

Togo: Poverty Reduction Strategy Paper—Progress Report—Joint Staff Advisory Note

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International Monetary Fund
Washington, D.C.

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INTERNATIONAL MONETARY FUND

TOGO

**JOINT STAFF ADVISORY NOTE ON THE POVERTY REDUCTION STRATEGY PAPER
FIRST ANNUAL PROGRESS REPORT**

Prepared by the Staffs of the International Development Association and the International
Monetary Fund

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November 22, 2010

I. OVERVIEW

- 1. This Joint Staff Advisory Note (JSAN) reviews progress in the implementation of the Poverty Reduction Strategy Paper (PRSP) for Togo over the period July 2009 to June 2010, as reported in the Annual Progress Report (APR).** The PRSP for Togo was adopted by the Council of Ministers on July 6, 2009 and discussed by the Boards of the International Monetary Fund and International Development Association (IDA) in November and December 2009, respectively. It lays out the strategy for growth and poverty reduction for the period 2009–2011 based on four strategic pillars: (i) strengthening of governance; (ii) consolidation of the bases for strong and sustained growth; (iii) development of human capital; and (iv) reduction of regional imbalances and promotion of community development. For these pillars, the PRSP integrates cross-cutting themes related to the environment, HIV/AIDS, gender and human rights.
- 2. The APR, prepared by the government through a participatory process, notes satisfactory implementation of the PRSP in several areas while still being candid about the considerable obstacles that remain to promote growth and reduce poverty due primarily to institutional and financing constraints.** In the domain of governance, the APR notes that progress in the area of procurement and external controls, while noting that many challenges remain including strengthening the capacity of entities for internal and external control and enhancing budget planning and execution. Improving the environment for private sector development is pivotal to promote growth, but several key reforms are yet to be implemented, namely the national “one stop window” at the port and the approval of key legislation. With regard to human capital, remarkable progress has been achieved in the education sector but full implementation of the sectoral plan for health may prove difficult due to capacity and financial constraints.

Important reforms were also undertaken in key sectors of the economy, including the cotton and phosphates sector. Furthermore, Togo has made satisfactory progress in meeting the requirements to reach the completion point, with all the floating triggers being fully implemented. The APR was prepared through a participatory process with contributions from all relevant stakeholders and discussed and disseminated at a workshop in September, 2010.

II. POVERTY TRENDS AND DIAGNOSTIC

3. **An assessment of trends in poverty remains limited by the lack of data. Since the 2006 Standardized Questionnaire on the Basic Indicators of Wellbeing (QUIBB) no new income or expenditure poverty survey with country-wide coverage has been produced.** Poverty incidence in 2006, as indicated by the 2006 QUIBB survey, was as high as 61.7 percent, with rural areas accounting for the majority of the poor - 74 percent versus 37 percent in the urban areas. The surge in international fuel and food prices (the latter increased 20.4 percent between 2006 and 2008), the flooding of 2007 and 2008, the international financial crisis and economic slowdown are believed to have aggravated poverty. Furthermore, economic growth has not been strong relative to population growth and, as a result, GDP per capita only grew by 0.7 percent in 2009.¹ Partial poverty estimates in the city of Lomé, based on the 2008 Household Expenditure Survey, indicate that there was a small increase in poverty in Lomé from 24.5 percent in 2006 to 25.1 percent in 2008, though this difference is probably within the margin of error. The APR notes the lack of poverty data at national level but a discussion of plans for updating it is absent. Staffs reiterate the recommendation made in the JSAN of the PRSP, regarding the need to improve monitoring of poverty and update information on recent poverty trends, which will be important for the preparation of the upcoming PRSP.

4. **Staffs commend the government's efforts to mitigate the impact of the crisis on the poor through the implementation of various safety net measures.** These measures include the subsidization of fertilizers for farmers, the increase in the guaranteed inter-professional minimum wage (which was very low and had not been revised in years), as well the implementation of a countercyclical fiscal policy to revive the economy by stimulating consumption and investment. Notwithstanding these positive developments, staffs recommend developing additional structured interventions to address endemic poverty, and to cushion the impact of shocks on the most vulnerable. Furthermore, while there is progress with monitoring poverty related expenditures with the publication of regular reports on expenditure in priority sectors, a better understanding of the impact of the pro-poor policy actions merits attention. According to the results of the 2006 QUIBB, some public subsidies do not succeed in targeting the poorest population groups. The poorest 20 percent received the equivalent of CFAF 5,607 in education subsidies per capita compared to CFAF 10,376 per capita received by the wealthiest 20 percent. Similarly, the distribution of public health subsidies does not favor the poor -the poorest 50 percent of the population received only 20 percent of the public subsidies.

¹ GDP per capita actually fell by 1.4 and 0.3 percent in 2007 and 2008, respectively,

III. MACROECONOMIC POLICIES AND FRAMEWORK

5. **The APR presents a macroeconomic framework that is broadly consistent with the one agreed between Fund staff and Togolese authorities in the context of the 5th ECF review mission.**² Real GDP growth showed a modest acceleration over the period analyzed by the APR, but remains below potential due largely to exogenous shocks. The government maintained a prudent fiscal stance anchored by targets on the domestic primary balance, despite an adverse external environment and sensitive political reforms. The 5th ECF review mission concluded that all 2010 quantitative targets through June 2010 have been achieved, and good progress has been made with the structural reforms launched under the ECF-supported program. Inflation has remained stable around 2 percent annually, at the same times as growth in the supply of money has picked up, owing to economic growth and banking sector restructuring. In general, the report makes good use of the macroeconomic data available at the time of its writing and adequately benchmarks revised estimates and projections for 2009 and 2010 against the targets set out in the full PRSP document. Nevertheless, the report could benefit from additional analysis of the factors that have led to deviations of estimates with respect to these original targets.

6. **The APR highlights improvements in budget execution over the period, in particular the execution of public investment spending, despite significant capacity challenges.** Public investment rose sharply in 2009 to reach 5.5 percent of GDP compared to 2.8 percent on average for the period 2005-2008. Togolese authorities began to address the problem of low execution rates of public investment in 2008 with improvements in project planning and execution, particularly by speeding up steps in the expenditure chain. The APR also points to the fact that public investment execution rates tend to be weak during the first semester of a given calendar year and quickly pick-up thereafter. Staffs encourage authorities to gain a deeper understanding of why this is the case. The execution of social spending has been satisfactory in 2009, in line with the ECF supported program targets, although it was somewhat below target in the first half of 2010 (it reportedly improved by August 2010).

7. **The APR highlights the significant balance of payments pressures that the country faces, which is broadly consistent with staff analysis.** On the one hand, the report is rather pessimistic in terms of its current account projections for 2010, projecting a deficit of 9.5 percent of GDP compared to IMF staff projections of 7.7 percent. On the other hand, the APR optimistically projects a zero overall balance for Togo's balance of payments in 2010, whereas staff expects a negative balance. These balance of payments pressures are linked to the adverse external conditions and are marked particularly by stagnation in remittances and falls in foreign direct investment flows during 2009 and 2010. The global slowdown also had a clear if moderate impact on export growth, whilst import growth was sustained in part because of countercyclical fiscal policy.

² The IMF mission visited Lome in September 2010.

8. **The APR draws attention to important advances in macro-critical structural reforms, notably in the areas of public financial management; fiscal governance; domestic arrears clearance to private suppliers; and banking sector restructuring.** Specific reform efforts in public financial management include the reduction in the number of Treasury accounts to enhance monitoring of Treasury operations and the simplification of the expenditure chain, including removing redundant control points. Enhancements in tax administration have also been an integral part of the efforts to increase fiscal space. In the period from June to December 2009, Togo also achieved significant progress in the clearance of audited domestic arrears to private suppliers, although progress has slowed since early 2010; by August 2010 over 1,900 suppliers had been paid. Staffs encourage the authorities to accelerate arrears clearance in the last months of 2010 to bring the process to a close, with the assistance of the employers' association to contact potential remaining creditors. Reforms in the banking sector are set to resume progress following the recent enactment of the privatization law. The adoption by the National Assembly in early October 2010 of a new legal framework for privatization will eventually allow for a final call for bids for the four state-owned banks that the authorities aim to complete in the first quarter of 2011. While fiscal risks from the banking sector have fallen, the impact of reforms on growth potential has not yet been fully realized.

9. **The staffs encourage the authorities to include an update of the macroeconomic policy framework for the coming years and explicitly discuss the risks to the medium-term outlook during the next APR exercise.** A comprehensive forward-looking macroeconomic framework and a full discussion of macroeconomic policies will be a crucial part of the next APR. The staffs also recommend that the next APR elaborate on the macroeconomic challenges and risks, particularly the ones posed by the external environment. The staffs also believe that future APRs could benefit from considering alternative macroeconomic scenarios reflecting different growth and export assumptions.

IV. PRSP PILLARS

A. Strengthening Governance

10. **The APR notes several important measures taken in the institutional framework for budget preparation and the area of budget execution and external controls,** including the set up of a committee to follow up on the implementation of the new set of WAEMU Directives adopted in 2009 by the regional council of finance ministries; the introduction of the Integrated Budget Execution and Reporting System (SIGFIP) on a pilot basis at the central level and five regional Treasury offices; and the initiation of the rationalization and simplification of the expenditure chain with a significant reduction of the use of exceptional expenditure execution procedures. Important reforms also include the operationalization of the Court of Accounts.

11. **Progress was also achieved in the areas of cash management, accounting and reporting, and procurement.** For the first time, a monthly treasury plan accompanied the 2010 budget to the National Assembly, while since January 2009; monthly tables of

fiscal operations (Tableau de Bord) are regularly elaborated and published on the website of the Permanent Secretariat for the Monitoring of Reforms (SP-PRPF). Furthermore, the public procurement code in conformity with the WAEMU Procurement Directives was adopted by the National Assembly in November 2009, and the Procurement Regulatory Authority and the National Directorate for the Audit of Public Procurement established in December 2009. Procurement contracts, including sole source contracts, are published since June 2009 on a monthly basis in the Chamber of Commerce newsletter and on the SP-PRPF website.

12. In spite of the several reforms initiated there are still many weaknesses in public finance management system. To address those weaknesses an Action Plan covering the period 2010–2012 has been recently adopted. The priority actions of the Action Plan include: (i) the preparation by all line ministries of sectoral Medium Term Expenditure Frameworks as building blocks of the Medium Term Budget Framework; (ii) further simplification and shortening of the expenditure chain, while strengthening the capacity of entities for internal and external control; and (iii) the full roll out of the SIGFIP in all its functionalities, including its accounting module, to all ministries, institutions, and regions, so as to improve coordination between line ministries and the Treasury and better track priority spending. Staffs urge the authorities to pursue these swiftly with the effective implementation of the Action Plan, as well as the adoption of the WAEMU new public finance management directives in the national legislation. Authorities are also encouraged to continue their close collaboration with development partners, reaping the full benefits of technical assistance to address capacity constraints in this area that could be hampering implementation of the Action Plan.

B. Promoting Strong and Sustained Growth

13. The private sector will play a key role in promoting growth, and the pace of reforms to improve the business climate needs to accelerate, as indicated in the APR. Important first steps were taken in some areas, including the approval of a new privatization law by the National Assembly in October 2010; the issuance of a Decree in June 2010 allowing the CFE (Centre de Formalités des Entreprises) to become a real one stop shop for enterprise creation (with delegation of approval), the preparation of a Doing Business Road Map, identifying key short term measures to improve Togo's performance, the revision of the draft of the new investment code to better align it with international best practices, and the preparation of a new draft of the Free Zone law to strategically reposition the Free Zone. However, all of these measures require timely follow-up, and other reforms are only beginning, including the implementation of a national "one stop window" for clearing goods at the port of Lomé. Staffs note that significant commitment in political will, resources, time and effort from all stakeholders, including all relevant government agencies, are needed to ensure a fully operational and successful implementation of these reforms.

14. During the first year of implementation of the PRSP, important milestones were accomplished in the area of the phosphate sector, including the finalization of a strategic audit of the phosphate sector, the preparation of a three-year business plan and the adoption in March 2010 of the phosphate sector strategy. Furthermore, important

efforts were made to increase the transparency and governance in the sector. Staffs commend the government for successfully meeting all criteria to become an EITI candidate and recommend that the country continues on its current track to ensure fast and quality implementation aimed at achieving EITI Validation Status within the next two years as planned. Togo was recently (on October 19, 2010) granted Candidate Status by the International EITI Board and has two years to become compliant. The audit exercise has commenced with the publication of 2008 and 2009 payments and revenues as an introduction to the EITI program. Staffs urge the government to continue pursuing critical reforms ahead including: (i) updating the regulatory framework (in particular modernizing the existing Mining Code and preparing the attendant regulations); (ii) improving internal controls and corporate governance by clarifying and implementing operational policies and regulations with respect to financial management, inventory control, and procurement of spare parts; (iii) streamlining the organizational structure and optimizing the utilization of human resources; (iv) introducing corporate social responsibility standards to address the social and environmental concerns of affected populations; and (v) preparing an action plan for the implementation of Phase 2 and Phase 3 of the Phosphates Sector Rehabilitation Strategy, including the competitive search for a strategic partner.

15. The APR acknowledges that the development of the agricultural sector is one of the Government's major strategic options for laying the foundations for strong and sustainable growth that would have a significant impact on poverty reduction.

Within the Comprehensive Africa Agriculture Development Process, the adoption of the National Agriculture Food Security Investment Plan in 2009 and subsequent donor mobilization to start implementation in early 2011 are important steps. Nonetheless, progress on reforms in agriculture is lagging behind in several aspects, and it is critical to proceed swiftly with important reforms, including: (a) strengthening systems for sanitary and quality control in food, (b) establishing improved information services and communication; (c) supporting the restructuring of the rural economy, the professionalization of agricultural sectors and the emergence of rural entrepreneurship, and (d) reducing the vulnerability of the Togolese population, that has been frequently exposed to natural disasters. More specifically, in the important sector of cotton, staffs reiterate the recommendations made in the JSAN of the PRSP including the modernization of the accounting system of the new cotton company (NSCT) to improve transparency, and efficient mobilization of resources to ensure timely provision of inputs to producers. Staffs commend the authorities for the implementation of the recommendations of the human resources audit undertaken for NSCT with respect to the size of the company's labor force. As recognized in the cotton sector reform plan, identification of a strategic private partner would help advance the rehabilitation of the sector. Staffs recommend that authorities intensify the development of a multi-sectoral strategy based on an outcome-focused set of principles. In this way, inter-sectoral policies and investment plans could be developed to better support the agricultural sector's contribution to poverty reduction.

16. The APR documents important infrastructure investment, notably the construction of the Contour Global thermal electricity plant with the capacity to

produce approximately 100 megawatts. In addition, efforts have been made in terms of expanding access to electricity in urban and rural areas. Seven new villages in the prefectures of Moyen Mono and Blitta received electrification in 2009, and in 2010, 27 villages across the country gained access. As for public lighting in urban areas, 15 streets in Lomé, covering 55 km, now have public lighting, including one lit by solar energy. However progress in power supply diversification is not likely to reduce the cost of electricity. Ensuring energy security may instead require an increase in the price of electricity due to the fixed costs determined by the latest power purchasing agreement. The financial situation of CEET (Electric Energy Company of Togo) is fragile and staffs urge the authorities to take action to strengthen it, including by adjusting tariffs and reducing technical and operational losses. Staffs also recommend the revision of the legal and institutional framework in order to create mechanisms to promote rural electrification. With regard to rehabilitation and construction of bridges and roads, staffs emphasize the need for maintenance of all infrastructures, in both urban and rural settings, to enable a continuous flow and expansion of goods to market, and social services to a growing population.

C. Fostering Human Capital Development

17. Progress in the education sector has been consolidated during the APR period, with the adoption and implementation of significant reforms. The implementations of the National Education Sector Plan (PSE), and the decision to eliminate tuition fees for pre-school and primary education in October 2008, have markedly improved access-to-education indicators. The gross enrollment rate rose from 98 percent in 2007-2008 to 114 percent in 2009–2010. Measures were also taken to improve the provision of secondary school education. Twelve secondary school classrooms were built and training courses were provided for 6,381 teachers. To enhance the quality of education at the pre-school and primary levels, initial training was provided to 511 new teachers, and remedial training to 4,909 teachers. Furthermore, the adoption in March 2010 of the PSE, endorsed by the development partners and EFA-FTI Partnership, led to the approval of the Education and Institution-Building Project (PERI),³ in the amount of \$45 million for the 2010–2013 period, which will fund the construction of classrooms, training, and institutional reinforcement. Staffs recommend effective and swift implementation of the strategy, for which the availability of funds is conditional on a strict disbursement schedule. In addition, to ensure consistency in the monitoring and evaluation of the education program, staffs urge the sectoral committee of the PSRP for education to be the same as the PSE Coordination Committee. Staffs also encourage the three Ministries in charge of the education sector to set-up a structure to oversee the coordination, monitoring and evaluation of the PSE and to strengthen the project coordination unit. Staffs also advise the authorities to monitor school drop-out rates in order to obtain a better understanding of their causes and design appropriate measures to minimize them.

18. To improve the performance of the health sector, several measures were implemented during the APR period, but progress in the reforms requires

³ The PERI will be executed under World Bank supervision.

continuity in financing. The first year of implementation of the PRSP saw the construction, rehabilitation, expansion and equipping of various health units, including three university hospital centers, six regional hospital centers, as well as district hospitals and peripheral health care units to attend to patients in less privileged areas. Despite these efforts, one of the main challenges remains the lack of adequate human resources and their unequal distribution. It is estimated that less than 8,000 health professionals exist in Togo for a population of 6.5 million habitants, and 80 percent of those professionals are in the main cities. To overcome this challenge, a Human Resources Development and Management Plan was approved in 2009, with the objective of recruiting new professionals and the retention of health professionals in the rural areas. The first round of recruitment was completed in 2009, but the second round planned for 2010 has been delayed due to lack of financial resources. The government also prepared a National Health Development Plan that is also facing financial constraints. Staffs recommend that authorities also emphasize measures to enhance the efficiency and efficacy of health expenditures.

D. Reducing Regional Imbalances and Promoting Community Development

19. **The APR acknowledges that despite the Government's efforts and those of Togo's partners, significant measures to boost regional economic development are yet to be implemented.** Successful reform at the community level requires the reorganization of local structures, the involvement of local stakeholders and sufficient financial, material and human resources for local governments. Progress on that front is limited due to delays in finalizing the institutional framework for decentralization as well as deconcentration of central administration functions. The APR also recognizes that to reduce regional imbalances, the programming of investment projects needs to reflect better regional socioeconomic imbalances. To advance with community development and help reducing regional imbalances, staffs reiterate the importance of finalizing the institutional framework for decentralization and deconcentration, clarifying the government options for addressing regional imbalance, and adopting a systematic approach for safety nets. Going forward, reforms could capitalize on ongoing pilot projects in local development (financed by some development partners), which can be considered as important examples for future activities.

V. IMPLEMENTATION AND MONITORING AND EVALUATION

20. **The institutional framework to monitor and evaluate the implementation of the PRSP is comprised of several institutional levels, often with overlap and unclear division of labor.** The process is led by the National Council on Development Policy and Poverty Reduction, chaired by the Prime Minister and including representatives of all branches of government and non-government stakeholders. Other oversight entities include the Interministerial Committee on the Poverty Reduction Strategy, the Technical Steering Committee, the Permanent Technical Secretariat, the Sectoral Committees, and the Regional and Local Committees. The preliminary lessons learnt from the implementation of the interim PRSP, which pointed to difficulties in implementing this framework, have been confirmed during the first year of the implementation of the PRSP

due to redundancies, unclear division of labor and the limited capacity. Therefore, Staffs recommend streamlining the oversight structure while ensuring adequate involvement of all stakeholders, clarification of responsibilities, and strengthening of civil society capacity.

21. **The APR notes that the track record for implementation of the first year of the PRSP is positive, with the achievement of some key reforms, including in the domain of governance.** Nonetheless, the APR also confirms that in some areas the PRSP was overly ambitious and did not fully anticipate the scale and depth of institutional and capacity challenges, as well as financing constraints, which were accentuated by the international financial crisis and global economic slowdown. This has caused some reforms to lag behind, including those in the fourth pillar “Reducing Regional Imbalances and Promoting” and others in the domain of business environment and health.

22. **Significant challenges remain with regard to monitoring and evaluation across all sectors and in particular in the health sector, due to the lack of a comprehensive and reliable system.** As a result, the APR mainly reports outputs with little discussion on outcomes. Given the lack of income related data staffs recommend to draw upon available data such as malnutrition rates, school enrollment and child mortality rates to help understand non-income dimensions of poverty. Going forward, staffs reiterate the importance of improving the results based framework by focusing on a small and realistic number of key result indicators, based on adequacy and availability of data given the country's institutional capacity, and report their status to assess the progress of reforms. Staffs also recommend the strengthening of the national statistics systems in order to produce timely data to inform policy makers as the PRSP is implemented and as they prepare the upcoming PRSP2.

VI. CONCLUSIONS, RISKS AND ISSUES FOR DISCUSSION

23. **The first APR highlights many of the reforms implemented during the first year of the PRSP while recognizing some weaknesses and implementation constraints.** Staffs recommend that the government takes appropriate measures to ensure the enhancement of implementation effectiveness and to take into account the lessons learnt during the implementation of the PRSP in future development planning including the upcoming PRSP-2.

24. **The APR notes that notable progress has been achieved during the first year of implementation of the PRSP, although it has been uneven across pillars.** The APR reports that progress has been achieved in some areas including consolidation of macroeconomic stability and sound public finances, fiscal governance with the establishment of the court of accounts, adoption of the procurement code, implementation of actions required to become an EITI candidate as well as completion of the HIPC triggers. Staffs commend the authorities on the steps accomplished under difficult financial circumstances due to the financial crisis and global economic slowdown and encourage the authorities to continue to accelerate the pace of implementation. Going forward, and given the ambitious agenda of reforms and the capacity and financing

constraints, staffs recommend the prioritization of reforms according to their impact on growth and poverty reduction, as well as their catalytic role. These would include moving swiftly with the decentralization agenda; pursuing vigorously reforms in the agriculture sector, including strengthening systems for sanitary and quality control and supporting the restructuring of the rural economy; and implementing the plans aimed at reforming the health sector.

25. **Nonetheless, significant risks to implementation remain, especially derived from capacity and financing constraints.** Important challenges remain in monitoring the activities and results of the PRSP. Funding capacity building efforts to ensure the data collection, compilation, analysis and reporting needed for effective monitoring will be challenging. Accordingly, efforts should continue to strengthen tax administration and public finance management to increase fiscal space, and improve the effectiveness of spending and to identify creative solutions for private sector financing.

26. **In considering the APR and associated JSAN, Executive Directors views are sought on whether they concur with the advice and recommendations made by staffs in the identified priority areas. .**