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Togo: Letter of Intent, Memorandum of Economic Financial Policies, and Technical Memorandum of Understanding

April 26, 2017

The following item is a Letter of Intent of the government of Togo, which describes the policies that Togo intends to implement in the context of its request for financial support from the IMF. The document, which is the property of Togo, is being made available on the IMF website by agreement with the member as a service to users of the IMF website.

Letter of Intent

MINISTRY OF ECONOMY AND FINANCE

OFFICE OF THE MINISTER

N°………………/MEF/CAB

REPUBLIC OF TOGO

Travail-Liberté-Patri

Lomé, April 26, 2017

To

Ms. Christine Lagarde
Managing Director
International Monetary Fund
Washington, D.C. 20431

Dear Ms. Lagarde:

1. The government is pleased with the good cooperation between Togo and the International Monetary Fund (IMF). It is committed to taking all necessary actions to ensure the success of its new three-year program for 2017-2019.

2. To achieve our economic and social development objectives, the three-year economic and financial program is based on the following pillars: (i) reduction of the overall fiscal deficit to ensure debt sustainability and external stability; (ii) the design of policies that foster sustainable and inclusive growth through targeted social spending and sustainably financed infrastructure spending; and (iii) remediation of weaknesses in the financial sector. The government is determined to make its vision a reality, in collaboration with, and with the support of, the IMF and other development partners.

3. The attached Memorandum of Economic and Financial Policies (MEFP) sets out the government's short- and medium-term objectives and policies. In support of its strategy, Togo is requesting an IMF arrangement to support the implementation of the government's economic and financial program for the period 2017-19 and the establishment of quantitative performance criteria and structural measures through to December 2017. For this new program, the government is requesting an IMF arrangement under the Extended Credit Facility (ECF) for a total amount equivalent to SDR 176.16 million.

4. One of the primary objectives of this program is to lower public debt to a sustainable level, to reduce the high risk of debt distress and create fiscal space. In that context, the government undertakes to reduce the overall fiscal deficit. It commits to no new contracting or guaranteeing of nominal nonconcessional external debt and to complying with the levels for new external borrowing on concessional term, as agreed with the IMF. The government also undertakes to strengthen debt management by restructuring public debt management departments, in keeping with international best practices.

5. The government will undertake vigorous action in sectors with growth potential. It will also pay particular attention to the social sectors. The private sector's contribution will be further stimulated through improvements to the business and investment environment and through increased competitiveness to enable it to become a genuine engine of economic growth.

6. To address certain weaknesses in the banking sector, the government undertakes to finalize the restructuring of the two public banks by end-December 2017. The restructuring plan will be approved by the government by end-June 2017. The government has already concluded a contract for an independent audit of the two public banks, which is a prior action to present the program request to the IMF's Executive Board.

7. The government believes that the policies set forth in the attached MEFP are adequate to achieve the objectives of its program, but it will take any further measures that may become appropriate for this purpose. The government will consult with the Fund on the adoption of these measures, and in advance of revisions to the policies contained in the MEFP, in accordance with the Fund's policies on such consultation.

8. The Togolese authorities agree to provide the IMF with information on the implementation of the measures agreed and program execution, as set out in the attached Technical Memorandum of Understanding, on the dates agreed between the two parties. Moreover, we authorize the IMF to publish and post this letter and its attachments on its website, along with the IMF staff report, after completion of the review of the program by the IMF Executive Board.

Very truly yours,

Minister of Economy and Finance

Sani Yaya
/s/

Attachment I. Memorandum of Economic and Financial Policies

1. **The government is committed to strengthening its policy for reform of the Togolese economy.** It will take all necessary actions to improve economic performance and consolidate public finances through strong, sustained reforms. It will pursue its efforts with an emphasis on sustainable and inclusive growth through targeted social and infrastructure spending defined in community development programs and in the National Development Plan (*Plan National de Développement* – PND) for 2018–2022.

CONTEXT AND RECENT DEVELOPMENTS

2. **The economy has expanded at a healthy rate in recent years on the back of the construction of the main road networks, the expansion of the port and the airport, and good agricultural production.** With the impact of lower commodity prices and tighter global financing conditions fairly muted, the economy expanded at 5.2 percent in 2014–2016. Inflation was well contained, explained by lower foodstuffs, energy, and transport prices. Togo's human development index is higher than that of other countries in the West African Economic and Monetary Union (WAEMU) as well as that of low-income countries (LICs), and continues to improve. Togo's income distribution is also favorable relative to other LICs, as measured by the Gini coefficient. Poverty remains high and geographically concentrated in rural areas.

3. **The fast pace of public investment has contributed to a marked increase in public debt and the current account deficit.** Public debt, including prefinancing debt domestic arrears and public enterprise debt, increased from 48.6 percent of GDP in 2011 to 80.8 percent in 2016 (76.2 percent excluding public enterprise debt), reflecting public infrastructure investments financed by both domestic and external borrowing. While these investments were needed to address deficiencies in transport infrastructure, large debt service payments, notably for prefinancing, have put increasing pressures on the budget. As a result, domestic arrears, including to the utility companies, accumulated to 5.7 percent of GDP in 2016. The current account deficit remained high, at 9.8 percent of GDP in 2016, owing to investment-related imports.

4. **The second half of 2016 witnessed a major shift in the country's fiscal policy, as the government ended the practice of prefinancing and is committed to implementing corrective measures to reduce public debt to a sustainable level.** The government has made a commitment not to undertake any new prefinanced investments, to wind down all existing prefinanced investments, and to include prefinanced debt in published debt stocks. Going forward, the authorities have also resolved to comply with budget and procurement procedures for all new public investments.

PROGRAM OBJECTIVES AND DESIGN

5. **Our program will help improve living conditions for the population, while maintaining a stable macroeconomic environment that is compatible with public debt sustainability.** It would aim to:

- **Reduce the overall fiscal deficit to ensure long-term debt and external account sustainability.** Our priority is to reduce public debt to a sustainable level over the next decade primarily by controlling capital spending and improving revenue collection. Reducing public debt to a sustainable level is an attainable objective, as we are resolute in our commitment to public debt sustainability.

- **Refocus policies on sustainable and inclusive growth.** We plan to refocus our policies on sustainable and inclusive growth through targeted social spending and sustainably financed infrastructure spending.

- **Address financial sector weaknesses.** Accelerating the implementation of the financial sector development strategy will serve to increase the sector's stability, correct certain weaknesses in the financial system, improve the efficiency of financial intermediation, and enhance the business environment.

2017–2019 MACROECONOMIC PROGRAM

A. Medium-term Outlook

6. **Under the program, economic growth is expected to increase gradually from 5 percent in 2016 to 5.6 by 2021, with the economy reaping the benefits of an improved transportation network and productivity gains in the agricultural sector.** The resulting increase in potential growth is hence expected to more than compensate for the impact of the decline in domestically financed infrastructure spending on the economy. The private sector is expected to play an increasing role as the engine of growth. Downside risks to growth include capacity constraints in implementation of structural reforms and further economic slowdown among our main regional trading partners. Inflation remains well contained and is forecast to remain moderate in coming years. With the improvement in the fiscal stance, public debt, including public enterprise debt, is expected to be reduced from a high level of 81.3 percent of GDP in 2017 to 73 percent by 2019. The current account deficit is projected to improve from 11.1 percent in 2015 to 7.3 percent by 2019.

B. Achieving Fiscal and Debt Sustainability

7. **Togo's fiscal policy has been expansionary in recent years.** A rapid increase in domestically financed infrastructure spending through prefinancing led to widening primary deficits and public debt accumulation, including domestic arrears. At the same time, current spending was reduced to the minimum, with social spending sharply lower than the targets defined in the Strategy for Accelerated Growth and Promotion of Employment (*Stratégie de Croissance Accélérée et de Promotion de l'Emploi* – SCAPE), our national development plan for 2013–2017.

8. **The 2017 budget features significant fiscal retrenchment and regularization of prefinancing debt.** Starting in 2017, the government is committed to refraining from guaranteeing or assuming domestic loans to suppliers or contractors (performance criterion – PC). Domestically financed capital expenditure and current expenditure are expected to decline,

and the related margin will be redirected towards supporting social needs. A markedly improved domestic primary balance of -2.7 percent of GDP in 2017, excluding bank recapitalization cost, from -7.2 percent in 2016 will allow for less domestic financing, while most external financing will continue to be linked to infrastructure and social projects. The estimated stock of prefinancing debt of CFAF 198 billion at end-2016 will be substituted in 2017 by debt with more favorable conditions.

9. The government will strengthen the primary balance—the fiscal anchor—to progressively restore public debt sustainability. The program targets a primary surplus (cash basis, excluding grants) of 2 percent of GDP by 2019, an improvement of 9 percentage points from 2016. The envisaged primary surplus, combined with growth in the 5 percent range, would put the public debt , including public enterprise debt, on a clear downward trajectory, reaching 73 percent of GDP at end-2019, down from a high level of 81.3 percent in 2017. Assuming that the 2 percent of GDP primary surplus is sustained in the post-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. Because of weak monitoring of foreign-financed capital spending, the PC on the fiscal balance has been set on the domestic primary balance, that is, excluding foreign-financed capital spending. Given Togo's elevated debt level and the importance of tight controls on new borrowing, the government agrees to consult with IMF staff before contracting new concessional loans. Over the medium term, we will implement public financial management (PFM) reforms to allow fiscal monitoring of the overall primary balance.

10. Fiscal adjustment will require reduced domestically financed capital spending, tight limits on recurrent spending, avoidance of new arrears, and further improvements in revenue mobilization. The program will feature the following elements:

- **Revenue**. Review tax policy, including overhauling the exemption and tax expenditure system, which increased substantially in recent years, and accelerate reforms in revenue administration.

- **Capital spending**. Reduce domestically financed capital expenditure, recognizing that the recent pace of investment cannot be sustained in the face of growing debt pressures. In that context, emphasis will be placed on making full use of grant and concessional project financing. We will also consider public–private partnerships (PPP) as an alternative, factoring in the risks appropriately. The government will not enter into any PPP contracts until a legal framework governing such contracts has been adopted in consultation with Fund staff.

- **Recurrent spending**. With recurrent spending already compressed, the focus will be on redistributing allocations toward social spending in line with our national development plan. We will respect the indicative target on social spending, set in consultation with development partners, to identify effective and sound social spending. On wages, the government policy aims to increase wages, but no more than with the inflation rate and wage drift, ensuring that the wage bill is sustainable. The government will exercise strict control over the number of employees. It will also aim to improve targeting of expenditures to shift resources to higher priority areas. It will contain fuel price subsidies by consistently applying the existing price adjustment formula.

- **Arrears**. It will be critical to strengthen public financial management to avoid the accumulation of new arrears, the clearance of which has added to spending needs in recent years. An independent audit will verify the stock of domestic arrears by end-September 2017 (SB). After the completion of the audit, the government plans full clearance of arrears by combining upfront cash payments in 2017 and the securitization of arrears with a phased payment over 2-5 years for the residual amount of arrears.

- **Poverty reducing measures.** We plan to refocus our policies on sustainable and inclusive growth through targeted social spending and sustainably financed investment under programs such as the Emergency Program for Community Development (*Programme d'Urgence de Développement Communautaire* – PUDC) and Support Program for Vulnerable Populations (*Programme d'Appui aux Populations Vulnérables* – PAPV). We are in the process of identifying development priorities in the PND for 2018–2022 and plan to fully integrate these priorities into the budget. The PND is centered around five pillars: (i) combating poverty and improving social well-being; (ii) promoting sustained, inclusive economic growth; (iii) building the potential of growth sectors; (iv) sustainably managing the environment and reducing spatial inequality; and (v) strengthening governance and peace. We will establish a floor on domestically financed social spending, in particular for projects that have a high impact on poverty reduction.

C. Strengthening Fiscal Management and Institutions

11. Institutional constraints have hampered the government's ability to achieve spending efficiency. A Public Investment Management Assessment (PIMA) found that the management of public investments in Togo lags that of both other countries in sub-Saharan Africa (SSA) and other LICs, and that the efficiency of public investment spending was 70 percent below potential.

12. Following the creation of the Togolese Revenue Authority (*Office Togolais des Recettes* – OTR), the tax and customs authorities undertook a number of operational improvements that resulted in good revenue performance in 2015. Key OTR achievements include: (i) better tax payment tracking through the banking system; (ii) simplified taxpayer segmentation; and (iii) bringing the customs computer system on stream. However, customs revenue performance was substantially weaker than expected in 2016 owing to a lower growth in Togo's major trading partners, such as Ghana and Nigeria, as well as the diversion of shipments to other ports in the region owing to stricter enforcement by Togo of Community regulations regarding axle load and dimension control. Other additional costs (SEGUCE, ANTASER) also affected freight volume at the Lomé port.

13. We plan to take the following key actions:

- **Reorganize the Ministry of Finance**. Essential elements of this reform will be as follows: (i) creating a new effective debt management directorate; (ii) strengthening the budget directorate encompassing budget preparation and monitoring, and medium-term budget frameworks; and (iii) establishing of a tax policy unit in charge of defining tax policy. We will sign a decree reorganizing the Ministry of Finance by end-December 2017 (structural benchmark – SB).

- **Investments.** We are committed to refraining from undertaking any new prefinanced investments (PC). Furthermore, all our investment projects will follow the procurement process, will be fully integrated into all phases of the budget process, and will require payments to the private sector after verification of the completion of works. We will improve public investment management and, to that end, put in place a mechanism for monitoring contract execution in partnership with the private sector. The government aims to improve public investment management through: (i) better medium-term planning for projects and their associated financing; (ii) systematic *ex-ante* and *ex-post* assessments of large projects; (iii) strengthened prioritization of investment projects; (iv) stronger alignment between planned projects and the availability of fiscal funding; and (v) greater transparency in public investment spending. More specifically, we will adopt a budget for FY 2018 consistent with the Fund-supported program and put guidelines in place by end-December 2017 (SB) to include in the 2019 budget only investment projects selected through either cost-benefit or cost-effectiveness analysis.

- **Domestic arrears.** Identify a methodology to track and verify the stock of domestic arrears to the private sector, public enterprises, and pension funds before paying them down. To this end, we will submit to the Fund a methodology to identify and verify domestic arrears (SB) by end-June 2017. The government will use this methodology to estimate the domestic arrears.

- **Cash management.** We also aim to improve cash-management practices to avoid liquidity-induced spending bottlenecks. To achieve this goal, we will improve Treasury cash management and complete the establishment of the Treasury Single Account (TSA). We will submit to the Fund by end-December 2017 an annual cash plan for 2018 consistent with the 2018 public procurement plan and the quarterly commitments for 2018 (SB).

- **Building on the OTR to modernize tax administration**. For domestic taxation, this modernization should: (i) broaden the taxpayer base by improving tax payments by small and medium-sized enterprises; in particular, we will improve consolidation of the taxpayer file by way of a tax census and higher registration of economic operators; and (ii) allow us to focus on the fight against tax evasion – this could begin with the resolution of potential evasion cases already detected in specific economic sectors. The government will implement controls and other appropriate initiatives to detect and tax inaccurate declarations and potential evasions in the following sectors: phosphate, clinker, cement, and iron (SB, end-December 2017).

- As for customs, the government should: (i) simplify the customs clearance process and strengthen port cargo control; continue and enhance automation by reducing manual procedures; and better track cargo in transit; and (ii) enhance the assessment of imports and control tax exemptions, through improved risk analysis as well as effective and transparent audit and control. Specifically, we will audit 30 percent of revenues that the government has foregone from customs exemptions for 2016 through a post-customs clearance audit program (SB, end-June 2017). It would be worthwhile to take advantage of the organization of the semi-autonomous agency to boost tax and customs cooperation. Lastly, it is important for the OTR to continue to improve its private-sector communication strategy.

D. Enhancing Financial Sector Development and Stability

14. There are vulnerabilities in the financial sector. As of June 2016, 3 out of 13 banks, among which 2 public banks, were undercapitalized. Levels of capitalization at other banks were in line with minimum requirements and consistent with the WAEMU average.

15. One public bank has been under provisional administration for a number of years, while the situation at the other public bank has worsened recently. The former, however, possesses latent capital in the form of its head office, which is fully amortized on its balance sheet, but carries positive value in practice. The other public bank's capital position deteriorated further more recently—a development that is mainly driven by recent provisions established on the recommendation of the WAEMU Banking Commission for nonperforming loans.

16. Togo's microfinance sector fulfills an important role in promoting financial inclusion, but many institutions do not respect prudential ratios. Out of the 190 microfinance institutions active in Togo, only 20 respect all prudential ratios, while out of the 16 institutions supervised by the Banking Commission, only four are fully compliant. The rate of nonperforming loans stands at over eight percent and continues to be higher than the three percent prudential standard for 90-day risk portfolios. Finally, the sector is populated by about 140 institutions that operate without a license.

17. The government will strengthen its enforcement of the existing regulatory framework.

- Banks not properly capitalized will be called to increase their capital. Banks currently not respecting the regulatory minima will be asked to take immediate remediation action or implement resolution strategies.
- This issue is even more pertinent for the microfinance sector, where there is not only non-compliance with prudential standards, but also widespread unregulated, and even unlicensed, activity. Institutions operating without a license should be closed.

18. As a prior action, the government has concluded a contract for an independent audit involving the two public banks. Obtaining better insight into their financial situations will help in assessing the costs and the appropriate manner of their restructuring. The audit report will be transmitted to Fund staff by end-May 2017.

19. The government will start undertaking actions to restructure the two public banks. It will consider two options. One option is to establish a new bank that takes over all liabilities and all "good" assets, if the WAEMU legal framework allows for the creation of a new bank to function as an assuming bank. This option would allow for a revaluation of all real estate owned by both banks, which would bring about an injection of Tier 1 capital. The other option is for the stronger public bank to function as the assuming bank, which is feasible within the current WAEMU legal framework. Under any approach, governance at the new bank will have to be improved to prevent similar problems in the future.

20. An injection by the government of new capital either into the "new bank" or into the stronger public bank will be needed. We estimate a recapitalization need of up to four percent of GDP in 2017, an amount included in the macroeconomic framework of the program for 2017. To minimize the cost for the government of resolving the situation with the public banks, recovery prospects are optimized if these files are addressed, with increased vigilance, by the current parties responsible. The past performance of the Togo Debt Collection Agency (*Société de Recouvrement du Togo* – SRT) is not encouraging to entrust it with the nonperforming loans of the two public banks. The leaseback transaction executed at one of the public banks end-December 2016 was untimely and has been cancelled in light of the authorities' decision to take one of the above options. To assess the value of one of the public bank's latent capital, an evaluator will assess its asset portfolio, particularly its head office.

21. The government will form a Steering Committee (SC) to formulate and implement a restructuring plan. The SC will seek legal advice to assist it in the restructuring process, in particular, the creation of a new bank. The government will approve a comprehensive, time-bound restructuring plan for the two public banks by end-June 2017. If required, we will submit an application for the creation of a new bank to the Banking Commission. Further, all legal transfers required in the restructuring plan will be completed by end-December 2017 (SB).

22. Role of the Banking Commission. The support of the WAEMU Banking Commission will be critical for approving the restructuring plan.

E. Support for Growth Through Structural Reforms and Reduction of External Vulnerabilities

23. The current account is expected to improve over the medium term. The current account deficit is projected to narrow from about 11 percent of GDP in 2015 to 7.3 percent of GDP by 2019. At the same time, imports would be contained following slowdown in public sector investment.

24. Togo's business environment has been improving following recent government reforms. Togo ranks 154th out of 189 countries in the World Bank's 2017 Doing Business Index—

better than sub-Saharan-Africa's average, but worse than the WAEMU average. Togo is among those economies which are improving the ease of doing business the most. The Doing Business Index survey noted in particular improvements in obtaining credit, paying taxes, trading across borders (i.e. one-stop window), and resolving insolvency.

25. The government will:

- **Foster an attractive business climate.** Increase dialogue with the private sector and civil society, clearly communicating the government's medium-term strategy. Improve the Doing Business Indicators on which Togo performs poorly, by developing a monitorable and highly publicized action plan. Improve property title registration and the judicial system so that property can be used as collateral in loans to small and medium-sized enterprises.

- **Open key sectors with high government presence and intervention—energy, telecommunications, and mining—to more private-sector competition.** For example, opportunities to deliver social payments at low costs—as in East Africa—are lost if mobile services are expensive and regulated. Togo's chronic lack of energy is stifling growth, and long-term solutions are needed to increase domestic generation and establish a regulatory framework conducive to increased access to energy in a cost-effective manner.

F. Borrowing Policies and Debt Management

26. Togo remains at a moderate risk of external debt distress and a heightened risk of overall debt distress based on the Bank–Fund Debt Sustainability Analysis (DSA). Main sources of debt accumulation in recent years have been Treasury bills and bonds and Sukuk operations issued to finance the deficit, and external and domestic commercial loans of the central government and of public enterprises to finance public investments, including prefinancing.

27. The government will aim to lower public debt, including public enterprise debt, to 73 percent of GDP by 2019 from a high level of 81.3 percent in 2017 to reduce the risk of overall debt distress and adjust fiscal space. We will commit to no new contracting or guaranteeing of nominal external nonconcessional debt (PC) and a target on the contracting or guaranteeing of nominal concessional external debt. Our borrowing plans will seek to reduce debt vulnerabilities and avoid an excessive buildup of short-term debt, as well as take into account potential rollover and foreign exchange risks.

28. We will bolster debt management. The program includes steps to strengthen debt management. These include centralizing all debt management functions in one entity and organizing the debt department unit into front, middle, and back offices (SB), as well as building capacity and training staff. The reorganized public debt department will be operational in 2017. The budget will have to be in line with the medium-term debt strategy.

G. Addressing Data Weaknesses

29. National accounts are finalized with a very long lag. The latest finalized national account statistics are for 2013, prepared with support from AFRITAC West. There have been large variations between the GDP estimated by the GDP Committee and the finalized national accounts.

30. Data production is compartmentalized and not cross-checked for consistency across departments. The budget preparation process is weakened by limited information on budget execution during the year.

31. The government will:

- Reduce lags in the production of national accounts, improve the production of preliminary GDP data, and strengthen staffing within the National Statistics and Accounting Institute (*Institut national de la Statistique et des Études économiques et démographiques* – INSEED);

- Guarantee the quality of the quarterly budget execution and TOFE reports as well as diligence in their preparation by ensuring consistency between the two. The budget projections for the following year should be based on projection for budget execution in the current year.

PROGRAM FINANCING AND MONITORING

32. The government estimates that the financing needs for the 2017–2019 program will be covered. Additional financing will be mobilized on the regional market and with external partners. For 2017, budget financing needs will be covered by the government through recourse to regional money and financial markets, particularly through bond borrowing and Sukuk bonds, and to assistance from the World Bank, the International Monetary Fund, the African Development Bank, the French Development Agency, and the European Union.

33. The program will be monitored every six months based on quantitative criteria for end-June and end-December, starting from end-June 2017, with the final test date set for September 2019. For the first year of the program, quantitative performance criteria (PCs) for end-June 2017 and end-December 2017 and indicative targets (ITs) for end-September 2017 are proposed to facilitate monitoring by the IMF (Table 1). The prior action established for the approval of the arrangement and structural benchmarks is described in Table 2. The first and second program reviews will take place on or after September 15, 2017 and March 15, 2018, respectively. The data to be reported to Fund staff and the program performance criteria and structural benchmarks are defined in the Technical Memorandum of Understanding. The Permanent Secretariat for Reform Policies and Financial Programs (*Secrétariat permanent chargé des politiques de réformes et des programmes financiers* – SP-PRPF) will provide technical program monitoring, produce quarterly progress reports, and serve as liaison between national entities and technical and financial partners. It will also provide for the monitoring of technical assistance requirements.

Table 1. Togo: Quantitative Performance Criteria and Indicative Targets

January 1, 2017 – December 31, 2017

	End-June 2017	End-September 2017	End-December 2017
	Performance Criteria	Indicative Target	Performance Criteria
		CFAF billion	
Performance criteria			
Domestic primary fiscal balance (floor)[1]	-19.0	8.4	-99.1
Non-accumulation of arrears on external public debt[2,4]	0.0	0.0	0.0
Net domestic financing (ceiling)[1]	80.3	157.8	144.1
Net domestic financing (ceiling adjusted)[1,3]	80.3	157.8	144.1
Government contracting or guaranteeing of nominal nonconcessional external debt (ceiling)[2,4]	0.0	0.0	0.0
Government guaranteeing of domestic loans to suppliers and contractors (ceiling)[2,4]	0.0	0.0	0.0
Government guarantees on bank prefinancing for public investments (ceiling)[2,4]	0.0	0.0	0.0
Indicative targets			
Total fiscal revenue (floor)	246.3	398.5	567.5
Total domestically financed social spending (floor)	87.4	141.9	218.4
Memorandum Item			
Overall primary balance[1]	-70.2	-84.8	-188.3
Government contracting or guaranteeing of nominal concessional external debt	49.6	88.8	138.0

Sources: Togolese authorities; and IMF staff estimates.

[1] Performance criterion will be adjusted by the amount spent in banking capitalization.

[2] Continuous performance criterion.

[3] According to the TMU, the ceiling on net domestic financing will be adjusted to offset deviations from projected external program financing, subject to a cap of CFAF 10 billion.

[4] Cumulated from the approval of the arrangement on May 5, 2017.

Table 2. Togo: Structural Benchmarks and Prior Actions for First Year of the 2017–2020 ECF Arrangement

No.	Measures	Rationale	Timing
	Prior action		
1	Conclude a contract for an independent audit of the two public banks.	Address the situation of nonviable financial entities by implementing least-cost resolution options	Prior action
	Revenue administration		
2	Implement controls and other appropriate initiatives to detect and tax inaccurate declarations and potential evasions in the following sectors: phosphate, clinker, cement, and iron.	Broaden the taxpayer base by improving tax compliance of small and medium-sized enterprises	End-December 2017
3	Verify 30 percent of revenue foregone from customs exemptions in 2016 through a post-clearance audit program.	Strengthen import valuation and control of customs exemptions through improved risk analysis, and effective and transparent inspection and audit	End-June 2017
	Public financial management		
4	Sign a decree reorganizing the Ministry of Finance.	Improve fiscal policy and management	End-December 2017
5	Ministry of Finance to submit, in collaboration with the revenue authority (OTR), an annual cash plan for 2018 consistent with the 2018 procurement plan and quarterly commitments for 2018.	Improve cash management	End-December 2017
	Debt management		
6	Strengthen debt management by: (i) centralizing all debt management functions in one entity; and (ii) organizing the debt department unit into front, middle, and back offices.	Strengthen debt management	End-September 2017
7	Submit a methodology to identify and verify domestic arrears.	Strengthen debt management	End-June 2017
8	Conduct an independent audit of domestic arrears.	Determine the exact amount of arrears to prepare an arrears clearance plan	End-September 2017
	Public investment management		
9	Adopt a budget for FY 2018 (consistent with the Fund-supported program) and put guidelines in place, by end-December 2017 (SB), to include in the 2019 budget only investment projects selected through cost-benefit or cost-effective analyses.	Improve public investment management	End-December 2017
	Financial sector		

10	Based on the findings of the independent audit of the two public banks, approve a comprehensive, timebound restructuring plan for the two public banks. If required, submit an application for the creation of a new bank to the WAEMU Banking Commission.	Address the situation of nonviable financial entities by implementing least-cost resolution options	End-June 2017
11	Complete the legal transfers required in the restructuring plan at the least cost possible to the government.	Address the situation of nonviable financial entities by implementing least-cost resolution options	End-December 2017

Attachment II. Technical Memoradum of Understanding

1. This Technical Memorandum of Understanding (TMU) defines the structural and quantitative benchmarks and performance criteria to monitor the program supported by the Extended Credit Facility for the period January 1, 2017 through the end of the arrangement. It also specifies the periodicity and the deadlines for the transmission of data to Fund staff for program monitoring purposes.

2. Unless otherwise specified, the government is defined in this TMU as the central administration of the Togolese Republic. It does not include any political subdivisions, the Central Bank of West African States (BCEAO), or any public entity with a separate legal personality.

3. Unless otherwise indicated, public entities are defined in this TMU as majority government-owned companies, and other public entities receiving earmarked tax and quasi-tax revenues.

A. Definition of Terms

4. For program purposes, the definition of **debt** is set out in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to IMF Executive Board Decision No. 15688-(14/107), adopted on December 5, 2014.[1]

(a) For the purpose of these guidelines, the term "debt" will be understood to mean a current, i.e., not contingent, liability, created under a contractual arrangement through the provision of value in the form of assets (including currency) or services, and which requires the obligor to make one or more payments in the form of assets (including currency) or services, at some future point(s) in time; these payments will discharge the principal and/or interest liabilities incurred under the contract. Debts can take a number of forms, the primary ones being as follows:

(i) loans, i.e., advances of money to the obligor by the lender made on the basis of an undertaking that the obligor will repay the funds in the future (including deposits, bonds, debentures, commercial loans and buyers' credits) and temporary exchanges of assets that are equivalent to fully collateralized loans under which the obligor is required to repay the funds, and usually pay interest, by repurchasing the collateral from the buyer in the future (such as repurchase agreements and official swap arrangements);

(ii) suppliers' credits, i.e., contracts where the supplier permits the obligor to defer payments until sometime after the date on which the goods are delivered or services are provided; and

(iii) leases, i.e., arrangements under which property is provided which the lessee has the right to use for one or more specified period(s) of time that are usually shorter than the total expected service life of the property, while the lessor retains the title to the property. For the purpose of these guidelines,

[1] http://www.imf.org/external/pp/longres.aspx?id=4927.

the debt is the present value (at the inception of the lease) of all lease payments expected to be made during the period of the agreement excluding those payments that cover the operation, repair, or maintenance of the property.

(b) Under the definition of debt set out in this paragraph, arrears, penalties, and judicially awarded damages arising from the failure to make payment under a contractual obligation that constitutes debt are debt. Failure to make payment on an obligation that is not considered debt under this definition (e.g., payment on delivery) will not give rise to debt.

5. **Public debt** includes obligations of the central government and public entities.

6. **Domestic debt** is defined as debt contracted or serviced in the franc of the Financial Community of Africa (CFAF), while external debt is defined as debt contracted or serviced in a currency other than the CFAF.

7. A debt is considered contracted for purposes of the program at the time of issuance of a "no objection" opinion by the Supreme Court, where such an opinion is required under domestic law. Otherwise, a debt will be considered contracted when it enters into effect.

B. Quantitative Performance Criteria and Indicative Targets

8. For program monitoring purposes, periodic quantitative performance criteria (PCs) and indicative targets (ITs) are set for end-June 2017 and end-December 2017, and the indicative targets for end-September 2017.

The PCs include:

(a) a floor on domestic primary fiscal balance;
(b) a zero ceiling on accumulation of arrears on external public debt;
(c) a ceiling on net domestic financing;
(d) a zero ceiling on government contracting or guaranteeing of nominal nonconcessional external debt;
(e) a zero ceiling on government guaranteeing of domestic loans to suppliers and contractors;
(f) a zero ceiling on government guarantees on bank prefinancing for public investments.

The ITs are:

(a) a floor on total fiscal revenue;
(b) a floor on total domestically financed social spending.

Domestic Primary Fiscal Balance

Definition

9. The **domestic primary fiscal balance** is defined as the difference between (i) the government's fiscal revenue and (ii) total fiscal expenses, net of interest and capital spending financed by donors and lenders. The balances for the periods from end-December 2016 to end-June 2017 and to end-December 2017 (performance criteria) and the periods from end-December 2016 to end-September 2017 (indicative targets) must be equal to or greater than the amounts indicated in Table 1 of the attachments to the MEFP. The data are sourced from the Government Financial Operations Table (*Tableau des opérations financières de l'État* – TOFE), prepared monthly by the Directorate of Economy of the Ministry of Economy and Finance (statistical TOFE). The statistical TOFE will be prepared by the Directorate of Economy in close cooperation with revenue offices and the Treasury. The data provided by the Directorate of Economy will take precedence for program purposes.

Reporting deadlines

10. Detailed data concerning the domestic primary fiscal balance will be reported monthly within eight weeks of the end of the month.

Arrears on External Public Debt

Definition

11. The government will not accumulate payment arrears on external public debt (continuous performance criterion). This criterion excludes arrears on debts subject to dispute or renegotiation. The source of the data is the Public Debt Directorate.

Net Domestic Financing

Definition

12. **Government net domestic financing** is defined as the sum of (i) net credit from the banking sector to the government; (ii) net domestic nonbank financing of the government; and (iii) unidentified financing. Net domestic financing for the periods from end-December 2016 to end-June 2017 and to end-December 2017 (performance criteria) and the periods from end-December 2016 to end-September 2017 (indicative targets) must be equal to or less than the amounts indicated in Table 1 appended to the MEFP. The ceiling on net domestic financing shall be adjusted to make up for gaps in projected external financing for the program, as indicated in the Table 1, subject to a cap of CFAF 10 billion.

13. **Net credit from the banking sector to the government** is equal to the balance of government claims and debts to national banking institutions in Togo. Government claims include balances in the Togolese Treasury, Treasury deposits in the central bank, Treasury deposits in commercial banks (excluding the deposits of other arms of government, such as deposits from projects financed with external resources and CNSS accounts), and blocked accounts. Government debts to the banking system include assistance from the central bank (excluding BCEAO credits to the government tied to IMF financing), assistance from commercial banks (including government securities denominated in CFA francs held by commercial banks), and deposits in postal checking accounts.

14. Net domestic nonbank financing of the government includes: (i) changes in the balance of government securities issued in CFA francs (including on the WAEMU regional financial market) not held by Togolese commercial banks, calculated on the basis of the initial amount underwritten; (ii) changes in the deposit accounts of Treasury correspondents; (iii) changes in various deposit accounts (including trustee accounts [*comptes de consignation*]) in the Treasury and accounts in which fines and sentences are deposited pending distribution; (iv) repayment of other domestic public debt (including bank loans to the economy assumed by the government and securitized arrears) to nonbank entities (including nonresidents); and income from privatization. The assumption or securitization of debts and arrears by the government is not included in the definition of net domestic financing, whereas the repayment of that debt by the government is included.

15. Unidentified financing is the difference between total financing (net domestic financing plus exceptional financing) and the overall balance on a cash basis (including grants and changes in arrears).

16. Net credit from the banking sector to the government is calculated by the BCEAO, whereas Treasury bill and bond amounts are determined by the Agence UMOA-Titres. Net domestic nonbank financing of the government is calculated by the Togolese Treasury. Their data will take precedence for program purposes. Data are reported in the Government Financial Operations Table (statistical TOFE) prepared monthly by the Directorate of Economy of the Ministry of Economy and Finance.

Reporting deadlines

17. Data concerning net domestic financing of the government will be reported monthly within eight weeks of the end of the month.

18. Details concerning any domestic borrowing by the government will be reported every month within six weeks of the end of the month. Data on domestic borrowing will be categorized as short term (less than one year) and long term (one year or more). This rule will also be applied to government-guaranteed domestic loans to government suppliers and contractors.

Government or Government-Guaranteed Nominal Nonconcessional External Debt

Definition

19. The government undertakes not to contract or financially guarantee any new nonconcessional external debt at maturities of one year or more (continuous performance criterion). Nonconcessional external debt is defined as all external debt with a grant element of less than 35 percent (http://www.imf.org/external/np/pdr/conc/calculator/default.aspx). The level of concessionality of loans is calculated based on a discount rate of 5 percent. This performance criterion applies not only to the debt as defined in paragraph 8(a) of the Guidelines on Public Debt Conditionality in Fund Arrangements attached to IMF Executive Board Decision No. 15688-(14/107), adopted on December 5, 2014, but also to any commitment contracted or guaranteed for which no value has been received. However, this criterion does not apply to reschedulings that take the form of new debts, or to bond borrowing, Treasury bills, and Sukuk or other instruments issued in CFA francs on the WAEMU regional financial market. For the purposes of this performance criterion, “government” is understood to cover not only the definition given in paragraph 2 above, but also public institutions of an industrial or commercial nature (*établissements publics à caractère industriel et commercial* – EPIC), public administrative agencies (*établissements publics administratifs* – EPA), public scientific and technical institutions, public professional establishments, public health agencies, local authorities, public enterprises, national corporations (public corporations with financial autonomy, in which the government holds at least 50 percent of the capital), and state agencies.

Government-Guaranteed Domestic Loans to Suppliers and Contractors

Definition

20. The government is committed to not providing new financial guarantees for domestic loans to its suppliers or contractors (continuous performance criterion). The concept of “government” used for this performance criterion includes the definition of government in paragraph 2, public institutions of an industrial or commercial nature (EPIC), public administrative agencies (EPA), public scientific and technical institutes, public vocational establishments, public health agencies, local authorities, public enterprises, national corporations (public corporations with financial autonomy, in which the government holds at least 50 percent of the capital), and state agencies.

Government Guarantees on Bank Prefinancing for Public Investments

21. The government undertakes not to guarantee new bank prefinancing for public investments (continuous performance criterion). In a typical prefinancing arrangement, a private company granted a public works contract by the government obtains a loan from a domestic commercial bank or a group of commercial banks. The Ministry of Finance guarantees this loan and, at the same time, signs an unconditional and irrevocable *substitution of debtor* agreement to service all principle and interest, which are paid automatically from the Treasury account at the BCEAO. The concept of “government” used for this performance criterion includes the definition of government in paragraph 2, public institutions of an industrial or commercial nature (EPIC), public administrative agencies (EPA), public scientific and technical institutions, public professional establishments, public health agencies, local authorities, public enterprises, national corporations (public corporations with financial autonomy, in which the government holds at least 50 percent of the capital), and state agencies.

Total Fiscal Revenue

Definition

22. Total fiscal revenue includes tax and nontax revenue, and excludes external grants, the revenue of autonomous agencies, and income from privatization. The data are calculated by revenue offices and reported in the Government Financial Operations Table (statistical TOFE) prepared monthly by the Directorate of Economy of the Ministry of Economy and Finance. The revenue is reflected on a cash basis.

23. Revenue collection for the periods from end-December 2016 to end-June 2017, end-September 2017, and end-December 2017 must be equal to or greater than the amounts indicated in Table 1 attached to the MEFP. The revenue floor is an indicative target for the entire duration of the program.

Reporting deadlines

24. This information will be reported monthly to the IMF within four weeks of the end of the month.

Domestically Financed Social Spending

Definition

25. Total (current and capital) domestically financed social spending is calculated for each category of current and capital accounts (wages, goods and services, transfers and subsidies, other) and capital accounts financed with domestic resources. In a national context, social spending is considered to be public expenditure targeting the following social sectors: (1) Ministry of Education: primary and secondary education, technical and vocational training, and higher education with respect to scholarships and relief allowances: (i) scholarships are awarded to students in need who are pursuing their undergraduate degree (article 21 of Decree No. 2011-173/PR of November 30, 2011, regarding the reform of the scholarship, internship, and relief allowance system, and article 1 of Decree No. 2011-174/PR of November 30, 2011, establishing the scholarship, internship, and relief allowance rates); (ii) relief allowances are granted to students recognized as belonging to a disadvantaged or vulnerable category (article 31 of Decree No. 2011-173/PR of November 30, 2011, regarding the reform of the scholarship, internship, and relief allowance system, and article 2 of Decree No. 2011-174/PR of November 30, 2011, establishing the scholarship, internship, and relief allowance rates); (2) Ministry of Health; (3) Ministry of Social Action, Advancement of Women, and Literacy; (4) Ministry of Grassroots Development, Crafts, Youth, and Youth Employment; (5) Ministry of Agriculture, Livestock, and Fisheries; (6) Ministry of Mines and Energy (rural electrification projects); (7) Emergency Program for Community Development (*Programme d'Urgence de Développement Communautaire* – PUDC); involved in financing basic socio-economic development actions through socio-economic projects and infrastructure in rural and semi-urban areas (schools, health centers, drinking water and basic sanitation points, rural roads, hydro-agricultural schemes, infrastructure for storing and processing agricultural products, rural electrification, and more generally access to all sources of energy); (8) Support Program for Vulnerable Populations (*Programme d'Appui aux Populations Vulnérables* –PAPV). Total current and capital social expenditure financed with own ressources covers spending financed with domestic resources, including revenue, domestic financing, and general foreign budgetary support, and excludes all social spending financed with project-specific grants or loans. The source of the data is the SIGFiP (Budget Directorate of the Ministry of Economy and Finance) prepared at monthly intervals.

26. Social spending financed with domestic resources for the periods from end-December 2016 to end-June 2017, end-September 2017, and end-December 2017 must be equal to or greater than the amounts indicated in Table 1 attached to the MEFP. The data provided by the Budget Directorate and the Directorate of Economy will take precedence for program purposes. The floor on (current and capital) social expenditure financed with domestic resources is an indicative target for the entire program period.

Reporting deadlines

27. The data on social expenditure financed with domestic resources will be reported every month within eight weeks of the end of the month.