# PROGRAM INFORMATION DOCUMENT (PID)
## APPRAISAL STAGE

25/10/2017

Report No.: AB7899

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| **Operation Name** | Togo Fiscal Management and Infrastructure Reform DPO Program |
| **Region** | AFRICA |
| **Country** | Togo |
| **Sector** | Energy and ICT (Information and Communications Technology) |
| **Operation ID** | P159844 |
| **Lending Instrument** | Development Policy Lending |
| **Borrower(s)** | MINISTERE DE L'ECONOMIE ET DES FINANCES |
| **Implementing Agency** | Ministry of Economy and Finance |
| **Date PID Prepared** | October 30, 2017 |
| **Estimated Date of Appraisal** | November 15, 2017 |
| **Estimated Date of Board Approval** | December 20, 2017 |
| **Corporate Review Decision** | November 14, 2017 |
| **Other Decision** *(Optional)* | |

## I. Key development issues and rationale for Bank involvement

1. **Togo's recent economic growth performance has been relatively robust, but was supported by unsustainable expansionary fiscal policies**. Although Togo was affected by several negative shocks – economic decline in Nigeria, lower prices for some of its main exports (phosphates and clinker) – GDP growth averaged 5.5 percent over the past five years. As such, Togo's growth performance remains higher than the Sub-Saharan Africa average. An ambitious public investment program helped sustain aggregate demand in 2015 and 2016. The large public investment program led, however, to a serious deterioration of the fiscal situation, with the public deficit reaching 9.6 percent of GDP and the public debt-to-GDP ratio attaining 80.8 percent at end-2016. 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 yields of cereals and cash crops.

2. **The Togolese economy is vulnerable to a number of shocks going forward**. These include, most notably: (i) Togo's large exposure to external conditions, especially China, Ghana and Nigeria; (ii) the variability in crop yields and livestock breeding linked to climatic conditions; (iii) the magnitude of the fiscal adjustment within the context of the current IMF program; and (iv) the persistence of a strained political and social atmosphere marred with continuous strikes and opposition parties' protests against the President's interpretation of Constitutional term limits.

3. **Despite having achieved modest poverty reduction over the past several years, Togo is not on track to meet the goal of eliminating extreme poverty by 2030.** Togo's recent

economic growth performance, combined with an annual population growth rate of 2.7 percent, has resulted in an annual real GDP per capita growth of less than 3 percent. Although poverty rates have from 61 percent in 2006 to 55.1 percent in 2015, this represents a relatively low impact of economic growth on poverty headcount rates, with each percentage point increase in annual real GDP per capita growth resulting in a poverty rate reduction of only 0.2-0.3 percentage points compared to a reduction of 0.7 percentage points for the continent. Moreover, some of the gains in poverty reduction have quickly been reversed in the past, with the capital city of Lomé, for example, seeing a poverty rate decrease of 2.3 percentage points between 2006 and 2011 followed by an increase of 6.3 percentage points between 2011 and 2015.

4. **The Government of Togo has to address the challenges of improving the business-enabling environment and Government effectiveness.** These challenges, coupled with the global economic slowdown, have severely weakened Togo's macroeconomic framework. The proposed Fiscal Management and Infrastructure Reform (FMIR) DPO Program focuses on improving fiscal space and the efficiency of revenue mobilization and public investment, while striving to unleash key growth potentials in the electricity and telecommunications sectors. The design of FMIR draws important lessons from previous operations and leverages complementary Bank operations and TA.

## II. Proposed Objective(s)

5. **The proposed program aims to support Government's reforms in two major inter-related areas**. The program aims to: (i) enhance tax revenues and improve the efficiency of tax collection and public investment spending to promote macroeconomic stability while improving service delivery and supporting private sector development; and (ii) strengthen the financial viability and service delivery in key infrastructure sectors (energy and ICT) to reduce the fiscal burden from these and support private sector development.

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6. **The objectives of the series are consistent with the key objectives of the Bank's Country Partnership Framework (CPF) and Togo's national development program** as described in the 2013-2017 Strategy for Boosting Growth and Promoting Employment (SCAPE) and the 2018-2022 National Development Program (PND). The Togo CPF 2017-20 was recently approved by the Board of the Bank, and the government is in the process of finalizing the PND.

## III. Preliminary Description

7. **The FMIR objectives cover two overlapping policy areas**: (i) Enhancing the efficiency of domestic resource mobilization and public investment; and (ii) and accelerating private sector development through improved financial viability and service delivery in the energy and ICT sectors. These policy areas are consistent with the government's SCAPE and PND, and are also closely aligned with the Bank's CPF.

8. **Togo's tax policy and public investment management have been identified as major obstacles to growth and poverty reduction**. Togo's tax system is complicated and burdensome and is viewed as a major obstacle to investment, the formalization of enterprises in the informal sector, firm growth, and poverty reduction through productive employment (World Bank, 2016). The modernization of the tax system began in January 2014 with the operationalization of the Togolese Revenue Authority (OTR), which constituted an important measure to improve the tax administration. On the public spending side, the government should be able to exploit sizable

efficiency gains through a better planning and management of its public investment program. The proposed programmatic series aims at strengthening public financial management on two fronts**.** First, it will improve revenue mobilization through: (i) enhanced leadership role of the Ministry of Economy and Finance on tax policy design; (ii) implementation of tax reforms aimed at streamlining/simplifying the taxation system and reducing tax exemptions; and (iii) improved tax collection performance of the OTR. Second, it will improve efficiency in public investment management by strengthening the institutional framework and introducing transparent criteria and analytical decision-making mechanisms.

9. **Despite growing electricity production, power outages are common and many Togolese firms consider that the high cost and lack of reliable electricity supply is a major constraint**. Disruptions are caused by a variety of factors including hydrological conditions, operational constraints, and temporary shortage of gas imports from Nigeria and Ghana, which affects thermal generation. In the energy sector, the proposed programmatic series has two main objectives: (i) improving the financial viability of the sector, including by reducing costs through efficiency improvements and least-cost power generation; and (ii) attracting new investment and improving service delivery.

10. **The performance of the ICT market is plagued with uncompetitive practices (barriers to entry and the major presence of the state-owned telecommunications company)**. Because of these practices, costs are high and the quality of service is poor. A majority of Togolese enterprises view the poor quality of internet and telecom services as a major constraint to business development. 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. The proposed programmatic series will aim at promoting competition and private sector participation in the retail broadband segment of the ICT sector while strengthening the regulatory framework.

## IV. Poverty and Social Impacts and Environment Aspects

### Poverty and Social Impacts

11. **While none of the proposed measures would have direct and immediate impact on poverty or social conditions, many of the proposed measures would have a significant, indirect positive impact over the medium term.** The fiscal management reforms would create additional fiscal space for social spending and improved social service delivery while supporting higher growth. The infrastructure reforms in energy and ICT would also help improve service delivery, including to the benefit of the poor, through better access and lower cost. These reforms would also support higher, private sector-led growth.

### Environment Aspects

12. **The prior actions or triggers of the proposed FMIR program will generally not have any impact on country's environment, forests and other natural resources.** The main concern related to Prior Action 8 linked to the removal of barriers preventing licensed operators from deploying their own fiber optic infrastructure backbone. The construction of a fiber optic throughout the entire territory by a licensed operator could involve the destruction of some flora and fauna during extension and installation. This impact may, however, be minimized by avoiding areas where the impact will be more substantial. Furthermore, licensed operators would be encouraged to begin revegetation of excavated sites once the sites have been backfilled. The

Bank will support the government in introducing appropriate safeguards to address these risks, including insisting that private operators carry out the necessary environmental impact assessments and take appropriate action to address any negative effects.

## IV. Tentative financing

| | ($m.) |
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| International Development Association (IDA) | 52 |
| Borrower/Recipient | 0 |
| IBRD | 0 |
| Others (specify) | 0 |
| Total | 52 |

## V. Contact point World Bank


Thomas Blatt Laursen
Title: Lead Economist
Tel: (202) 473-1982
Fax:
Email: tlaursen@worldbank.org

or

Godwill Kan Tange
Title: Senior Economist
Tel: +(228) 22536724
Fax:
Email: gtange@worldbank.org


**Borrower**


Contact: Mr. Sani Yaya
Title: Minister of Economy and Finance
Tel:
Email: sani.yaya@gouv.tg


## VI. For more information contact:


The InfoShop
The World Bank
1818 H Street, NW
Washington, D.C. 20433
Telephone: (202) 458-4500
Fax: (202) 522-1500
Web: http://www.worldbank.org/infoshop