 and 2018 due to the combined effects of relatively good rainfall and an increase in agricultural sector productivity and improved transportation system. Inflation was sustained at 0.9 percent in 2016 and is projected at 1.5% in 2017. However, large investments in infrastructure increased total public debt from 48.8 percent in 2010 to 80.8 percent of GDP at the end of 2016, above the regional threshold of 70 percent. As a result of the high costs of infrastructure

and liabilities related to the pre-financing mechanism, the overall fiscal deficit (cash basis) increased from 7.8 percent of GDP in 2015 to 9.6 percent in 2016. The deficit is projected to fall to 3.6 percent of GDP in 2018 according to the IMF estimates.

2. Analysis performed in 2016 by the IMF and the World Bank shows that Togo faces a high risk of overall debt distress. Togo's new Extended Credit Facility (ECF) program with the IMF (2017-2019) essentially aims at creating conducive conditions to substantially reduce Togo's public debt level from 80.8% of GDP in 2016 to 67.8 percent by 2020. On this basis, the Government has put an end to the pre-financing mechanism and is committed to implementing public debt management institutional capacity building measures.

II. Implementation of the Strategy for Boosting Growth and Promoting Employment

3. The Strategy for Boosting Growth and Promoting Employment (SCAPE) is in its final year of implementation. The status of the implementation of the main pillars is as follows as of end 2016:

4. For the pillar **concerning the development of sectors with high growth potential**, performance indicators show that progress has been registered in the following sectors: agricultural production; development of handicrafts; and services. However, the industrial development sector has performed below expectation. The results of the agricultural sector can be explained by the implementation of the PNIASA project. Thus, agricultural GDP grew by 7.0 percent from 2015 to 2016. The coverage rate of cereal products was on average 110 percent over the 2013-2016 period and that of livestock products was estimated at 56 percent of national needs in 2016. In the services sector, the balance of goods and services in percentage of GDP indicates an improvement in the deficit from -21.1 percent in 2013 to -9.0 percent in 2016. Regarding industrial development, the Harmonized Production Index increased from 121.9 in 2011 to 147.5 in 2013, and dropped to 126.9 in 2014, 99.7 in 2015 and 97.3 in 2016.

5. With regard to **human capital, social protection and employment development area**, progress has been made, particularly in the education, health and employment sectors. However, Togo is still classified in the last quintile of the Human Development Index (HDI). The 2016 HDI is still low with a score of 0.487, ranking Togo 166th out of 188 countries. The primary education Net Enrolment Ratio (NER) has improved as a whole and reached 94.3 percent in 2015. The poverty incidence dropped from 61.7 percent in 2006 to 55.1 percent in 2015, and tangible improvement in the extreme poverty rate has not been observed. The Gini index improved from 0.393 to 0.380 between 2011 and 2015 (SDG 10). Spatial and gender inequalities persist despite the progress made over the past five years. In rural areas, nearly 7 Togolese out of 10 are poor, and the curative care services availability rate dropped from 41 percent in 2014 to 37.7 percent in 2015.

6. At the level of **infrastructure strengthening**, significant progress has been made. In fact, in order to make up for Togo's infrastructure backwardness, the policy of rehabilitating and constructing social infrastructure has been the SCAPE's most financed area. Indeed, asphalted roads providing good service reached 60 percent compared to 16.7 percent in 2011. So, the average time taken by a truck to go through the National Road No. 1 (RNl) dropped from 72 hours in 2012 to 48 hours in 2016. The electrification rate went from 28.3 percent in 2014 to 35.5 percent in 2016 and the fixed and mobile telephony penetration rate increased from 67.1 percent in 2011 to 77.6 percent in 2016.

7. In terms of **promoting participatory, balanced and sustainable development**, an assessment of indicators at the end of 2016 shows that there were improvements. Thus, CFAF 25.7 billion micro-credits were granted as guarantee funds, and to support grassroots communities in 2016 compared to CFAF 2 billion in 2013. Regarding the number of development hubs created, the Government, through the SCAPE, intended to stimulate the local creation of wealth, from the potential of each region. Public action aims at developing agricultural, industrial and service sectors. With regard to the balanced emergence of the development sector, no hub has yet been created.

8. With regards to the strengthening of **governance**, progress has also been made in strengthening the judicial system, promoting human rights and the business climate. The CPIA indicator increased from 2.94 in 2011 to 3.55 in 2013 and stagnated at 3 since 2014. The 2016 Mo Ibrahim report on assessment of global governance in Africa shows that Togo is 33rd out of 54 countries assessed with a score of 48.5 out of 100. Notwithstanding the weakness of the overall ranking, Togo with an average assessment of +9.7 points, was ranked 2nd best governance reforming country over the period 2006-2015. 2016 Transparency International's Report ranks Togo 116th out of 176 with a Corruption Perception Index (CPI) of 32 compared with 29 in 2014 on a scale of 0 (high corruption level) to 100 (very low corruption level).

III. 2017-2020 Outlook

9. As part of its National Development Program (NDP), the Government is committed to taking firm actions in sectors offering more growth potential, particularly the agricultural sector. The government will pay particular attention to governance improvement and the performance of social sectors in order to enable Togo to have a healthy and well-educated population in line with the labor market. The contribution of the private sector will further be boosted by improving the business climate in order to increase its competitiveness so that the private sector can become the real driver of a strong and inclusive economic growth.

Structural reforms of the Government over the 2017-2020 period: governance, transparency and structural reforms

10. The Government is committed to achieving further improvements in public financial management in the context of economic and financial governance. To this end, assessments were conducted in 2016 (PEFA, PEMFAR, PIMA and DeMPA) and led to an update of the Public Financial Management Action Plan. This new action plan covers the period 2017-2021.

11. The Government is committed to continuing the fight against corruption and fraud, and establish a judicial and regulatory environment conducive to a flourishing economic activity. To consider the WAEMU guidelines on the public financial management and bring the institutions in charge of inspection up to international standards, regulations governing these various institutions are being reviewed by a committee set up for this purpose.

12. In addition, the 2017 budget is strictly being implemented with transparency and efficiency. In the process of clearing domestic debts, the Government will no longer accumulate domestic and external arrears, nor resort to extra budgetary procedures of public expenditure execution. Revenue generation and

expenditure execution reflect the implementation of reforms initiated by the Government. The 2017 budget runs from the Integrated Public Finance Management System (SIGFIP) taking into account economic and administrative aspects. The 2018 draft budget will be adopted by the Council of Ministers and voted by the National Assembly within the constitutional deadlines. Like the previous one, this budget gives priority to expenditures that will be directed towards social sectors, particularly education, health, and basic socio-economic development in rural and semi-urban areas.

13. The Government also commits to: (i) consolidate public procurement reform; (ii) strengthen the control of public finance management; (iii) improve revenue collection and mobilize external resources; (iv) adapt and implement a fully functional SIGFIP which will be extended to all Departments, Institutions and Regions, in order to improve coordination.

Reforms related to the business environment

14. To improve the business environment and promote private sector development, the Government action will be directed towards: (i) further simplifying business start-up procedures and formalities; (ii) further simplifying cross-border trade procedures and formalities; (iii) implementing the SMEs/SMIs Charter; (vi) implementing the directory and SMEs/SMIs mapping; (iv) strengthening the mechanism for private sector promotion and support; (ix) strengthening skills of SMEs/SMIs economic operators; (x) support to strengthen Togo's Court of Arbitration and enable it to play its role of settling conflicts or disputes between economic operators; (xi) strengthening dialogue between the Government and the private sector and encouraging public-private partnerships; and (xii) facilitating access to finance and diversifying the supply of financial products (Guarantee Fund, leasing, FNFI, etc.).

Reforms in the agricultural sector

15. In order to face the major challenges and thereby, consolidate the gains made to achieve the Sustainable Development Goal Nº 2 (SDG) on ending hunger and achieving food security for all, various initiatives are being implemented by the Government. These actions include: the development of agricultural mechanization; restructuring actors in the various sectors around value chains; defining a quality label; and setting up domestic social safety nets.

16. In addition to these actions, and with the hope of seeing the emergence of agro-industrial enterprises, along with micro-processing enterprises, the Government undertook various initiatives to attract private investors or groups of investors in the agricultural sector, especially by carrying out reforms in the energy, financial, social, water and sanitation sectors.

Reforms in the energy sector

17. Further consolidating the financial situation of Togo Electricity Company (CEET) is a priority for the Government. The Government initiated an accounting, financial and organizational audit of the CEET with support from the European Union. The implementation of the recommendations that will result from this

audit will increase the company's performance. Other important reforms have been implemented, notably State arrears clearance, and a sector-based policy is being finalized.

NDP process

18. The 2013-17 Strategy for boosting growth and promoting Employment is in its final year of implementation. The Government is identifying development priorities in the new 2018-2022 National Strategy (National Development Plan - NDP) and plans to fully integrate these priorities into the budget. The NDP is focused on five pillars, namely: (i) fighting against poverty and improving social well-being; (ii) promoting sustained and inclusive economic growth; (iii) strengthening the potential of growth-enhancing sectors; (iv) environmental sustainable management and reduction of spatial inequalities; (v) governance and peace-building. The Government will set a minimum level for domestically-financed social spending, especially for projects that have significant impact on poverty reduction.

IV. Fiscal Management and Infrastructure Reform Program (FMIR)

Overall objectives

The FMIR aims to (i) increase fiscal space through improved revenue mobilization and more efficient management of public spending and public investment; and (ii) improve the financial viability and service delivery in the energy and ICT sectors. The FMIFV DPO will help promote financial and commercial viability as well as adequate provision of power at the least cost in the electricity sector, and foster more competition and better regulation in the ICT sector through increased private sector participation and an improved regulatory environment. The program is structured around two (2) areas namely:

✓ to improve fiscal management and increase the efficiency of public spending : the objective of this pillar is to better coordinate the implementation of tax reforms by the Ministry of Economy and Finance, through rationalization of the tax system and a reduction in exemptions, improving the tax collection performance by the Togolese Revenue Authority (OTR) and strengthening public investment management through the use of transparent criteria to be used for the selection and analysis of projects;

✓ to improve the Financial Viability in Key Infrastructure Sectors - energy and telecommunications: this area is intended to (i) promote affordable electricity supply by restoration the financial viability of the energy sector and identifying priority projects; (ii) promote affordable electricity and ICT services by: (i) restoring the financial viability of the energy and ICT sectors; and (ii) strengthening the regulatory framework of the ICT sector.

Reforms supported by the program and expected results

19. **Mobilization of domestic resources and improvement in the Efficiency of Public Investment Management**: the main reforms concern: (i) an audit of tax exemptions to identify irregularities and eliminate them; (ii) the introduction in the context of the 2018 Budget Act of specific measures to reduce tax exemptions (including on VAT); (iii) the launching of a new system for electronic tax filing by companies

under the Large Taxpayers Department of the Togo Revenue Authority; (iv) the launching of a program for micro and small enterprises to enable tax payments through mobile phones; (v) an amendment of the Tax Code to rationalize taxes in line with WAEMU fiscal directives (on corporate tax, VAT and excise tax), without any loss of tax revenue; (vi) a reduction of inefficiencies in the land administration, including computerization of the land registry; (vii) an improvement of the identification and monitoring of taxpayers (firms) by harmonizing the Customs and Domestic Taxes databases; (viii) the establishment of a high-level inter-ministerial Public Investment Committee to scrutinize and prioritize investment proposals using economic criteria; (ix) the settlement of all outstanding obligations linked to pre financed contracts to the involved commercial banks through the issuance of securities with longer maturities and lower interest rates; and (x) the inclusion in the 2019 Budget Act of a three-year rolling Public Investment Plan with priority projects established by the Public Investment Committee and coordinated with the PPP unit based on proper feasibility, cost-benefit, and value-for-money analysis.

20. **Improving Financial Viability and Service Delivery in Key Infrastructure Sectors: Energy and ICT**: the main reforms aim to: (i) sign an agreement with the Togo Electricity Company (CEET) to repay all arrears by end-2017 and to require that CEET in turn settles its arrears with the jointly-owned Benin Electricity Company (CEB; (ii) establish a centralized system of payment through the Ministry of Finance; (iii) agree with CEET and CEB on a five-year plan with yearly targets for efficiency improvements and adjustments in tariff structure to ensure a better partitioning of the tariff among the distribution and transmission companies; (iv) implemented an effective plan for enhancing energy efficiency in the general government and ensured that no new arrears to CEET have been incurred ; (v) approve a Revenue Protection Program which provides for the use of smart meters, and a performance contract has been established with the Ministry of Economy and Finance; (vi) adopt a power supply investment program for the next ten years based on the revised Least Cost Energy Sector Development Plan that integrates both domestic and regional supply options (including a final list of up to three priority projects to be developed and commissioned before 2026); (vii); adopt the Declaration of a Sector Policy including a plan of priority actions (comprising, *inter alia*, a universal access policy, the development of infrastructure, enhancing competition is different market segments, support to cyber security and the protection of citizens) for the development of the sector over the period 2018-2022; (viii) issue a standard model and guidelines (Cahier des Charges) to be used for the granting of ISP authorizations which contain only limited and reasonable restrictions to service provision and geographic coverage; (ix) the recruitment of a private firm which will be responsible for the management of the National Carrier Hotel with a Public Private Partnership model; and (x) publish a reference offer from TOGO TELECOM on the terms for access to wholesale broadband services

21. **The main FMIR expected results are to:** (i) reduce tax exemptions; (ii) increase property tax revenues; (iii) improve the PIMA rating on the efficiency of public investment expenditure efficiency; (iv) modify the terms of past pre-financed contracts by extending maturities and reducing interest rates; (v) increase in the revenue collection rate of CEET from the general government; (vi) improve the supply capacity and reduce the internet connection cost.

Program Monitoring and Evaluation

22. The Ministry of Economy and Finance is responsible for the overall implementation of the program supported by the **Fiscal Management and Infrastructure Reform Program** (FMIR). The Permanent Secretariat in charge of Reforms and the Monitoring Financial Programs (SP-PRPF) will be responsible for the daily monitoring and evaluation of the program This structure coordinates the implementation of the Government's program and is supported in this task by a Committee in charge of monitoring programs and reforms. The Government will provide quarterly reports to the World Bank on progress in the program implementation, measured with reference to the agreed timelines and performance indicators.

Funding request

23. The growth prospects of the Togolese economy over the 2017-2018 period are quite favorable, with real GDP growth projected to average 5.3 percent. For 2017, the macroeconomic framework projects a level of total revenue (excluding grants) of CFA F 567.5 billion compared with expenditures of CFA F 968.1 billion (including arrears payments). The financing need would therefore be CFA F 400.6 billion. Identified financing amounts to CFA F 360.9 billion with a residual difference of CFA F 39.7 billion.

Yours faithfully

Sani YAYA

ANNEX 3. IMF RELATIONS ANNEX

Togo – Assessment Letter for the World Bank

November 6, 2017

This letter provides an updated IMF staff assessment of the macroeconomic and financial situation in Togo, performance under the three-year ECF arrangement approved on May 5, 2017, and prospects going forward. This assessment is based on discussions with the authorities during the first program review mission which took place in Lomé on October 23-30, 2017. The IMF's Executive Board is expected to consider a request for completion of the program review in mid-December 2017.

Recent Economic Developments

Economic activity expanded at a moderate pace in the first half of 2017, accompanied by low inflation. Following a strong expansion in the second half of 2016, commercial bank credit remained broadly stable in the first half of 2017. Energy consumption has increased robustly. Traffic at both port and airport has also increased, driven primarily by transshipment. However, there are some incipient signs of economic weaknesses; the turnover of some large companies has reportedly stagnated in the first half of 2017, particularly in the construction sector. Full-year (y-o-y) economic growth is expected to be at 4.8 percent. Headline inflation rate through July was -2.5 percent (y-o-y) and -1.2 percent (m-o-m), driven primarily by lower food prices; the core inflation rate, excluding food prices, was 0.6 percent (y-o-y).

As envisaged under the ECF-supported program, the government has begun fiscal consolidation. Expenditure has been curtailed significantly. During 2013-16, the primary fiscal deficit averaged about 6 percent of GDP per year, including an average non-orthodox financing of public investment of about 3.4 percent of GDP per year.[1] In 2017, the primary fiscal deficit is budgeted to shrink to 2.7 percent of GDP and the non-orthodox financing of public investment was halted. However, arrears have continued to build up, leading to a net accumulation of about 0.5 percent of GDP during January to June 2017.

[1] In a typical non-orthodox financing of public investment, a private company, which was granted a single-source public works contract by the government, obtained a loan from a domestic commercial bank or a group of commercial banks. The Finance Ministry guaranteed this loan and, at the same time, signed an unconditional and irrevocable substitution of debtor agreement to service all principle and interest, which have been paid automatically from the Treasury account at the BCEAO.

Program Performance

Staff-level agreement on completion of the first ECF review has been reached. The strong start of fiscal consolidation led to a large overperformance on the domestic primary fiscal balance target. The fiscal tightening resulted in significantly lower net domestic 2 financing. In line with the program commitment, the authorities have refinanced the debt stock related to the non-orthodox financing of public investment with bonds at more favorable terms. Submission of the staff report to the IMF Board is conditional on the completion of two prior actions. The parameters of the 2018 budget have been agreed, which should be presented to the Cabinet as a prior action. A second prior action is related to a restructuring plan of two ailing public banks, for which progress is relatively slow but some key decisions have been taken.

Structural reforms are advancing on tax administration and public financial management, but need to be accelerated in the financial sector and with respect to the business environment. The Tax Authority completed the envisaged verification of revenue foregone from customs exemptions in 2016 through a post-clearance audit program. The ministry of finance has also developed a methodology to identify and verify domestic arrears. A decree was issued to strengthen debt management. However, the restructuring process of the two ailing public banks encounters delays and private investors encounter difficulties entering some key sectors.

Outlook and Risks

Implementation of the ECF-supported program should help contain risks. The draft 2018 budget agreed between the authorities and Fund staff is in line with the consolidation envisaged under the original program, helping to put the elevated debt-to-GDP ratio on a downward path. Structural reforms should help strengthen institutions; these reforms include improvement of public financial management and tax administration. By contrast, inability to deliver decisively on the fiscal consolidation would exacerbate the current heightened risk of overall public debt distress. Furthermore, lingering political tensions could take a toll on macroeconomic performance and reform implementation.

Table 1. Togo: Selected Economic and Financial Indicators, 2013–21

	2013	2014	2015	2016	2017	2018	2019	2020	2021
				Est.	Proj.				
	(Percentage change, unless otherwise indicated)								
National income, prices, and exchange rates									
Real GDP	6.1	5.9	5.3	5.0	4.8	5.0	5.2	5.3	5.4
Real GDP per capita	3.3	3.1	2.5	2.2	2.0	2.2	2.4	2.5	2.6
GDP deflator	1.7	-0.1	2.7	2.5	0.9	1.5	1.6	2.0	2.0
Consumer price index (average)	1.8	0.2	1.8	0.9	-0.1	1.2	1.4	2.0	2.0
GDP (CFAF billions)	2,134	2,259	2,443	2,628	2,779	2,962	3,166	3,400	3,655
Exchange rate CFAF/US$ (annual average level)	493.9	493.6	591.2	592.7	...	...	...	...	...
Real effective exchange rate (appreciation = –)	-2.2	-1.2	7.1	-1.0	...	...	...	...	...
Terms of trade (deterioration = –)	-1.2	3.2	2.0	0.8	-5.3	-1.2	-0.6	2.7	0.7
	(Percentage change of beginning-of-period broad money)								
Monetary survey									
Net foreign assets	-24.4	-7.0	-3.6	5.1	-1.1	1.0	...	...	...
Net credit to government	-4.2	1.3	-2.1	-2.3	-1.4	-4.8	...	...	...
Credit to nongovernment sector	18.7	1.2	13.2	10.1	10.2	12.2	...	...	...
Broad money (M2)	16.6	3.7	20.6	12.6	5.7	6.6	...	...	...
Velocity (GDP/end-of-period M2)	2.1	2.1	1.9	1.8	1.8	1.8	...	...	...
	(Percent of GDP, unless otherwise indicated)								
Investment and savings									
Gross domestic investment	29.9	32.7	33.8	33.8	31.6	32.3	29.2	31.0	31.8
Government	9.3	11.3	13.1	14.0	10.9	10.8	7.1	8.5	8.4
Nongovernment	20.6	21.4	20.7	19.9	20.7	21.5	22.1	22.5	23.4
Gross national savings	16.7	22.7	22.7	24.5	24.0	25.1	23.0	26.0	28.0
Government	4.1	4.5	4.2	4.4	8.6	8.3	7.3	7.7	7.1
Nongovernment	12.7	18.2	18.5	20.1	15.4	16.8	15.6	18.3	20.8
Government budget									
Total revenue and grants	21.5	20.7	22.1	21.7	25.2	25.7	25.4	25.4	25.4
Revenue	18.1	18.3	19.7	18.9	20.0	21.7	21.3	21.3	21.3
Total expenditure and net lending	26.6	27.5	31.1	31.4	27.5	28.2	25.2	26.2	26.7
Domestic primary expenditure	20.8	21.5	23.0	23.4	17.6	18.3	16.1	17.5	17.5
Domestic primary balance[1]	-2.7	-3.1	-3.2	-4.5	2.4	3.4	5.3	3.9	3.8
Overall primary balance (cash basis)	-4.7	-6.5	-5.4	-7.2	-2.7	-2.2	2.0	2.0	2.0
Overall balance (cash basis)	-5.8	-8.0	-7.8	-9.6	-4.8	-4.6	-1.2	-0.8	-1.2
External sector									
Current account balance	-13.2	-10.0	-11.2	-9.3	-7.6	-7.1	-6.2	-5.0	-3.8
Exports (goods and services)	46.5	39.7	36.3	35.3	34.3	33.6	34.5	34.9	36.1
Imports (goods and services)	-66.3	-57.7	-58.5	-54.9	-52.1	-50.5	-50.5	-49.7	-49.7
External public debt[2]	14.3	17.3	21.2	20.4	21.0	23.4	26.1	26.6	27.0
External public debt service (percent of exports)[2]	2.4	2.9	3.1	5.1	4.2	3.6	3.8	4.6	4.7
Domestic Debt[3]	41.4	47.8	54.3	61.2	56.3	51.0	44.1	40.2	36.5
Total public debt[4]	55.7	65.1	75.6	81.5	77.3	74.4	70.2	66.8	63.5

Sources: Togolese authorities and IMF staff estimates and projections.

[1] Revenue minus expenditure, excluding grants, interest, and foreign-financed expenditure.

[2] Includes state-owned enterprise external debt.

[3] Includes prefinancing debt, domestic arrears and state-owned enterprise domestic debt.

[4] Includes prefinancing debt, domestic arrears and state-owned enterprise debt.

ANNEX 4. ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS TABLE

Prior actions	Significant positive or negative environment effects (yes/no/to be determined)	Significant poverty, social or distributional effects positive or negative (yes/no/to be determined)
Pillar 1. Fiscal Management Reforms: Prior Actions		
Prior Action 1. To increase revenues, the Recipient has: (i) completed an audit of tax exemptions to identify irregularities and eliminate them; and (ii) initiated in the context of the 2018 Budget Act measures to reduce regular tax exemptions (including on VAT).	**No**	**No** Enhanced and more efficient revenue mobilization, including through the removal of arbitrary tax exemptions, will not have any direct impact but would free up resources that could be used for additional social spending programs.
Prior Action 2. To facilitate tax payments, the Recipient has launched: (i) a new system for electronic tax filing by companies under the Large Taxpayers Department of the Togo Revenue Authority; and (ii) a program for micro and small enterprises to enable tax payments through mobile phones.	**No**	**No** No direct impact but more efficient systems for paying taxes, including for micro and small enterprises, would free up time for other welfare-enhancing activities.
Prior Action 3. To improve public investment planning and selection, the Recipient has established a high-level inter-ministerial Public Investment Committee. The Public Investment Committee would have the capacity and access to detailed methodological guidelines to identify, assess and prioritize investment proposals including, environmental and sustainability criteria.	**No** No direct impact, but Committee should be encouraged to include an environmental impact assessment in the cost-benefit analysis.	**No** No direct impact, but more efficient public investment could free up additional resources for social spending programs. The Committee would also be encouraged to include an assessment of poverty and social impact, including positive or negative externalities.
Prior Action 4. To lower the cost of past pre-financed investments, the Recipient has settled all outstanding obligations to the involved commercial banks through the issuance of securities	**No**	**No** No direct impact, but fiscal savings would free up resources for additional social spending programs.

with longer maturities and lower interest rates.		
Pillar 2. Energy and ICT Sector Reforms: Prior Actions		
Prior Action 5. To strengthen the financial position of the electricity production and distribution companies, the Recipient has ensured regularization of the payment obligations of the general government to the Togo Electricity Company (CEET) and of the CEET's payment obligations to the jointly-owned Benin Electricity Company (CEB) through: (i) offsetting central government payment arrears to CEET at end-2016 against tax arrears; and (ii) agreement with two commercial banks to provide bridge financing in 2017 for cash payment directly to CEB on behalf of CEET.	**No**	**No** No direct impact, but improved financial viability of the electricity company will support improved service delivery, including to the poor.
Prior Action 6. To ensure timely payment of the statutory fuel subsidy and the electricity bills of the General Government, the Recipient has established a centralized system of payment through the Ministry of Finance in the context of the 2018 Budget Act.	**No**	**No** No direct impact, but improved financial viability of the electricity company will support improved service delivery, including to the poor.
Prior Action 7. To improve the institutional framework of the ICT sector and promote competition in the retail internet broadband segment, the Recipient has adopted a Sector Policy including a plan of priority actions (comprising, *inter alia*, a universal access policy, the development of infrastructure based competition, the implementation of number portability and national roaming, and the implementation of regulatory tools for quality of service) for the development of the sector over the period 2018-2022.	**No** No direct impact, but the new policy should include provisions for assessing any environmental impact of new ICT infrastructure investments.	**No** No direct impact, but enhanced competition and better regulation should support improved ICT service delivery, including for the poor.

Prior Action 8. To remove the barriers preventing investors and operators from deploying their own infrastructure, the Recipient has issued a standard model and guidelines (Cahier des Charges) to be used for the granting of ISP authorizations which contain only limited and reasonable restrictions to service provision and geographic coverage.	**No** No direct impact but new guidelines should ensure that proper environmental assessments are done by private operators and any negative impacts addressed.	**No** No direct impact, but enhanced competition and better regulation should support improved ICT service delivery, including for the poor.