Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 28-Jun-2023 | Report No: PIDA36048

BASIC INFORMATION

A. Basic Project Data

Country	Project ID	Project Name	Parent Project ID (if any)
Togo	P179294	Togo's Sustainable and Inclusive Development DPF1 (P179294)	
Region	**Estimated Board Date**	**Practice Area (Lead)**	**Financing Instrument**
WESTERN AND CENTRAL AFRICA	21-Aug-2023	Macroeconomics, Trade and Investment	Development Policy Financing
Borrower(s)	**Implementing Agency**		
Ministry of Economy and Finance	Ministry of Economy and Finance		

Proposed Development Objective(s)

Support green, inclusive and resilient development by (i) promoting sustainable agriculture, rural electrification and climate mitigation; (ii) boosting human capital and resilience to shocks, and (iii) rebuilding fiscal space for priority interventions.

Financing (in US$, Millions)

SUMMARY

Total Financing	150.00

DETAILS

Total World Bank Group Financing	150.00
World Bank Lending	150.00

Decision
The review did authorize the team to appraise and negotiate

B. Introduction and Context

Country Context

This operation is seeking to reinforce the foundations for the sustainable and inclusive development of Togo with a particular focus on maximizing opportunities for vulnerable populations. Growth in Togo was robust prior to the COVID-19 pandemic and has generally been resilient since then, but stagnant productivity in agriculture and the lack of economic opportunities in the non-farm rural economy has left a majority of the rural population either in or at risk of falling into poverty. This risk was exacerbated in recent years by several shocks, including since the start of 2022 by the impact of the war in Ukraine on food, energy, and fertilizer prices which negatively impacted food security and frustrated efforts to reduce poverty. Structural factors preventing faster development in rural areas include low productivity in the agriculture sector and a high exposure to climate shocks due to the prevalence of rain-fed agriculture, low access to electricity, weak human capital, significant gender gaps, and limited mechanisms for vulnerable populations to confront shocks. To ensure sustainable growth and rapid poverty reduction in the coming years, there is a need to move simultaneously on reforms restoring fiscal space for priority interventions, promoting sustainable agriculture, rural electrification and climate change mitigation, and boosting human capital and resilience to shocks.

Despite large fiscal financing needs in the short term and increasingly tight financing conditions, the macroeconomic policy framework remains adequate and external debt sustainable. A significant increase in public spending driven by the response to the COVID-19 crisis, the fallout from the war in Ukraine, and growing insecurity in the North led the fiscal deficit to a three-decade high of 8.3 percent of GDP in 2022, and public debt to 65.8 percent of GDP. Fiscal consolidation measures are expected to result in a narrowing of the deficit in coming years, reaching a projected 3.3 percent of GDP in 2025 under baseline conditions. This would put the public debt to GDP ratio on a declining trend from 2024 onwards. External debt distress risks remain moderate reflecting the low level and high degree of concessionality of external debt, but overall risks of debt distress are high due to liquidity pressures and rollover risks on domestic debt. The government continued to implement reforms supporting a sustainable macroeconomic policy framework in recent years and Togo’s membership of the West Africa Economic and Monetary Union (WAEMU) is providing a robust anchor for price, exchange rate and financial stability. A new Extended Credit Facility (ECF) program with the IMF is under preparation, which should help anchor the government’s fiscal consolidation strategy, contribute to meeting financing needs and support structural reforms.

Relationship to CPF

This operation supports all three pillars of Togo’s CPF. Reforms supported through this DPF series complement CPF Focus Area I on Private Sector Performance and Job Creation by encouraging private investment in sustainable agriculture, renewable energy and climate adaption and mitigation projects. It also supports CPF Focus Area II on Inclusive Public Service Delivery by improving access to quality education, reinforcing social protection, and increasing available fiscal space through improved domestic revenue mobilization and better management of fiscal risks. Finally, CPF Focus Area III on Environmental Sustainability and Resilience is reflected in the promotion of renewable energy, climate-smart agriculture, better land management, preservation of forest areas, as well as the creation of national carbon credit mechanisms. The reforms are also consistent with the adjustments to the CPF in 2019, which notably highlighted that agriculture and rural development, poverty reduction, and education were core development priorities, and is aligned with the proposed objectives of new CPF for the period FY23 to FY27, which is currently under preparation.

C. Proposed Development Objective(s)

The Program Development Objectives (PDO) of the proposed operation are to support green, inclusive and resilient development by (i) promoting sustainable agriculture, rural electrification and climate mitigation; (ii) boosting human capital and resilience to shocks, and (iii) rebuilding fiscal space for priority interventions.

Key Results

As part of the first PDO (pillar 1), reforms supported by the proposed operation are expected to help increase crop yields and access to farmland for women in planned agriculture development zones, boost access to electricity for rural households, increase the share of renewable energy in electricity generation, and attract investment in climate adaption and mitigation projects. As part of the second PDO (pillar 2), reforms are expected to increased coverage of social protection programs, ensure a better match between the number of teachers and the number of students per school, improved literacy among primary school pupils, and better support for victims of gender-based violence. As part of the third PDO (pillar 3), reforms are supporting revenue mobilization through the rationalization of tax exemptions and foreseeing the systematic evaluation of credit risks associated with public guarantees and on-lending to SOEs.

D. Project Description

The proposed Development Policy Financing (DPF) operation is the first in a programmatic series of two single-tranche DPF operations. The financing consists of IDA credits in the amount equivalent to US$ 150 million.

The reform program supported by this operation was designed around three complementary pillars to accelerate implementation of the government's development strategy under challenging circumstances.

- **Promote sustainable agriculture, rural electrification and climate mitigation:** the first pillar of the operation focuses on (i) agricultural land management reforms and support for climate-resilient practices in agriculture; (ii) reforms supporting rural electrification, renewable energy generation and more targeted electricity subsidies; and (iii) the creation of a regulatory and institutional framework to support projects eligible for carbon credits in key sectors. These objectives are fully aligned with those of Togo's 2025 Roadmap and the 2021 Nationally Determined Contribution to address climate change, which aim to make agriculture an engine of growth and job creation, attain universal access to electricity, and accelerate the transition to a low carbon and more climate-resilient economy.

- **Boost human capital and resilience to shocks:** The second pillar focuses on (i) the implementation of a unique social registry to improve the coverage and efficiency of social protection and disaster response systems; (ii) supporting the deployment of quality teachers in underserved areas and improve access to school textbooks; and (iii) better protection against gender-based violence. This pillar aligns with the government's ambition to improve public services access for all with a particular emphasis on improving the quality of education, social protection, and gender equality.

- **Rebuild fiscal space for prior interventions:** The third pillar consists of foundational reforms to rebuild fiscal space by (i) rationalizing tax exemptions and (ii) modernizing the legal framework for state-owned enterprises and improving oversight of public guarantees and on-lending to SOEs. This pillar supports the government's goal of ensuring fiscal sustainability and improving public services.

This operation is fully aligned with Paris Agreement commitments, supporting mitigation and adaption efforts, reducing the risk of exposure to climate hazards, and avoiding risks of locking in carbon-intensive patterns.

E. Implementation

Institutional and Implementation Arrangements

The Ministry of Economy and Finance is responsible for overall monitoring and evaluation of the proposed operation and for coordinating actions among other concerned ministries and agencies. 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 and Results Matrix.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

The policy and institutional reforms supported under the proposed DPF are expected to support a resilient economy and have positive social impacts. The policy actions in Pillar 1 aimed at promoting sustainable agriculture and rural electrification are expected to increase welfare. In particular, boosting agriculture productivity and resilience to climate shocks under PA#1 has significant potential to accelerate income growth for the rural poor, the proposed PA#2 is expected to generate wider access to electricity in rural areas, thus, reducing inequality of opportunities, and PA#3 supporting investments in climate mitigation and adaption is expected to generate social and economic benefits in the medium to long term but may increase inequality in the short-term that would need to be mitigated through effective revenue sharing mechanisms. Policy reforms under Pillar 2 aimed at boosting human capital and resilience to shocks are expected to increase coping strategies amongst vulnerable populations, improve access to basic services, increase social inclusion, and reduce gender inequality. Improving the efficiency of social assistance (PA#4), Improving the availability of quality teachers in underserved areas (PA#5), and reducing risks of gender-based violence in schools (PA#6) are expected to have positive effects on poverty and inequality reductions. The policy actions under Pillar 3 aimed at rebuilding the fiscal space by improving the management of tax exemptions and strengthening corporate governance and accountability of SOEs is not expected to have short-term poverty and social impacts but could have medium to long-term impacts by opening fiscal space for pro-poor spending.

Environmental, Forests, and Other Natural Resource Aspects

The reform program is expected to support environmental sustainability. The first pillar of the proposed operation aims at accelerating rural development through more productive and greener agriculture, rural electrification through renewable energy sources, and climate-smart investments. PA#1 is expected to promote the sustainable intensification of agriculture through more modern and climate-smart practices and by ensuring safeguards for forests and other protected ecosystems in agriculture land management, in line with the REDD+ strategy. PA#2 is promoting the use of renewable energy sources and improved access to electricity for rural populations, which should contribute to environmental sustainability, including through the reduction in usage of kerosene lights which harm the environment and lead to respiratory diseases. PA#3 aims at supporting climate adaptation and mitigation through investment projects eligible for carbon credits. Residual risks related to increased water consumption, energy consumption and pollution potentially associated with the expansion of activity will be mitigated through commitments under Togo's updated Nationally Determined Contribution plan. Prior actions under the second and third pillars are expected to have negligible impacts on the country's environment, forests, or other natural resources. Prior action #4 supporting more effective targeting of social protection program could potentially have some positive impact if it limits the risk of environmental degradation by destitute populations following severe shocks.

G. Risks and Mitigation

The overall level of risk to the development objectives of the proposed operation is assessed as substantial. The global economic landscape has deteriorated and is characterized by a high degree of uncertainty. The impact and eventual resolution of recent external shocks adversely impacting food security, energy costs, trade, and financing conditions remain highly uncertain. The fiscal situation has significantly deteriorated amid tightening global and regional financing conditions, requiring the development of robust fiscal consolidation strategy. In this context, macroeconomic risks are substantial, even if partially mitigated by reforms supported by the proposed operation, including measures to boost domestic revenue mobilization and limit contingent liabilities from poorly performing SOEs. Rising insecurity in the North could also impact development outcomes in most exposed regions and pose additional risks to the government's fiscal consolidation strategy. Moreover, Togo's performance in formulating and implementing sector strategies is mixed, reflecting relatively limited human resources, administrative capacities, and political economy constraints. Reforms in this operation address some of those institutional challenges, notably improvements in the management and oversight of SOEs, improving the institutional framework and mandate of key public sector entities and oversight bodies. The fiduciary risk associated with the proposed operation is still rated substantial, but efforts to reinforce the public financial and budgetary management are ongoing.

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APPROVAL

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