Program Information Document (PID)

Concept Stage | Date Prepared/Updated: 10-Jun-2019| Report No: PIDC26355

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Togo	P169867	Togo DPO New Series (P169867)	
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
AFRICA	Aug 29, 2019	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Ministre de l'Economie et des Finances	Ministry of Economic and Finance		

Proposed Development Objective(s)

The Program Development Objective (PDO) of the proposed operation is structured around three pillars: (i) increasing tax revenue mobilization and improving public investment and debt management; (ii) strengthening energy sector financial viability; and (iii) enhancing health sector financial viability and governance.

Financing (in US$, Millions)

SUMMARY

Total Financing	425.00

DETAILS

Total World Bank Group Financing	225.00
World Bank Lending	25.00
World Bank Guarantees	200.00
Total Non-World Bank Group Financing	400.00
Private Capital and Commercial Financing	400.00
of which Private Capital	400.00

Decision

The review did authorize the preparation to continue

B. Introduction and Context

Country Context

1. **Togo's recent economic performance has been relatively stable, despite political and social tensions, but poverty and vulnerability remain high**. Growth remains robust, averaging 5.2 percent over the last four years, driven by public investment in infrastructure and the good performance of export-oriented sectors such as phosphates and cotton. Nevertheless, more than half of households are living below the poverty line and access to basic services, especially in the energy and health sectors, remains challenging. In addition, despite recent bold reforms in public finance management, public debt remains the highest levels in the WAEMU region at above 70 percent of GDP.

2. **The macroeconomic framework remains adequate for the purpose of this operation as Togo remains on track under the IMF ECF, with a significant improvement in its fiscal stance over the duration of the program**. In addition, Togo's efforts to improve the business environment and open strategic sectors for private sector participation and enhanced competition lay a good foundation for stronger and increasingly private sector-led growth. Nevertheless, the very challenging political situation raises considerable macroeconomic risks in terms of reinvigorating growth and sustaining fiscal prudence.

Relationship to CPF

3. **The key areas of support under the DPF are consistent with the key pillars of the Togo Country Partnership Framework (CPF) FY17-FY20**, discussed by the Board of Executive Directors on May 16, 2017. The DPF supports the CPF cross-cutting theme of governance through measures aimed at strengthening key government institutions and bringing in private actors to deliver results under each of the CPF Focus Areas. The DPF supports directly Focus Area I on Private Sector Performance and Job Creation, by contributing to the objectives of strengthening fiscal policy and debt management, and improving the business environment, by strengthening the energy sector; and CPF Focus Area II on Inclusive Public Service Delivery, by strengthening health services and increasing available fiscal space through improved domestic revenue mobilization and promoting efficient public investment. The DPF measures are supported by World Bank's investment projects, including the Togo Economic Governance Project (EGP); The Health System Performance Strengthening Project (P164886) and the Energy Support and Investment Project (P160377).

C. Proposed Development Objective(s)

4. **The proposed operation in the amount of US$ 25 million equivalent for a Development Policy Grant and up to US$ 200 million Policy-Based Guarantee is the first in a programmatic series of two single-tranche DPFs designed to support the implementation of the 2018-2022 National Development Plan (PND).** The Program Development Objectives (PDOs) are to support the Government in (i) increasing tax revenue mobilization and improving public investment and debt management; (ii) strengthening the financial viability of the energy sector; and (iii) enhancing financial viability and governance in the health sector.

Key Results

5. **The measures supported under the DPF are expected to strengthen revenue mobilization, improve efficiency and transparency of public investment procedures, strengthening energy and health sector financial viability and governance**. Tax reforms are expected to lead to an increase of VAT revenues, property tax revenues and the share of taxes from MSMEs as a percent of total domestic tax revenues. The measures supported by this DPF series are also expected to improve public investment and debt management outcomes. Likewise, energy reforms supported by the DPF are expected to lower the costs of energy provision and increase the financial sustainability of the sector. Finally,

measures supported by this DPF series are expected to strengthen the financial viability and the performance of the health sector.

D. Concept Description

6. **The proposed operation is organized around two strategic pillars, (i) improving fiscal management and (ii) strengthening energy financial viability, and (iii) enhancing health sector financial viability and governance.** The choice of these pillars reflects Government's priorities associated with the implementation of the National Development Plan**.** The focus has been on two of the three strategic axes of the Government's program: Axe 1 – the establishment of a logistics hub of excellence and a world-class business center in the sub-region and Axe 3 – consolidating social development and strengthening the enabling environment for inclusive growth. The DPF measures support the first axe of government's program, by providing an efficient and fair system of taxation, as well as efficient procurement institutions that can fuel a virtual cycle of public and private investments. Energy reforms will further support this axe by improving the reliability and affordability of the electricity supply. The second axe is supported by DPF measures aiming at strengthening the financial viability of public health care facilities, regulating private health care services and improving the efficiency of publicly-financed health insurance.

7. **The operation will support the government in implementing its development program with a set of 11 prior actions organized around four key development areas: tax revenue mobilization, public investment efficiency and debt management, energy and health**. This operation aims to increase tax revenues primarily by (i) simplifying the rate **structure** and improving the administration of the VAT; (ii) enhancing the potential of the property tax and (iii) widening the tax base. Reforms in public investment efficiency rest on measures related to the improvement of the quality and efficiency of public procurement procedures, while debt management reforms are articulated around the updating of the management strategy, the review of staffing requirements at the Department of Public Debt and Financing as well as measures to improve debt transparency. Reforms in the energy sector entail the clearance of all arrears, the optimization of the financial and operational costs of the power utility and the promotion of cost-efficiency in the sector. Finally, reforms in the health sector seek to strengthen the financial viability of the public tertiary care sector, improve the regulatory framework for private health care facilities and enhance the efficiency of publicly financed health insurance.

E. Poverty and Social Impacts and Environmental Aspects

Poverty and Social Impacts

8. **The proposed policy reforms are expected to contribute to objective of the National Development Plan to consolidate social development and strengthen inclusion mechanisms. However, in the short run some measures could have a negative poverty and social impact**. The adoption of one statutory VAT rate of 18 percent (Prior Action 1) could reduce the purchasing power of the poorest in the short run, but in the long run it will provide more revenues to spend on the social sector. Likewise, the revision of the electricity tariff structure could negatively impact poverty reduction and social inclusion if the new tariffs do not maintain a low social tariff. The 2016 Poverty and Social Impact Assessment (PSIA) on Electricity Reforms shows that a new tariff policy that eliminate fixed costs for small consumers, generalize the use of pre-paid meters and uses geographical targeting to support the connection to the grid will improve the welfare of the poor.

Environmental Impacts

9. **The pillars supported by the proposed operation are not likely to have significant negative effects on the country's environment, forests, or other natural resources.** Based on a preliminary assessment of pillars, no significant adverse environmental effects are anticipated. Only the establishment of a new electricity tariff schedule (under Pillar

2) might be associated with moderate to negligible adverse impacts on the environment, forests and natural resources – with the potential for an increase in the use of firewood leading to deforestation and forest degradation if the revised tariff schedule does not consider the income constraints of lower-income consumers.

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APPROVAL

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