

# AFRICAN DEVELOPMENT BANK GROUP



**PROGRAMME** : **GOVERNANCE AND AGRIBUSINESS PROMOTION SUPPORT PROGRAMME - (PAGPA)**

**COUNTRY** : **REPUBLIC OF TOGO**

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## APPRAISAL REPORT

**ECGF/RDGS/PGCL**

November 2017

*Translated Document*

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## **CURRENCY EQUIVALENTS**

*(July 2017)*

Currency Unit	=	UA
UA 1	=	SDR 1.00
UA 1	=	USD 1,39139
UA 1	=	EUR 1,22
UA 1	=	CFAF 799,76

## **FISCAL YEAR**

1 January- 31 December

## ACCRONYMS AND ABBREVIATIONS

ADF	African Development Fund
AFD	French Development Agency
AfDB	African Development Bank
CEMAC	Economic and Monetary Community of Central Africa
CFA	Communauté Financière d’Afrique
CRPP	Climate Resilience Pilot Programme
CSP	Country Strategy Paper
CWIQ	Core Welfare Indicators Questionnaire Survey
DGE	Directorate-General for Economy
DGTCP	Directorate General of Treasury and Public Accounting
ECF	Extended Credit Facility
EU	European Union
GDP	Gross Domestic Product
GII	Gender Inequality Index
HDI	Human Development Index
HIPC	Heavily Indebted Poor Country
IMF	International Monetary Fund
INS	National Institute of Statistics
ITIE	Initiative for Transparency in Extractive Industries
MTEF	Medium-Term Expenditure Framework
OTR	Togolese Revenue Authority
PAGFI	Fiscal Governance Support Project
PAGPA	Governance and Agribusiness Promotion Support Programme
PANA	National Adaptation Action Programme
PARCI	Capacity Building Support Project
PARG	Governance Reform Support Programme
PA-RGFP	Priority Action Plan for Public Finance Management Reforms
PAMOCI	Resource Mobilization and institutional capacity building support project
PEFA	Public Expenditure and Financial Accountability
PEMFAR	Public Expenditure Management and Financial Accountability Review
PIMA	Public Investment Management Assessment
RBCSP	Results-Based Country Strategy Paper
SCAPE	Accelerated Growth and Employment Promotion Strategy
SIGFIP	Integrated Public Finance Management System
SIGMAP	Government Procurement Integrated Management System
SP-PRPF	Permanent Secretariat for Reform Policy and Financial Programmes Monitoring
UA	Unit of Account
UNDP	United Nations Development Programme
WAEMU	West African Economic and Monetary Union
WB	World Bank

## PROGRAMME INFORMATION

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<b>INSTRUMENT :</b>	General Budget Support
<b>PBO MODEL DESIGN:</b>	Programme Support Operation

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## GRANT INFORMATION

### *Client Information*

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<b>BORROWER:</b>	Togolese Republic
<b>EXECUTING AGENCY:</b>	Ministry of Economy and Finance
	Permanent Secretariat for Reform Policy and Programmes Monitoring

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## FINANCING PLAN

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Source	Amount	Instrument
ADF	9.53 Million	GRANT
FMI	59,67 Million DTS	LOAN
BM	50 Million USD	GRANT
UE	19 Millions Euros	GRANT

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### Key ADF Financing Information

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GRANT Currency	UA
Commitment Fee	0.0%
Other fees (services)	0.00%
Maturity	

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### Implementation Schedule – Milestones (expected)

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Concept Note Approval	June 2017
Appraisal	July 2017
PAGPA Programme Approval	29 November 2017
Effectiveness	November 2017
Last Disbursement	June 2018
Completion	December 2018

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## EXECUTIVE SUMMARY

<b>Programme overview</b>	<p><u>Country:</u> TOGO.</p> <p><u>Programme Name:</u> Governance and Agribusiness Support Programme (PAGPA)</p> <p><u>Overall Implementation Schedule:</u> November 2017 – December 2018</p> <p><u>Operational Instrument:</u> General Budget Support</p> <p><u>Programme Cost:</u> UA 9.53 million disbursed in a single tranche in 2017</p> <p><u>Sector:</u> Economic Governance and Agro-industry</p>
<b>Programme Outcomes</b>	<p>The main expected outcomes under <b>Component A</b> are: (i) a shorter ownership transfer timeframe from 283 days in 2016 to 60 days (WAEMU zone recorded average); (ii) a reduced agricultural trade deficit from CFAF 64 billion to 40 billion, (iii) Togo's enhanced resilience to spatial and gender inequality-related fragility factors through the promotion of regional development around Agropoles and (iv) land tenure security on developed sites. Regarding <b>Component B</b>: (i) increased tax pressure from 17.9% in 2016 to 19.1% in 2018; (ii) optimized investment management, with the PI-11 rating moving from D to at least C in 2018; (iii) improved local tax governance through effective skills transfer and enhanced technical capabilities of local and regional authorities.</p>
<b>Alignment with Bank Priorities</b>	<p>PAGPA is aligned with the national development programme, SCAPE 2013-2017, notably Pillar (I) development of sectors with strong growth potential and Pillar (IV) strengthening governance. It is also aligned with the two pillars of the Bank's CSP (2016-2020), namely: (i) Development of inclusive growth and agribusiness competitiveness poles and (ii) Support for financial, sector and local governance and the Bank's 2013-2022 Ten-year Strategy as well as the Bank's Governance Action Plan (GAP II 2014-2018), more specifically, it contributes to the achievement of three of the Bank's five key strategic priorities (i) "Feed Africa," (ii) "Industrialize Africa" through agro-industry promotion measures, and (iii) "Improve the quality of life for the people of Africa" by supporting reforms seeking improved budget management and public action effectiveness through enhanced economic and financial governance.</p>
<b>Needs Assessment and Programme Rationale</b>	<p>The encouraging socio-economic performance notwithstanding, Togo remains in fragile situation due mainly to the wide spatial disparities in wealth generation and distribution. Economic activity remains mainly concentrated in the maritime region which generates on average 97% of the tax revenues collected by the OTR, against merely 2% for the other regions representing 89% of the territory and 57% of the population. To boost its resilience and accelerate its exit from fragility, Togo is banking on the structural transformation of the agricultural sector, notably through the establishment of agriculture hubs (Agropoles) for economic as well as social inclusion reasons. The effective implementation of this strategy requires mobilizing substantial investments, both public and private. The total cost estimate for the 2016-2020 phase is CFAF 3,791 billion, with an average financing ratio of 46% from the State budget and 56% from the private sector. PAGPA, by concomitantly supporting substantial increase in internal resources, improving the private investment climate and strengthening agricultural sector governance, will provide Togo with the required financial and technical capabilities to implement its agricultural policy, a vehicle for sustainable and inclusive growth. Additionally, budget support resources will cover some of the financing requirements of the 2017 budget, amounting to CFAF 400.6 billion.</p>
<b>Harmonization</b>	<p>Efforts are still required to coordinate the interventions of technical and financial partners (TFPs), in particular those engaging in budget support. The budget support consultation framework (COAB) set up since 2010, remains inoperative. The TFPs are yet to develop a joint matrix of their interventions, for which agreement with the government is awaited regarding its orientation, but they are working to</p>

	strengthen the complementarity of their actions in terms of dialogue and reforms monitoring.
<b><i>Bank's Value Added</i></b>	The Bank has acquired proven expertise in strengthening economic and financial governance in Africa, notably in the sub-region (WAEMU). More specifically, the Bank has a comparative advantage in Togo for dialogue on reforms, having been the first development partner to re-engage after more than 15 years of dialogue with the international community; and on account of the results obtained in highly strategic areas such as revenue mobilization. Indeed, the Bank lent its full support to Togo in its vast and ambitious tax transition project that led to the establishment of OTR. PAGPA supports complementary measures to complete reforms seeking to optimize this structure, and diversify the economy by creating an enabling environment for the establishment of Agropoles.
<b><i>Contribution to Gender Equality and Women's Empowerment</i></b>	Increased domestic resources mobilization and greater efficiency in public finance management will help improve the living conditions of the people in general and women in particular. PAGPA measures will lay the groundwork for a structural transformation of the economy, particularly at the local and regional level. The numerous opportunities that will open up around major Agropole projects will benefit women. In particular, that of the Kara region, the first pilot Agropole to be established with the support of this programme should, by 2020, help create 2,500 jobs, 30% for women and 65% for the youth.
<b><i>Dialogue on Policies and Associated Technical Assistance</i></b>	PAGPA will help reinforce dialogue with the Government on public policies to support Togo's economic transformation. The dialogue will focus on conditions for the effective implementation of the agricultural policy, with special focus on issues related to broadening the tax base to maximize domestic resources mobilization, thus strengthening macro-stability and creating a private investment-friendly environment. Through ongoing capacity-building projects, the Resource Mobilization and institutional capacity building support project (PAMOCI) and the Fiscal Governance Support Project (PAGFI), Togo will continue to benefit from the assistance of national and international experts in revenue mobilization. The implementation of the agribusiness reforms will be supported by the investment project being prepared by the department in charge of agriculture in the Bank, which is aimed at establishing the Kara Agropole. The submission of this project to the Bank's Board of Directors is scheduled for December 2017.

## EXPECTED RESULTS - BASED LOGICAL FRAMEWORK

**Country and Project Name:** TOGO: Governance and Agribusiness Promotion Support Programme (PAGPA)  
**Project Goal:** Contribute towards creating conditions for strong and inclusive growth supported by agribusiness.

RESULTS CHAIN	PERFORMANCE INDICATORS			MEANS OF VERIFICATION	RISKS/MITIGATION MEASURES
	Indicator (including CSIs)	Baseline Situation	Target		
IMPACT	Growth is sustained and more inclusive	Economic Growth Rate	5,1% in 2016	5,6% in 2020	INS
		HDI adjusted to inequalities	0,332 in 2015	0,400 in 2020	UNDP
OUTCOMES	Outcome 1 : The agricultural sector's added value in the economy is increased	1.1 Number of taxes per year	49 in 2016	At most 39 in 2018.	DB-WB Report
		1.2 Property transfer timeframes	283 2016	90 days in 2018	
		2.3 Agricultural trade balance deficit	-44% in 2015	-38% in 2018	INS/ MEF/ Agriculture
	Outcome 2: Internal resources mobilization and public investment management are improved	1.1 Improved Tax burden	17,9% en 2016	18,3% in 2017 and 19,1% in 2018	OTR SP-PRPF MEF
		1.2 Improved investment management	PI.11 D in 2016	PI.11= C in 2018	
<b>A) Support for improved private investment environment and agribusiness promotion</b>					
A.1) Improving the private investment environment	a.1.1) Adoption of land code by Council of Ministers	Draft Code prepared; Transfer timeframe 283 days in 2016	Land code and rural registry adopted in Ministerial Council in 2017	DADC	<p><b>Risk 1: Political instability:</b> strong tensions related to the claims concerning the limitation of the number of presidential mandates</p> <p><b>Mitigation measures1:</b> The Government is committed to revising the constitution in order to limit the number of presidential terms to two. The dialogue between the political actors continues</p>
	a.1.2) Review and adoption of the investment code	2012 Code in force very unfavourable to the cross-cutting objective of rationalization of exemptions, promotion of agribusiness and job creation	The Investment and Free Zones Promotion Agency Operational in 2018	Min industry/ Commerce/ Agriculture	
	a.1.3) Adoption of the revised simplified tax code	Preliminary draft code in the validation process	Simplified tax code validated in 2018		
	a.1.4) Adoption by the Council of Ministers of a National Strategy for Private Sector Development	A draft Strategy already exists	Private Sector Development Strategy adopted in 2018	Ministry of Commerce and Private Sector MEF/SP-PRFP	
	a.1.5) Creation of the Business Climate Unit	No unit for the actions coordination	Decree adopted by the Council of Ministers in 2017		
A.2) Strengthening of the legal and institutional framework for agribusiness development	a.2.1) Adoption by Council of Ministers of the National Strategy for Agropoles Development	Preliminary draft strategy	National Agropoles development strategy adopted in 2017	Min industry/ Agriculture	<p><b>Risk 2:</b> Macroeconomic instability linked to the country's economic vulnerability to exogenous shocks</p> <p><b>Mitigation measures 2:</b> The Government is committed to strengthening the country's resilience by implementing a genuine policy of structural transformation of the economy and pursuing reforms agreed with the IMF and other partners.</p> <p><b>Risk 3:</b> Fiduciary Risks due to weaknesses in the public finance management system</p> <p><b>Mitigation measures 3:</b> The effective implementation of the PA- GFP and the measures provided for in the PAGPA 1 will contribute towards consolidating the</p>
	a.2.2) Rural roads built in the area of the Kara agropole	0 Km	Km of rural roads built in 2017 and 35 km in 2018 in the area of Kara Agropole		
	a.2.3 Agricultural lands developed in the area of the Kara agropole	0 Ha	500 ha in 2017 and 300 ha in 2018 of agricultural land developed in the area of Kara Agropole, of which at least 30% for women's and/or mostly women's organizations		
	a.2.4 Adoption by Council of Ministers of the National	No industrial policy or agro-industry strategy	The national industrialization policy and		

	Industrialization Policy and National Agro-Industry Strategy a.2.5) Operationalization of the High Authority for Quality and technical Quality Structures		the national agro-industry strategy are adopted in 2018 The High Authority created is not operational	Director General is appointed and his team set up		gains and accelerating improved integrity of the public finance management system. <b>Risk 4:</b> Weak human capacity to implement the reforms identified in general, and those related to Agropoles development, in particular.		
	<b>B) Support for internal resources mobilization and optimal management of public investment</b>							
<b>B.1) Improved revenue mobilization</b>	b.1.1) Adoption by Council of Ministers of the new National Customs Code	Draft code	Code adopted in 2017 Code adopted in 2017	SP-PRPF OTR SP-PRPF	Mitigation measures 4: High-level technical assistance to the Government on the design and deployment of Agropoles will be provided and financed by the Bank's Project Preparation Fund.  Risk 5: Weakness of arrangements for co-ordination of budget support	<b>Mitigation measures 5</b> the authorities are committed to strengthening arrangements for coordination and monitoring of budget support to make them more operational.		
	b.1.2) Establishment of the Fiscal Policy Unit by the MEF	Draft establishment instrument	Establishment in 2017					
	b.1.3) Implementation of the Lomé tax registry	Study conducted	The decree establishing the Lomé region tax registry is adopted in 2017					
	b.1.4) Adoption by Council of Ministers of the bill on the transfer of powers and resources to local and regional authorities	Bill prepared	Bill adopted in 2017					
	b.1.5) Study on gender mainstreaming in tax policy	No analytical paper on the issue	Study and adoption of an action plan for the implementation of recommendations validated in 2017					
	b.1.6) Adoption of the national gender strategy in 2018 by Council of Ministers	No strategy	National gender strategy adopted in 2018					
<b>B.2) Enhanced investment management</b>	b.2.1) Development of a public investments planning, selection and programming manual	No manual or formal procedures	Manual approved in 2017, PIP revised, 100% of the projects registered for 2018 are validated by the selection committee	SP-PRPF/DP				
	b.2.2) Creation of Agency for government participation	Poor performance in the monitoring of investments	Decree adopted in 2017; unit to be operational in 2018.					
	b.2.3) adoption by the Minister a decree related on reorganization and functioning of regional monitoring committees of investment project	No coordinated monitoring of project implementation at local level	The committees are set up in 2017 and 100% of investment projects in region have been supervised in 2018					
	b.2.4) Finalization of the adaptation of SIGFIP to the technical requirements of the implementation of programme budgets (2019 Budget Policy Debate follows programme budget)	BPD does not follow programme budget format	Holding of the DOB in 2018 at the National Assembly according to the programme budget format					
	b.2.5) Deconcentration of financial control and duties, organization and functioning of financial control	Centralized financial control	Decree adopted in 2017; The controllers of the 5 regions and the Ministry of Agriculture are appointed and installed in 2018	SP-PRPF/DCF				
	b.2.6) Conduct and regular publication of public procurement audits	Audits of 2013 and conducted published	Public Procurement Audit Reports 2014 and 2015 published in 2017					
	<b>Components</b>		<b>Funding</b>					
	<b>Component A: Support for the promotion of Agropoles and strengthening of local governance</b>		<b>AfDB : UA 9.53 million in 2017</b>					
	<b>Component B: Support for internal resources mobilization and optimal management of public investments</b>		<b>External financing of the funding requirement 2017</b>					
			Bank:	UA	9.53	million		
			IMF:	SDR	50.4	million		
			EU:	EUR	19	million		
			WB:	USD 50 million				

## **I. INTRODUCTION - THE PROPOSAL.**

**1.1** Management submits the following proposal and recommendation for a grant of UA 7.21 million from Transition Support Facility (TSF) resources, and a grant of UA 2.32 million from African Development Fund (ADF) resources, to the Republic of Togo to finance the Governance and Agribusiness Promotion Support Programme (PAGBA). PAGPA supports reforms aimed at creating a private and public investment environment conducive to agribusiness promotion, and improving revenue mobilization notably for capital investment purposes. It is designed as a reform operation funded by a budget support of total amount of UA 9.53 million to be disbursed in a single tranche in 2017.

**1.2** Single tranche disbursement, was justify by the particularity of 2017 fiscal year situation, which presents a high level of need for concessional financing mainly due to Togo's limited access to borrowing resources; this is in accordance to the Government commitments under the framework of the economic program (2017-2019) supported by the IMF's Extended Credit Facility approved in May 2017. It also emerges from the revised budget prepared following the conclusion of the program with IMF, an overall need for financing gap of 280.8 CFAF billions excluding grants, part of which will be financed by the ADF and TAF grant resources. On account of this financial support for Togo's budget, social sector allocations will be maintained, thus minimizing risks of the social climate deteriorating at this crucial transitional phase towards exiting fragility. With the programme spanning the November 2017 to December 2018 period, the Bank will maintain sustained dialogue with the Togolese authorities for the effective implementation of the reforms scheduled for 2018. These reforms will be monitored in close collaboration with the IMF, World Bank and European Union whose programmes cover the 2017-2019 period.

**1.3** Despite the favourable outlook, Togo remains confronted with a number of socio-economic challenges, including inadequate internal resources and an underperforming economy with low and non-inclusive value added creation. Despite efforts by GoT and the structural reforms implemented in recent years, including the creation of the OTR and the adoption of a new customs code, internal resources mobilization remains low compared to the financing requirements of the Accelerated Growth and Employment Promotion Strategy (SCAPE). The operationalization of the OTR, which is strongly supported by the Bank, has definitely yielded encouraging results, with a tax burden of 17.9% in 2016 that is expected to reach 18.3% in 2017 and 19.1% in 2018. However, despite this positive trend, on account of Togo's weak capacity to create value-added with one of Africa's lowest GDPs, the absolute value of domestic revenues collected falls far short of the budget's funding requirements. The average coverage rate of budgetary spending by tax revenue is about 60%, hence its heavy dependence on external financing and public borrowing both internally and externally. Indeed since 2016, Togo's debt risk is considered high with a debt ratio of 80.8% of GDP. In this regard, GoT has committed, under the new programme with the IMF, to lowering this rate to not more than 73% by 2019.

**1.4 In a bid to maintain medium and long-term viability of the macro-fiscal framework, Togo is banking on the structural transformation of the agricultural sector to give sustained and inclusive impetus to accelerated economic growth.** To leverage this sector as a prime mover of economic growth and social inclusion, the country has formulated and adopted an agricultural policy (2015-2030) aimed at achieving "a modern, sustainable and high value-added agriculture to support a strong, inclusive, competitive economy generating decent and stable employment by 2030". The country's agriculture sector employs 60-70% of the working population and accounts for up to 38% of GDP. This sector has significant potential with 3.4 million hectares of arable land, of which only 45% is currently under cultivation yielding less than 50% of the optimum level. Furthermore, the industrial processing of agricultural products is in its infancy, as is the Togolese industrial sector as a whole. Over the last three years, the industrial sector, which is not well developed and is poorly integrated with the rest of the economy, contributed an average of 17.8% to GDP, with an average annual growth rate of 1.3%. PAGPA is a continuation of the Bank's previous PARG-II budget support and will allow more in-depth reforms focusing on strengthening public finance management and creating conditions conducive to agro-industry development.

**1.5 PAGPA is aligned with Togo's national development policies and contributes towards implementing the Bank's intervention strategies in Togo.** PAGPA is in line with the national development agenda, SCAPE 2013-2017, particularly Pillar (I) "development of sectors with strong growth potential" and Pillar (IV) "strengthening governance". It is also aligned with the two pillars of the Bank's CSP (2016-2020), namely: "Development of inclusive growth and agribusiness competitiveness poles" and (ii) "Support for financial, sector and local governance". It is also consistent with the Bank's ten-year strategy 2013-2022 and the Governance Action Plan (GAP II 2014-2018). More specifically, it is aimed at contributing to the achievement of three of the Bank's High-5s: (i) "Feed Africa", (ii) "Industrialize Africa" and (iii) "Improve the quality of life for the people of Africa".

**1.6** In accordance with the Bank's Policy on Budget Support Operations, this proposed operation is subject to consideration by the Board following the implementation of the agreed prior actions, which are fully consistent with the reform programme of the Government of Togo (GoT), designed in consultation with civil society and the country's technical and financial partners.

## **II. COUNTRY CONTEXT**

### **2.1 Political Situation and Governance Context**

**2.1.1 Political Situation:** The 2015 presidential election which was won by the Presidential Party, and intensified dialogue between the ruling party and the opposition, contributed towards easing the political climate up to the end of the first half of 2017. This relative political stability has been conducive to the implementation of structural reforms for a progressive exit from the situation of fragility. However, the August 2017 political demonstrations, with sporadic violence, indicate that the dialogue during the budget support programme period could unfold in the context marked by tension arising from the holding of the legislative elections in 2018, local elections in 2019 and the presidential election in 2020.

**2.1.2 Fragility Situation:** Despite the progress achieved in recent years, particularly in economic terms, Togo remains in a fragile situation. Its average score in the Bank's and World Bank's Country Policy and Institutional Assessment (CPIA) is 3.2 out of 6. The reconstruction process following the political-democratic crisis is still ongoing. The North-South ethnic and regional divide continues to fuel the radicalization of the divergent positions among the political class and recurrent social tensions. The ownership of sustainable mechanisms of socio-political dialogue, that is courteous, inclusive and constructive among the political class and the elite as well as the strengthening of institutions, constitute major challenges that Togo will face in terms of political governance. Moreover, the economy's extremely heavy dependence on the phosphate sub-sector (over 40% of export earnings), and on revenues from port and airport traffic, also constitutes a source of fragility, as do the persistent spatial socio-economic development and gender disparities. The new development-oriented national agricultural policy has the dual objective of diversifying the economy and reducing inequalities in opportunities between the maritime region and other regions; and between men and women, by facilitating women's access to land through the provisions of the new land code that is in the process of adoption.

**2.1.3 Governance:** According to the 2016 Mo Ibrahim report on the assessment of global governance in Africa, Togo ranks 33<sup>rd</sup> among 54 countries evaluated with a score of 48.5 out of 100. Notwithstanding its poor overall ranking, Togo, with an average change of +9.7 points, ranks 2<sup>nd</sup> best governance reformer over the period 2006-2015, behind Côte d'Ivoire (13.1), the same as Zimbabwe (+9.7) and ahead of Liberia (+8.7), and Rwanda (+8.4). It is the only country whose overall governance has improved steadily with progress in each of the 14 sub-categories of the IIAG. The 2016 report by Transparency International ranks Togo 116<sup>th</sup> out of 176 with a Corruption Perception Index (CPI) of 32 against 29 in 2014, on a scale of 0 (high corruption) to 100 (very low corruption).

## **2.2 Recent Economic Developments, Macroeconomic and Fiscal Analysis**

**2.2.1** *The country is characterized by limited transformation of its economy, which is dominated by agriculture with 47.6% of GDP, followed by services (36.2%) and industry (16.2%) with merely 6.4% for manufacturing.* However, despite a challenging external environment, the Togolese authorities were able to maintain a positive trend of economic activity. Indeed, the GDP growth rate, which was 6.1% in 2013, remained at an average of 5.4% over the period 2014-2016 due to the good performance of the agriculture and infrastructure investment sectors. This trend is expected to continue in 2017, with a growth rate of about 5.0% which could reach 5.3% by 2018, due to the combined effects of fairly good rainfall and increased productivity arising from the agricultural sector's transformation and the improved transportation system. Inflation is also contained through the stabilization of food, energy and transport prices. It dropped from 1.8% in 2015 to 0.9% in 2016 and is projected to be negative at -0.1% for 2017. An analysis conducted in 2016 by the IMF and World Bank shows that Togo is at high overall debt risk.

**2.2.2 The country's debt risk level is deemed extremely worrying. The public debt stock rose sharply from 48.8% at end- 2010 to 80.8% of GDP at end- 2016, above the Community norm of 70%.** This increase is due mainly to infrastructure investments in 2015 and 2016. Togo's new programme (2017-2019) under the Extended Credit Facility (ECF) with the IMF seeks mainly to create conditions conducive to a substantial public debt level reduction from 80.8% of GDP in 2016 to 67.8% by 2020.<sup>1</sup>

TOGO – Macroeconomic indicators	2013	2014	2015	2016	2017(e)	2018 (p)	2019 (p)
GDP Growth	6,1	5,9	5,3	5,1	5,0	5,3	5,6
population growth	2,8	2,8	2,8	2,6	2,6	2,6	2,6
Real GDP growth rate per inhabitant	3,3	3,1	2,5	2,5	2,4	2,7	3,0
Inflation	1,8%	0,2%	1,8%	0,9%	-0,1%	1,2%	1,4
Budget balance (commitment base incl. grants) (% GDP)	-4,6	-3,4	-6,3	-3,2	-2,3	-2,5	0,2
Budget balance (cash base) (% GDP)	-5,8	-7,9	-7,8	-9,6	-4,9	-4,7	-0,7
Current account (% GDP)	-13,9	-10,2	-11,3	-10,1	-9,0	-8,3	-7,6
Tax burden rate (% GDP)	15,9	16,2	17,4	17,9	18,3	19,1	19,3

Source : National administrations; calculations by the authors & IMF staff report article IV May 2017

**2.2.3 The budget deficit (cash basis) deteriorated progressively over the period 2013-2016. It reached a record 9.6% of GDP in 2016,<sup>2</sup>** against 5.8%, 7.9% and 7.8% of GDP respectively in 2013, 2014 and 2015. Such deterioration in the budget balance is due mainly to a sharp increase in the aforementioned infrastructure spendings, and high cost of commitments under the "pre-financing" method used by the country to finance them. This deficit is projected at 4.9% in 2017 and should improve slightly to 4.7% in 2018 with the discontinuation of the pre-financing practice at end- 2016 and the renegotiation of the terms of the related commitments in 2017. The external current account balance is structurally in deficit, standing at CFAF 142.5 billion in 2016. It could rise to CFAF -140.5 billion in 2017, representing an improvement of CFAF 2 billion, attributable to an increased services balance (+ CFAF 4.1 billion) and secondary revenues (+ CFAF 1.2 billion), which is cushioned by the decrease in the goods trade balance (CFAF -4.0 billion).

**2.2.4 The outlook is deemed favourable.** The combined effects of support for the modernization of agro-industry, including Agropoles and extractive industries, and the envisaged reforms to strengthen competition rules in the hospitality, electricity, banking and telecommunications sectors, should help achieve an average growth rate of 5.3% over the period 2017-2019. Additionally, lessons learned from the implementation of budgets (2012-2016) and the implementation of the programme with the IMF under the Extended Credit Facility (2017-2019) should lead to improved budget credibility and stability.

## 2.2.5 Competitiveness of the Economy

**The Togolese economy's competitiveness is structurally constrained by low overall productivity and high production costs. In the report Doing Business 2018 Togo loses two places compared to 2017 and ranks the 156<sup>th</sup>.** Similarly, although the labour force has grown through improved education, physical capital accumulation has stagnated since the 1990s, contributing to a steady decline in overall factor productivity. However, significant progress is

<sup>1</sup> Togo : Staff Report for the 2016 Article IV Consultation and Request for a Three-Year Arrangement Under the Extended Credit Facility, May 2017

<sup>2</sup> Data from IMF staff report Article IV, Table1. Togo: Selected Economic and Financial Indicators, 2013 – 21, page 25, May 2017.

being made by Togo in the international transport sector, which is crucial to improving its competitiveness. Mention can be made of (i) the 700 km trans-Togo road, (ii) the coastal back road (54 km), (iii) the modernization and extension of the port of Lomé, whose capacity has increased from 0.5 to 2 million containers per year, and (iv) the construction of a new airport in line with international standards. These impactful infrastructures, as well as their geographical position, represent opportunities that reinforce Togo's objective of becoming, in the medium term, one of the best performing logistics hubs in the region, given its current comparative advantage in that domain. In that regard, the World Bank's 2016 report on the logistics performance index (published every two years) shows that Togo has climbed 47 positions, from 139<sup>th</sup> out of 160 to 92<sup>nd</sup>, and remarkably 64 positions on the "Speed" indicator, measured by shipment forwarding to freight forwarder times or expected goods to port delivery times.

## **2.3 Public Finance Management**

**2.3.1 Since 2010, the Government has had a National Finance Reform Strategy with a Public Finance Management Reform Plan (PA-RGFP), the implementation of which is considered generally satisfactory although subject to improvement.** Following the PEFA and PEMFAR conducted in 2008-2009, which revealed Togo's extremely weak public finance management system, GoT in September 2010 adopted a public finance management reform strategy for the period 2010-2020, with an action plan (PA-RGFP) implemented on a sliding triennial basis. The PEFA and PEMFAR evaluations conducted in 2016 show that Togo has made significant efforts to put in place budget management tools **and procedures that are good enough to restore public finance sustainability.**

**2.3.2 Regarding budget preparation,** the budget nomenclature in force (former WAEMU 1998 standards) is considered adequate to ensure budgetary transparency. The new nomenclature, which complies with the new WAEMU guidelines, is being finalized and should enter into force for the 2019 budget at the latest. The budget programming process has also improved considerably since PEFA 2008, with an increased focus on short- and medium-term financial balances in conjunction with medium-term macro-economic and budgetary frameworks, debt sustainability analyses and cash flow plans. PEFA 2016 also noted an increased involvement of Parliament in the budget debate.

**2.3.3 In terms of budget execution and control,** developments are also deemed positive, with noted improvement in revenue collection and the means used to ensure better tax base control, as well as enhanced taxpayer monitoring. Additionally, the national government procurement system has been assessed by the Bank as overall satisfactory, with a moderate level of risk. Similarly, **financial control** has been strengthened and is governed by general regulations that are aligned with good practices in terms of segregation of duties in public finance management. The national procurement system was assessed in accordance with accepted transparency and competition standards.

**2.3.4 However, despite the above-mentioned progress, there are lingering weaknesses, although overall fiduciary risk has been assessed as moderate (see Technical Annex 1 on Fiduciary Risk Assessment).** Accrual accounting is yet to enter into force, and still depends on the effective establishment of stock accounting. Similarly, the process of setting up the Single Treasury Account, initiated in 2013, has made no notable progress since the State's accounts census stage. Through the Resource Mobilization and institutional capacity building support project (PAMOCI) project, the Bank is supporting the implementation of WAEMU directives and the Single Treasury Account. Furthermore, the adoption of the legal framework governing the financial regime of local and regional authorities has been delayed; the completion and publication of public procurement audits are not regular, and PIMA 2016 reports that "**public investment efficiency in Togo is low**" with a gap of almost 70% against the most efficient countries, which would represent an efficiency loss of approximately 2/3 of the potential impact. These weaknesses have been taken into account in the design of the PAGPA. At the end of the last PEFA, PEMFAR and PIMA exercises conducted in 2016, the PA-RGFP was updated to take into account the findings and recommendations. The implementation of this plan should be accelerated, with a view to improving the overall performance of public finance management, in particular PI-11 "Investment Management."

## **2.4 Inclusive Growth, Poverty and Social Context**

**2.4.1 While the social indicators have improved slightly, Togo remains in the bottom quintile of the Human Development Index (HDI).** The net enrollment ratio (NER) in primary education improved overall to 94.3% by 2015. The poverty incidence declined from 61.7% in 2006 to 55.1% in 2015, but far short of the target of 27.6% expected in 2030 (SDG 1.2) and the extreme poverty rate has virtually remained unchanged , moving from 28.6% in 2006 to 28.7% in 2015. The Gini index improved from 0.393 to 0.380 between 2011 and 2015 (ODD 10), but growth is not yet pro-poor. Despite the progress of the last five years, spatial and gender inequalities persist. In rural areas, almost 7 out of 10 Togolese are poor and the availability of curative care decreased from 41% in 2014 to 37.7% in 2015, and more than a third of the population has to travel at least 5 km to a health centre. Only 50% of women are literate compared to 77% of men, and 25 women per 100 men own land, with their average areas 50% smaller than for men (CWIQ 2015). As a result, the Human Development Index 2016 remains low with a score of 0.487 ranking it 166th out of 188 countries.

## **III. GOVERNMENT'S DEVELOPMENT AGENDA**

### **3.1 Governmental development strategy and medium-term reform priorities**

**3.1.1 The Accelerated Growth and Employment Promotion Strategy (SCAPE) is the single reference framework for interventions under the Government's development agenda for the medium term.** In 2013, GoT adopted SCAPE for 2013-2017; it is the reference framework for governmental action and comprises five strategic Pillars: (i) development of sectors with high growth potential; (ii) strengthening economic infrastructure; (iii) development of human capital, social protection and employment; (iv) strengthening governance and (v) promoting participatory development. The National Development Programme (PND 2018 - 2022), which is being prepared, will replace SCAPE. The transformation of the agriculture sector into a strong and inclusive growth sector is at the core of the Government's priorities. Furthermore, Togo is

working to strengthen financial management by continuing, in particular, with reforms fostering increased tax revenues, optimal management of public investments as well as public debt reduction. The proposed PAGPA supports the implementation of these reforms through its Component (A), which aims to create a public and private investment framework conducive to agribusiness promotion; and component (B) which supports reforms aimed at increasing internal resources and improving their predictability in order to facilitate the capital expenditure necessary for the agriculture sector's development.

### **3.2 Obstacles to Implementing the National/Sector Development Agenda**

**3.2.1 Togo has made remarkable progress which certainly places it on the road to lasting resilience. These gains must be consolidated in order to firmly lay the foundations of social peace and sustainable and equitable development.** Progress is noted in the following areas: strengthening of security and stability, economic recovery with average growth rates of 5% over a ten-year period, implementation of major institutional and economic reforms, and strengthening of regional cooperation. However, the persistent ethnic and regional divide could constitute a setback to political stability, thus posing a severe threat to social peace and to exit from fragility. These challenges, if not addressed speedily, could impede economic progress. Moreover, the effective implementation of the SCAPE is severely constrained by inadequate financial resources. It is indeed clear from the last review of SCAPE, ahead of the development of the new NDP 2018-2022, that during the period 2013-2015 a total amount of merely CFAF 516 billion, or 68%, was mobilized for the implementation of the scheduled priority action programmes against a requirement of CFAF 2.228 billion. Furthermore, the unsuitability of the business environment also constitutes a major obstacle to the emergence of a dynamic private sector, capable of driving the transformation of economic activity which remains unstructured and over 90% dominated by the informal sector.

### **3.3 Consultation and Participation Process**

**3.3.1 SCAPE 2013-2017 was developed in a participatory manner to ensure a comprehensive consideration of the different concerns of political and socio-economic stakeholders countrywide.** SCAPE was prepared in consultation with all central and regional level stakeholders (central government, local authorities, civil society, private sector, political parties, traditional and religious leaders, etc.). Moreover, Togo's technical and financial partners were involved throughout the preparatory process.

**3.3.2** The design of the proposed PAGPA benefitted from broad consultations with key stakeholders. In particular, detailed discussions were held with the Permanent Secretariat for the Monitoring of Reform Policies and Financial Programmes (SP-PRPF) the Togolese Revenue Authority (OTR), the budget directorate and the Ministries of Agriculture, Commerce and Industry, Livestock, Rural Development, Environment and Gender. These discussions were followed by broader consultations with civil society (ONGs and producer associations). These exchanges led to agreement with the authorities on the need to involve the Togolese rural organizations and farmers' associations in the framework for follow up and monitoring of implementation of the reforms.

## **IV. BANK SUPPORT FOR GOVERNMENT'S STRATEGY**

### **4.1 Linkages with Bank's Strategy**

*The reforms under PAGPA support the implementation of the Bank's Togo CSP (2016-2020).* The programme's first component supports reforms within the framework of Pillar (I) of the CSP, which aims at "Development of inclusive growth and agribusiness competitiveness poles", and its second component largely contributes to the implementation of the Pillar (2) "Support for financial sector and local governance ". The proposed PAGPA, envisaged in the CSP, also contributes to the implementation of the Bank's 2013-2022 ten-year strategy and the Governance Action Plan (GAP II 2014-2018 ); more specifically, it contributes to three of the Bank's High Five strategic priorities: (i) "Feed Africa"; (ii) "Industrialize Africa" through measures to promote agro-industry and (iii) "Improve the quality of life for the people of Africa" by supporting reforms aimed at improving budget management and public action effectiveness through strengthening economic and financial governance and the key sector of agriculture.

### **4.2 Compliance with Eligibility Criteria**

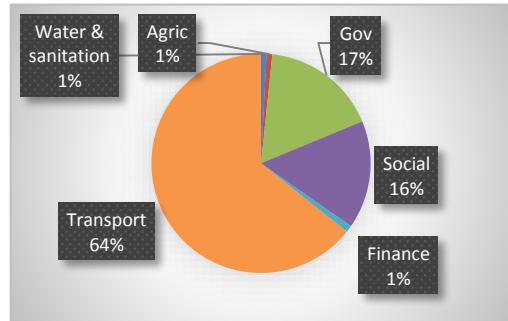
*Togo fulfills the pre-requisites for budget support operations, as defined in the Bank's policy on reform programme support operations (see Technical Annex 3).* However, efforts are still required in terms of coordination. The budget support consultation framework (COAB) is not optimal; there is no joint policy matrix of budget support interventions. Additionally, delays are noted in the implementation of a number of public finance reforms, translating into unsatisfactory results in the PEFA 2016 evaluation, where 28 out of 30 indicators are rated "C" or "D". Similarly, PIMA 2016 assessed the management of weak-efficiency investments. However, in view of the consistency of the measures of institutional reform being implemented and the level of integration of the national framework of the public finance management (see technical annex 1), global fiduciary risk has been rated moderate. In addition it should be minimized if the reforms planned in the PAGPA and others being finalised in the different departments concerned were diligently implemented. Furthermore, the Government is determined to accelerate the implementation of the national public finance reforms plan of PEFA, PEMFAR and PIMA, updated at the end of the 2016 fiscal year.

### **4.3 Collaboration and Coordination with other Partners**

In designing the proposed programme, the Bank met with key technical and financial partners (TFPs) intervening through budget support, namely the IMF, WB, and EU. The AFD and UNDP also participated in the discussions. The operations in progress, or under preparation for the period 2017-2019, are: (i) the IMF's ECF of USD 241.5 million; (ii) the WB's reform programme of USD 75 million and (iii) the EU's budget support of EUR 54 million. Although thus far there is no joint intervention matrix, which awaits agreement with the government on its orientation, all partners, including the Bank, are strongly committed to harmonizing their actions in terms of dialogue and monitoring reforms. The areas of intervention of the TFPs are presented in Technical Annex No. 10.

## 4.4 Linkages with other Bank Operations

4.4.1 **Bank's Active Portfolio in Togo:** The active portfolio at April 2017 consists of ten operations for a total net commitment of UA117 million (USD 160 million). It comprises eight national operations of UA 41.7 million (USD 57 million) or 36% of the overall envelope. It also includes 64% for two multinational operations of UA 75.3 million (USD 103 million). A high 75% of the portfolio is financed by grants. The sector distribution of the portfolio indicates the predominance of transport infrastructure with about 64%, followed by economic and financial governance (17%), the social sector (16%), the water and sanitation sector (1%) and agriculture (1%).



4.4.2 The March 2016 Portfolio Review assessed the portfolio performance as overall satisfactory, with a score of 3 out of 4 according to the rating of the latest Implementation Status and Results Report (ISRR). The portfolio's performance is considered satisfactory with an overall disbursement rate of 42%, for an average age of 2.3 years. The portfolio is fairly young, with 50% of the projects approved between 2015 and 2016. The key challenges concern the mobilization of the national counterpart funds (particularly for transport projects) and the administrative red tape for disbursement and procurement. Special attention should be paid to the release of the national counterpart funds for the Togo-Burkina road rehabilitation and transport facilitation project, which is scheduled to close at end- 2017. The government will also take steps to accelerate the construction of the Togo-Benin juxtaposed checkpoint financed by the Lomé-Cotonou road rehabilitation project and transport facilitation on the Abidjan-Lagos Corridor, Phase 1.

4.4.3 **Complementarity with Previous Operations:** PAGPA is a continuation of the Bank's previous PARG-II budget support through the strengthening of public finance management and improvement of the business environment (see technical annex 7 on the achievements of PARGII). The implementation of the first component reforms will create the appropriate legal and institutional framework for the investment project under preparation by the department in charge of agriculture in the Bank, aimed at establishment of the Kara Agropole. The presentation this project to the Board is scheduled for December 2017. Furthermore, the second component reforms will benefit particularly from the capacity building activities under PAGFI (2016-2020), which is institutional support for the modernization of the OTR for optimized revenue collection. Additionally, the programme budget and the deconcentration of payment authorization and financial control will be further facilitated as the Integrated Public Finance Management System (SIGFIP) will be fully deployed and adapted to the new the new budget framework. The technical assistance and equipment needs for its deployment are fully covered by PAMOCI (2015-2018). Lastly, PAGPA is in complete synergy with the project to support markets reconstruction and traders in Kara and Lomé (2014-2018); the project to support youth employability and integration (2015-2020) and the project to support the financial inclusion of vulnerable women (PAIFFV 2016-2018).

**4.4.4 Lessons Learned from Previous Operations:** The completion reports for PARCI I and II, and PARG II, indicate the following lessons: (i) the match between the scope of the reform programmes and the implementation capabilities of the structures involved; and (ii) the need to underpin reform programmes with institutional support. These lessons are taken into account in the design of PAGPA. The programme focuses on a limited number of reforms, but is strategic and aligned with the national objectives of the SCAPE. Furthermore, the programme will be supported by capacity building projects (PAMOCI and PAGFI), and the monitoring and evaluation mechanism will involve civil society in periodic reviews.

**4.4.5 Analyses Underlying the Operation:** Analyses conducted by GoT, the Bank and other technical and financial partners (TFPs) served as the basis for the preparation of the budget support programme. The foremost among them are: (i) Public Expenditure Management and Financial Accountability Review (2016 PIMA, PEFA and PEMFAR), at the end of which the PA-RGFP action plan was updated; (ii) the WB's 2018 Doing Business report; (iii) the IMF's Article IV consultations report in November 2016; and (iv) the report of the Dutch Consultancy Kadaster on the reform of the Directorate of State Land and Cadastral Affairs (DADC). The main recommendations of these studies concern (i) strengthening budget credibility and accelerating the fiscal transition, (ii) improving land management, and (iii) the need for economic transformation to drive strong and more inclusive growth.

## V. THE ENVISAGED PROGRAMME

### 5.1 Programme Goal and Objective

**5.1.1 The programme's principal objective is to contribute towards creating conditions conducive to inclusive economic growth.** Its specific objectives are to support the development of an investment climate conducive to agribusiness development in a context of improved internal resource mobilization capacity to support the required public investment. The programme addresses Togo's major persistent challenges in terms of exiting fragility and reducing its vulnerability to social crises. Furthermore, the programme will extend the Bank's interventions to reforms geared towards gender mainstreaming in government actions, particularly in the agriculture sector.

**5.1.2 The programme comprises two components:** A) *Support for improved private investment environment and agribusiness promotion*: this component supports implementing reform measures aimed at setting up efficient mechanisms and a business environment conducive to agribusiness development; (B) *Support for enhanced internal resource mobilization and optimization of public investment management*: This component aims to strengthen the mobilization of internal resources, and streamline the management of public investments, in order to offset the agricultural sector's infrastructure deficit and attract more private investors to agribusiness.

## **5.2 Component A: Support for improved private investment environment and agribusiness promotion**

### ***Sub-component A.1: Improving the private investment environment***

**5.2.1 Context, Constraints & Challenges.** The private sector's contribution to the national economy remains relatively low. It contributes merely 15% to GDP and remains dominated by the informal sector. The formal industrial private sector contributes only 4 to 6% to GDP, which is well below the country's potential. The agricultural sector offers the greatest potential in terms of job and wealth creation. However, formal private sector investment is undermined by the constraints of this sector. The main constraints on private sector development, particularly in agribusiness, include: (i) predominance of the informal sector; (ii) lack of competitiveness due to the high cost of inputs (water, energy, transport, the Internet, etc.); tax policy not aligned with private sector development, in particular the need to create more synergy between the Investment Code incentives and the Free Zone regime; (iii) insecurity of land tenure; (iv) a dispersed institutional framework based on a multitude of entities dedicated to the same investment promotion functions (Togo's Presidential Investment Council, Togo-Invest, Ministry of Trade, Ministry of Industry, Investment Promotion Agency and non-operational free zones, etc.); (v) limited capacity of management structures to support SME/SMI enterprises in developing business plans for access to markets and technology; (vi) mismatch between training and employment in relation to the actual needs of the Private Sector; and (vii) inadequacy of the regulatory framework for management of Public-Private Partnership (PPP) Contracts (the revision of framework and establishment of the PPP Unit is envisaged after the adoption of the pertinent UEMOA directives).

**5.2.2 Government's Achievements & Strategies:** In response to these constraints, the Government of Togo has adopted national and sector strategy papers focusing on the private sector as the prime mover of economic growth, jobs and wealth creation. The establishment of structures, such as the One-Stop Shop and the Presidential Council for Investment in Togo (CPIT), which is a framework for dialogue between the Government and the Private Sector at the highest level, has been beneficial. The CPIT helped identify the major constraints on the Togolese Private Sector's attractiveness and competitiveness, and made recommendations that enabled the country to climb from 164<sup>th</sup> to 149<sup>th</sup> position, moving up 15 places in one year in the Doing Business 2015 ranking. But this ranking has deteriorated in successive reports by 2016, 2017 and 2018 with respective ranks of 154th and 156<sup>ieme</sup> on 190 ranked economies. However, the country has made progress compared to the year 2016, notably in the following areas: Starting a business (+7 points); Getting electricity (+1 point); Trading across borders (+10 points); and Resolving insolvency (+3 points). Togo must not only consolidate the above gains by pursuing structural reforms, but also make efforts to improve its ranking in the following areas: lengthy timeframes for: (i) ownership transfer (283 days against an average of 60 days in WAEMU) and (ii) obtaining a building permit (163 days against 156 days in the WAEMU), and the multiplicity of taxes paid per year (49 against an average of 39 in the WAEMU). Furthermore, the government has established DOSI. This structure, supported by the bank under PAMOCI, is aimed at supporting informal sector operators to gradually formalize their activities. The government has also supported the setting up of recognized management centres in line with the directive of UEMOA. In addition, the government is

committed, under the FMI programme and the World Bank operation under preparation, to implement structural measures to improve the competitiveness of the sectors of energy and telecommunications with a view to reducing production costs.

**5.2.3 Reforms envisaged:** Creating a business environment conducive to private sector development in Togo requires removing the above constraints through administrative and institutional reforms. These include: (i) updating the Investment Code to attract foreign and domestic investment and strengthen it, with a view to employment creation under SCAPE; (ii) operationalizing the Investment and Free Zone Promotion Agency by appointing the Director General and his team; (iii) adopting a National Strategy; (iv) adoption of a new tax code aimed at simplifying the tax structure and procedures; and (v) the creation of a Business Climate Unit dedicated to strengthened monitoring and improvement of indicators of performance relating to the business environment.

***Sub-component A.2: Strengthening the legal and institutional framework for agribusiness development***

**5.2.4 Context and Challenges:** Since the 1960s, the State of Togo has demonstrated its willingness to promote the industrial sector, through the transformation of a substantial part of agricultural and mineral commodities successively through a State model based on imports substitution until the late 1980s and then through liberalization policies granting the private sector an increased role. Despite these efforts, it is clear that the industrial sector remains poorly developed and weakly integrated with the rest of the economy. Embryonic and sparse, Togo's industrial fabric comprises around ten large companies, a hundred medium-sized industries and a relatively large number of very small industrial units. The industrial sector's contribution to GDP over the last three years averaged 17.8%, with an average growth of 1.3% per year. Togo has opted for the transformation of the agricultural sector as the basis for the structural transformation of its economy. Togo's agricultural sector employs 60-70% of the working population and accounts for 38% of GDP. This sector has significant potential, with 3.4 million hectares of arable land, of which, only 45% are currently under cultivation with low yields of below 50% of the optimum level. It is characterized by a very low level of mechanization and professional expertise, with 89% of the cultivated land sown manually (hoes and machetes). To leverage this sector as an engine of economic growth and social inclusion, the country has formulated and adopted an agricultural policy (2015-2030) aimed at achieving "modern, sustainable and high value-added agriculture ". The promotion of agro-industry and Agropoles is pivotal in this policy, which will enable the creation of integrated development zones around agricultural activity in order to support the promotion of industrial and services clusters and stimulate growth. The Agropoles pilot programme covers three of the country's five regions that have been selected on the basis of their comparative advantages, as well as inclusion and poverty reduction criteria. The priority target products are rice, soybean, cashew nuts and sesame, sorghum, millet, maize and livestock. The objective is to enhance food security through import-substitution and exporting surpluses in the regional markets of WAEMU and ECOWAS, given Togo's age-old trade tradition, the opportunities offered by its geographical position and the expected increase in regional demand due to population growth, urbanization, income growth and diet diversification.

**5.2.5 Major constraints on the promotion of Agropoles and agro-industry in Togo are:** (i) lack of industrial policy and lack of serviced industrial sites; (ii) weak integration of the industrial sector with other sectors of the economy in general and the agricultural sector in particular, due mainly to supply difficulties and the lack of organization of the sectors; (iii) inadequacy of quality infrastructure and production support that hamper the development of the industrial fabric and agribusiness in particular; (iv) weak competitiveness of industrial products, due notably to the high cost of production factors (energy, transport, communications, etc.), non-conformity of industrial products with international standards, unfair competition from some industrial products imported fraudulently, and absence of legal instruments and an institutional quality control system for consumer products marketing in Togo; (v) credit access difficulties, notably for the agricultural sector which represents on average 1-2% of the bank's portfolio, due particularly to the poor organization and professionalization of agricultural value chains and land tenure insecurity, especially for women; (vi) weaknesses in the institutional framework for industrial support, due mainly to strategic, organizational and institutional weaknesses at the level of the Ministry of Industry and industrial support services<sup>3</sup>; (vii) lack of accredited laboratories and inspection bodies capable of carrying out physical/chemical and microbiological analyses of industrial and agro-industrial products, testing and calibration in metrology and certifications to international standards for local marketing and export; (viii) territorial imbalance between the maritime region, which hosts nearly all the industrial units, and the country's other regions which are agriculture-oriented and under-industrialized due mainly to the lack of appropriate infrastructure.

**5.2.6 Government's Achievements & Strategies:** In response to these constraints, the Government of Togo has adopted a number of reforms with special focus on industrial development. These include the Framework Law of 12 August 2009 on the organization of the national harmonization scheme for standardization, accreditation, certification, metrology, environment and promotion of quality in Togo; Decree of 27 December 2013 issued pursuant to Law No. 2011-018 of 24 June 2011 on the status of the industrial free zone; Law of 20 January 2012 on the Investment Code in the Togolese Republic; Decree of 27 December 2013 issued pursuant to Law No. 2012-001 of 20 January 2012 on the Investment Code in the Togolese Republic; Decree of 27 December 2013 on the allocation, organization and operation of the National Agency for the Promotion of Investments and the Free Zone and the Accelerated Growth and Employment Promotion Strategy (SCAPE) 2013-2017, under which industrial development and the transformation of agriculture are major pillars. More recently in 2016, the Agricultural Policy, together with the Strategic Plan for the Transformation of Agriculture in Togo by 2030, was also adopted.

5.2.7 Several measures have also been implemented with a view to facilitating access to financing, in particular the creation of the National Agency for the Promotion and Guarantee of Financing of SMEs and SMIs (ANPGF). Additionally, the WAEMU Directive on public procurement and the delegation of services was made internal in 2014. This instrument, which did not take into account partnership contracts, nevertheless provided for the development of a PPP strategy and the setting up of a PPP management unit. These two reforms are suspended

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<sup>3</sup> In particular the quality management infrastructure: Metrology-Standards-Quality Control (MSQC)

pending a new institutional framework by WAEMU, which more clearly separates delegation and partnership contracts, on the one hand, from public procurement, on the other. Lastly, the finalization of the National Industrialization Policy is underway and will be followed by an Industrialization Strategy, which will be prepared in collaboration with the Bank and UNIDO. To this end, the authorities sent a request for technical assistance to the Bank aimed at making Togo a pilot experiment for the implementation of the strategic pillar relating to the industrialization of Africa.

**5.2.8 Reforms envisaged:** Accelerating industrial development in Togo requires implementing a number of reforms aimed at removing the above constraints, particularly through measures such as: (i) adoption of a National Industrialization Policy; (ii) operationalization of the High Authority for Quality and Technical Quality Structures (the Fund and the Agencies) through the appointment of the Director General and his team and the allocation of the necessary resources for its start up in the 2018 budget; (iii) the adoption of a National Agropoles Strategy; (iv) adoption of instruments governing the national Agropoles development structure; (v) adoption of a new Land Code governing the land registry which would foster agribusiness development and loan access.

5.2.9 The main expected outcomes of Component A are: (i) improving the agricultural trade balance deficit, (ii) strengthening Togo's resilience to fragility factors related to spatial and gender inequalities; (iii) improving the competitiveness of the agricultural sector; (iv) securing land for the development of agribusiness and facilitating access to financing; and (v) improving the business environment for domestic and foreign private investment.

**5.2.10 Component B: Support for internal resources mobilization and optimal management of public investments:**

***Sub-component B.1: Improved Revenue Mobilization***

**5.2.11 Context Constraints and Challenges:** Togo has committed, under the programme with the IMF, to substantially reducing the level of public debt by prohibiting any new external non-concessional loan and by capping the volume of concessional commitments. Against this backdrop, and faced with the urgent need to pursue investment spending that is crucial to achieving the development objectives of SCAPE, maximizing internal resources mobilization in the short term is essential as the main factor for macroeconomic stability and the sustainability of the budget framework. The establishment of the OTR in 2014, coupled with the modernization and extension of the Lome Port Authority, has definitely helped to enhance Togo's revenue mobilization capabilities. The ratio of tax revenues (cash basis) to GDP increased from 15.9% in 2013 to 17.9% in 2016 and could reach 19% in 2018, nearly the 20% WAEMU standard. However, recent economic developments in the sub-region have highlighted the great sensitivity of OTR's performance to customs duties; with OTR's, results for 2016 falling below target for the first time. This underperformance, though minimal (-1.1%), is mainly due to the sluggish economic conditions in the country's key trading partners (Nigeria, Ghana). In this regard, the major challenge for the country is to optimize domestic taxation by broadening the tax base through the exploitation of the land niche in particular. Additionally, simplification of customs and tax procedures should be pursued to attract private investment and accelerate added value creation.

**5.2.12 Government's Achievements & Strategies:** In response to the challenge of improving internal revenue mobilization, the Government, with the Bank's support, initiated structural reforms that culminated in the establishment in 2012 of the Togolese revenue authority (OTR), which incorporates the two State financial administrations (taxes and customs) into a single entity with administrative and financial management autonomy. The operationalization of the OTR has enabled Togo to increase its budgetary revenues substantially; they increased from CFAF 403.6 billion in 2013 to 568.5 billion in 2016, representing a 40.8% rise. The average growth rate of tax revenues over the period 2013-2016 is 12.7%. Furthermore, the country adopted a new Customs Code which entered into force in 2014 (Law No. 2014 - 003 of 28 April 2014) replacing the old instrument dating from 1966. A new revision of the Customs Code is underway to, among other things, further clarify the division of powers and responsibilities between the OTR and the Ministry in charge of finance and fiscal policy. In addition, the draft text of the new Customs Code will take into account recent developments in international trade regarding trade facilitation and improved customs procedures. Similarly, the GoT initiated the revision of the tax code with a view to simplifying the tax system to make it more attractive to investors and also more accessible to tax administration and taxpayers. Lastly, the GoT in 2016 committed to a feasibility study for the establishment of a tax registry for an optimized property tax base.

**5.2.13 Reforms Envisaged:** To accelerate enhanced internal resources mobilization, PAGPA will support the adoption by the Council of Ministers of the: (i) Lomé Tax Registry Decree, (ii) new national Customs Code; (iii) decree establishing the fiscal policy unit by the MEF; and (iv) bill on the transfer of powers and resources to local and regional authorities.

#### ***Sub-component B.2: Strengthening Public Investment Management***

**5.2.14 Context, Constraints and Challenges:** Investment management was assessed as very unsatisfactory by the PIMA, PEFA and PEMFAR exercises conducted in 2016. The PIMA report shows that "public investment efficiency in Togo is low" with a nearly 70% gap compared to the best performing countries. This represents a loss of approximately 2/3 of the effectiveness of the potential impact. The Public Investment Program (PIP) is not aligned with the budget. An absolute gap of 15% between the 2016 PIP component and the draft budget for 2016 transmitted to Parliament was noted. Inadequacies have been identified at all levels of the process (multi-year programming, ex ante evaluation, project selection, public procurement performance monitoring, and availability of investment credits). PEMFAR<sup>4</sup> noted the absence of "national guidelines defining the principles and conditions for the economic and financial evaluation of projects". Economic evaluations of cost-benefit and cost-effectiveness are not always conducted, and whenever this is done no review mechanism for results review by an independent structure of the contracting authority is in place. Additionally, project recurrent costs are poorly estimated and only the operating costs of a project as an administrative unit are included in the budget. This partly accounts for the shortcomings noted in the public investments monitoring with irregular implementation monitoring activities and incomplete or non-existent data bases on physical and financial implementation of investments. The investment management situation in Togo deteriorated further with the so-called "pre-

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<sup>4</sup> PEMFAR 2017 Report

financing<sup>5</sup> practice that the GoT applied between 2011 and 2016. Under this mechanism, besides the shortcomings of the basic financial package, pre-financing agreements were concluded and executed outside the public expenditure circuit and to the total exclusion of the internal control and external audit bodies. State reimbursements to banks thus faced high risks of fictitious progress payment claims and/or poor quality work. Lastly, investment management and, in general, the implementation of public policies in Togo are also handicapped by the lack of programme budgets, weak results-based budgeting practices and the centralization of financial control. PEMFAR 2016 noted that "in Togo, the centralization of authorizing officer and financial controller functions are veritable sources of delays and inefficiency in the expenditure circuit". Indeed, having no local or regional delegations, all vote holders in local authorities must travel to Lomé to submit their commitment and validation files.

**5.2.15 Government's Achievements & Strategies:** As part of its IMF- backed programme, the government stopped the pre-financing practice in the latter half of 2016. The government also pledged not to undertake new pre-financed investments, to validate all existing pre-financed investments and to include pre-financing debt in the outstanding public debt. The authorities have also decided to follow in future the budgetary and procurement procedures for all new public investments. Besides the effective abandonment of pre-financing, it is crucial to establish an efficient investment management system, systematize programme budgets and decentralize financial control speedily in order to ensure an optimal framework for future investments, notably those required for the implementation of the national Agropoles development strategy.

**5.2.16 Reforms envisaged:** PAGPA will support (i) the development of a public investments planning, selection and programming manual; (ii) adoption of the ministerial order on the framework for regional monitoring of investment projects execution; (iii) finalization of the adaptation of SIGFIP to the technical requirements for the implementation of programme budgets; (iv) adoption by the Council of the Ministers of the decree on the deconcentration of financial control and powers, organization and functioning of financial control; (v) publication of the 2014 and 2015 public procurement audit reports; and (vi) the creation of Unit for government participation with a view to strengthening the monitoring of public investments and the management of state assets.

**5.2.17 The main results of Component B are:** (i) sustained revenue growth, (ii) improved PIP implementation rate; (iii) improved local fiscal governance; and (iv) enhanced financial and technical capabilities of local and regional authorities.

### **5.3 Policy Dialogue**

5.3.1 PAGPA will strengthen dialogue with the Government and consultation with other TFPs, mainly in the following areas: (i) internal resources mobilization, where discussions will focus on the need to broaden the tax base; and (ii) transformation of the Togolese economy with special focus on the conditions for effective implementation of the agricultural policy. In this regard, and relying on its country office, the Bank will continue support for improved land

<sup>5</sup> PEMFAR 2017 Report: This mechanism consists in awarding a public contract to one or more contractors to carry out a public investment. Successful bidders are financed by commercial banks to perform the work with guarantees from the Togolese State. The State in its capacity as contracting authority reimburses the former as and when the works/services are performed, in principle after acceptance of progress payment claims submitted by the operators.

management in order to speed up the establishment of a reliable registry to secure land tenure, a prerequisite for attracting private investors. In addition, PAGPA will enable the Bank to raise the level of dialogue with Togo on issues of gender promotion and civil society's participatory role. Lastly, ongoing discussions will be continued with the Togolese government towards operationalizing the joint framework for the monitoring and evaluation of the performance of budget support and reform program.

#### **5.4 Grant Conditions**

**Table 2. PAGPA Preliminary Measures**

<b>Preliminary Measures</b>	
<b>General Prerequisite</b> – Maintaining a stable macroeconomic framework, as reflected by IMF reports or evaluations	
<b>Component A – Support for Agribusiness Promotion</b>	<b>Component B – Support for Internal Resources Mobilization and Optimal Management of Public Investment</b>
<u>Action 1:</u> Adoption by the Council of Ministers of the National Agropoles Development Strategy <u>Evidence 1:</u> Decree of adoption by the Council of Ministers of the National Strategy for Agropoles Development Strategy	<u>Action 4:</u> Establishment of the Tax Policy Unit. <u>Evidence 4:</u> MEF Order establishing the Tax Policy Unit
<u>Action 2 :</u> Creation of the Business Climate Unit <u>Evidence 2 :</u> Decree adopted by the Council of Ministers	<u>Action 5:</u> Adoption of the new national Customs Code <u>Evidence 5:</u> Release of adoption by the Council of Ministers of the bill on the new customs code.
<u>Action 3:</u> Adoption of the National Private Sector Development Strategy. <u>Evidence 3:</u> Decree of adoption by the Council of Ministers of the national private sector development strategy	<u>Action 6:</u> Deconcentration of financial control, powers, organization and functioning of financial control <u>Evidence 6:</u> Decree of the Council of Ministers on the deconcentration of financial control, powers, organization and functioning of financial control
	<u>Action 7 :</u> Creation of Agency for government participation <u>Evidence 7 :</u> Decree of adoption by the Council of Ministers of the creation of Agency for government participation

#### **5.5 Application of Good Practice Principles on Conditionality**

In accordance with the 14 March 2012 Bank policy on budget support operations, the design of the proposed PAGPA applied good practice principles on conditionalities. Eight conditions precedent have been agreed with the Country and these are in line with the country's priorities. They are drawn from national reform documents, in this case the agricultural policy and PR-GFP. The programme's Pillars and the results-based logical framework were discussed, and agreed, with the Government and all stakeholders, including other TFPs and civil society. The disbursement schedule is aligned with the budget cycle.

#### **5.6 Financing Requirements and Terms**

The macroeconomic framework was updated as part of the supplementary budget approved by the Cabinet in November 2017 in order to take into account the commitments made under the IMF program which aims to reduce Togo's indebtedness risk. This revised budget 2017 projects a level of revenues (excluding grants) of CFAF 560.4 billion against expenditures of CFAF 841.23 billion (including arrears payments). The resulting financing gap of CFAF 280.83 billion is entirely covered by internal financing and external resources from technical and financial partners including the Bank.

**Table 3 – Estimated Financial Requirements and Sources in CFAF Bln**

	Rubriques	2017 (Bln CFAF)
<b>A</b>	<b>Total revenues and grants</b> <i>Of which : tax revenues</i>	<b>707,1</b> 503
<b>B</b>	<i>Of which : grant</i>	<b>146,7</b>
<b>C</b>	<b>Total net expenditures and loans</b> <i>Of which: interest payments</i> <i>Of which :capital expenditures</i>	<b>771,23</b> 58,7 313,5
<b>D</b>	<b>Overall balance (base settlement excl. grants) (A -B-C)</b>	-210,83
<b>E</b>	Accumulation of arrears	-70
<b>F</b>	<b>Overall balance (cash basis) ( D+E)</b>	<b>-280,83</b>
<b>G</b>	External financing net (less Bank contribution )	259,78
<b>H</b>	Bank contribution	7,95
<b>I</b>	Internal financing (net)	13,1
<b>J</b>	<b>Financing (F + G+H)</b>	<b>280,83</b>
<b>K</b>	<b>Financing gap (J+F)</b>	<b>0</b>

Source: Ministry of Finance and Economy – Report's Authors

## 5.7 Application of Bank Group Policy on Non-Concessional Debts Accumulation

The proposed PAGPA is financed by a grant and thus not governed by the Bank Group Policy on non-concessional debt accumulation.

## VI. IMPLEMENTATION

### 6.1 Programme Beneficiaries

**The direct beneficiary of the programme is the Ministry of economy and finance through the financing of the national budget. In an indirect way the program will benefit to the whole Togolese population.** PAGPA will help lay the groundwork for a structural transformation of the local economy and regions around major Agropole projects, as a source of resilience to address fragility concerns in the rural areas (about 62% of Togolese population) and on the outskirts of Lomé and the regional capitals. In particular, the development of the Agropole in the Kara region should enable the creation of 2,500 jobs by 2020, of which 30% for women and 65% for youth, an electricity access rate of 43% (against 16% in 2015) and 55% access to drinking water (against 25% in 2015).

### 6.2 Impact on Gender, the Poor and Vulnerable Groups

**Despite the progress made over the past five years, gender discrimination persists.** In 2011, Togo adopted a National Policy on Gender Equity and Equality. In 2014, the Code of Persons and Family was also revised, thus enabling legislation on major discriminations that existed in marriage and inheritance. In particular, Article 99, which provided that "The man shall be the family head" has become "The family shall be run by the spouses". However, in the absence of a clear intervention strategy, exclusionary practices identified in the National Policy remain topical, including difficulty of access to farmland for women. In addition to the family code, PAGPA will support the adoption of the law on gender parity in elective and appointive positions, the effectiveness of which will do more to further raise the required awareness among opinion leaders. Moreover, the programme will support a study to explore equitable gender mainstreaming in tax policy without altering the impersonal nature of taxation. The recommendations of this study will form an integral part of the national gender strategy also supported by the programme.

### **6.3 Impact on the Environment and Climate Change**

**PAGPA is classified as Category III in accordance with the Bank's environmental and social impact assessment procedures.** PAGPA has no negative environmental impact. However, the country is faced with the adverse effects of climate change and environmental challenges, particularly in the agricultural, forestry, energy, mining and water resources sectors and in coastal zone management. The GoT demonstrates a strong commitment to providing lasting solutions to the environmental degradation problems and considering climate change in public policy. Since 29 December 1998, Togo has adopted its National Environment Policy in accordance with international environmental agreements (the Vienna Convention and the Montreal Protocol, the Rio Conventions and their respective Protocols, Rotterdam Convention, Stockholm Convention)<sup>6</sup>. Furthermore, SCAPE 2013-2017 lays special emphasis on the environment and community resilience to climate change, with the intensification of actions provided for under initiatives such as: (i) National Adaptation Plan (PANA); (ii) National Programme for Reduced Emissions from Deforestation and Forest Degradation (REDD + 2010-2050); (iii) National Action Plan for the Management of Marine and Coastal Environmental Resources; and (iv) Environmental Management Capacity Building Programme (PRCGE).

### **6.4 Macroeconomic Impacts**

The proposed PAGPA will contribute to macroeconomic stability by improving the agricultural sector's performance and reducing the trade deficit. Furthermore, according to a study by the Dutch firm Kadaster on the reform of State lands and Cadastral Affairs Directorate (DADC), the potential yield of property tax (Land Taxes on built-on estates, land ownership registration duties) at the national level, based on a computerized cadastre on only the 400 000 plots already identified, would be over CFAF 100 billion against CFAF 1.4 billion of revenue collected in 2016. PAGPA would help generate the budgetary resources required to make impactful investments, notably those needed for the Agropoles, which represent sources of new business and employment opportunities.

### **6.5 Implementation, Monitoring and Evaluation**

The Programme's executing agency is the Permanent Secretariat for the Monitoring of Reform Policies and Financial Programmes (SP-PRPF) within the Ministry of Economy and Finance. The implementation of PAGPA will be monitored through semi-annual and annual implementation reports, prepared by the SP-PRPF on the basis of a joint review with the programme's participating structures as well as members of civil society, in particular the Coordination of Togolese farmer organizations and agricultural producers. The Togolese authorities will also transmit to the Bank the compliance report on the 2017 budget review law no later than 31 December 2018, drawn up by the Audit Court. The Bank will monitor the Programme in coordination with the group of TFPs acting through budgetary support. The Bank will undertake at least two programme supervision missions per year, and ensure that it interacts with all Programme stakeholders, including civil society.

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<sup>6</sup> CSP 2016-2020

## **6.6 Financial Management and Disbursement**

**6.6.1 *Disbursement:*** The resources of the proposed operation comprise as follows:

- An amount of UA 2.32 million (ADF) that will be disbursed in a single instalment in 2017, upon entry into force of the ADF Grant Agreement between the Republic of Togo and the African Development Fund and the fulfillment of the conditions precedent set out for the disbursement in section 7.2.3 below; and
- An amount of UA 7.21 million, from the Transitional States Facility (TSF), that will be disbursed in a single instalment in 2017, upon entry into force of the TSF Grant Agreement between the Republic of Togo, African Development Fund and African Development Bank and the fulfillment of the conditions precedent set out for the disbursement in section 7.2.3 below.

**6.6.2 *Financial Management and Audit:*** The assessment of the fiduciary framework of the public finance management system shows moderate fiduciary risks (see technical annex 1). In accordance with the fiduciary strategy for the CSP 2016-2020 period, PAGPA will be entirely managed within the national public finance management system. The effective payment of budget support resources into the State budget will be monitored through the Audit Court's General Compliance Report on fiscal 2017, which will be transmitted to the Bank and the National Assembly of Togo at the same time. In addition, the Audit Court will audit the financial flows of the Special Account opened in the name of the Treasury and intended for the deposit of the grant resources. This report must be sent to the Bank no later than 3 months after the disbursement.

**6.6.3 *Goods and Services Procurement:*** The grant will be in the form of general budget support. Accordingly, its implementation does not directly entail any goods and services procurement issues. It is clear from the fiduciary risk assessment that the legal and institutional framework for public procurement in Togo is overall operational, and that public procurement is conducted in accordance with the provisions of the Public Procurement Code. However, some shortcomings are noted, particularly, the regular absence of: (i) annual audit reports; (ii) post-auditing of contracts below the review threshold of the National Procurement Audit Department (DNCMP); and (iii) capacity constraints of the contracting authorities. The reform measures identified under the proposed PAGPA, and the political dialogue on the continued need to improve the procurement system, will help address these shortcomings. Furthermore, the revision of the public procurement code and its implementing instruments initiated since 2011 is being finalized, and should lead to the adoption before end- 2017 of a new legislative and regulatory framework.

## **VII. LEGAL FRAMEWORK**

### **7.1 Legal Instrument**

The Programme will be financed through two Grant Agreements between the African Development Fund (ADF) and the Togolese Republic, for the ADF grant and the African Development Fund, the African Development Bank and the Togolese Republic for the TSF grant.

### **7.2 Conditions related to the Bank's Intervention**

7.2.1 ***Conditions precedent to the entry into force of the Grant Agreement:*** The entry into force of the Grant Agreements is conditional upon signature (i) by African Development Fund and the Republic of Togo of the ADF grant, and (ii) by African Development Fund, African Development Bank and the Republic of Togo of the TSF grant.

7.2.2 ***Conditions Precedent to Board Presentation of the Programme:*** Presentation of the Programme to the Board of Directors of the Fund shall be subject to evidence, provided by the Republic of Togo, of the implementation of all preliminary measures agreed with the Fund as specified in Table 2 in para: 5.4.

7.2.3 ***Conditions Precedent to Disbursement:*** The disbursement of the resources of the grants is conditional upon realisation, by the Republic of Togo, to the satisfaction of ADF, of the following condition: Submit to the Bank the details of the Treasury bank account into which the resources of the grant will be deposited

### **7.3 Compliance with Bank Group Policies**

The proposed PAGPA is in line with the Bank Group policies and guidelines on reform support operations (2012).

## **VIII. RISK MANAGEMENT**

**Table 4 – Risks and Mitigation Measures**

Risks	Significance of risk	Mitigation Measures
Political instability related to demands for Presidential term limits	Substantial	The government is committed to revising the constitution to limit presidential terms to two mandates. Dialogue on this issue is ongoing with political parties.
Macroeconomic instability due to the country's economic vulnerability to exogenous shocks	Moderate	The Government is committed to strengthening the country's resilience by implementing a genuine policy of structural transformation of the economy and pursuing the reforms agreed with the IMF and other partners.
Fiduciary risks due to weaknesses in the public finance management system	Moderate	The effective implementation of the PA-GFP and the measures provided for under PAGPA I will contribute towards consolidating the gains and accelerating the improvement of the integrity of the public finance management system.
Weak human capacities to implement the reforms identified in general, and those linked to the development of Agropoles, in particular	Moderate	High-level technical assistance to the Government on the design and deployment of the Agropoles will be established and financed by the Bank's project preparation fund. Other institutional and technical assistance funded by the Bank and other technical and financial partners is aimed at enhancing public administration capacity both at central and decentralized levels.
Weakness of the budget support coordination mechanism	Moderate	The authorities have undertaken to strengthen the institutional arrangements for coordinating and monitoring budget support for make it more operational

## **IX. RECOMMENDATION**

In light of the foregoing, it is recommended that the Boards of Directors approve a TSF grant not exceeding UA 7.21 million and an ADF grant not exceeding UA 2.32 million for the Republic of Togo, to finance the governance and agribusiness promotion support programme (PAGPA) in accordance with the conditions set forth in this report.

## ANNEX I: Government's Policy Letter

MINISTRY OF THE ECONOMY  
REPUBLIC OF TOGO  
AND FINANCE

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PERMANENT SECRETARIAT FOR THE  
MONITORING OF REFORM POLICIES AND  
FINANCIAL PROGRAMMES



Work-Freedom-Fatherland

N° \_\_\_\_\_ /MEF/SP-PRPF

Lomé, \_\_\_\_\_

*The Minister of the Economy and Finance*

To

Mr Akinwumi ADESINA  
African Development Bank Group President  
Avenue Joseph Anoma  
01 BP 1387 Abidjan 01

Côte d'Ivoire

**Subject:** Letter of Development Policy.

Mr President,

This Letter of Development Policy (LDP) outlines the progress Togo has made in implementing its national development strategy and the prospects for 2017-2020. It describes the development objectives and policies the authorities have defined for the pursuit of their reform agenda to consolidate economic growth and reduce poverty. To achieve these goals, the Government continues to seek the technical and financial support of all the various partners, in particular the African Development Bank, through the Governance and Agribusiness Promotion Support Programme (PAGPA).

### I. Status of Implementation of the Accelerated Growth and Employment Promotion Strategy (SCAPE 2013-2017)

The Accelerated Growth and Employment Promotion Strategy is in its final year of implementation. At end-2016, the implementation by strategic thrust stands as follows:

1. For the thrust on the development of sectors with high growth potential, performance indicators show progress in the agricultural production sector, in the development of handicrafts and in services. On the other hand, the industrial development sector falls short of the objectives. The results recorded in the agricultural sector stem from the implementation of the PNISA projects. Thus, agricultural GDP grew by 7% relative to 2015. The rate of coverage of cereal product needs is on average 110% over the 2013-2016 period, and that of livestock products is estimated at 56% of national needs in 2016. In services, the balance of goods and services as a percentage of GDP indicates an improvement in the deficit from -21.1 in 2013 to -9 in 2016. With regard to industrial development, the harmonized production index rose from 121.9 in 2011 to 147.5 in 2013 and fell to 126.9 in 2014, 99.7 in 2015 and 97.3 in 2016.

2. There has been significant progress in the area of **human capital, social protection and employment**, particularly in the education, health and employment sectors. The primary school completion rate reached 94.8%; maternal and neonatal mortality recorded a downward trend and 8,143 permanent jobs and 11,478 temporary jobs were created. Social indicators have improved slightly in recent years but still rank Togo in the last quintile of the Human Development Index (HDI). The net enrolment ratio (NER) in primary education improved overall to 94.3% in 2015. The incidence of poverty fell from 61.7% in 2006 to 55.1% in 2015, and the extreme poverty rate has not witnessed any tangible improvement. The Gini index improved from 0.393 to 0.380 between 2011 and 2015 (SDG 10) despite progress over the last five years and spatial and gender inequalities persist. In rural areas, nearly 7 out of 10 Togolese are poor and the availability of curative services decreased from 41% in 2014 to 37.7% in 2015. The 2016 Human Development Index remains weak with a score of 0.487, ranking Togo 166<sup>th</sup> out of 188 countries.

3. Significant progress has been made in the area of **infrastructure strengthening**. In order for Togo to bridge its infrastructure deficit, the socio-economic infrastructure rehabilitation and construction policy was the most financed of the SCAPE focus areas. Roads with fairly good service levels reached 60%, compared with 16.7% in 2011; thus, the average time taken by a truck to ply the NL1 dropped from 72 hours in 2012 to 48 hours in 2016. Extension of the PAL, by the construction of the dock and third quay with a capacity of 14,000 TEU, helped to boost traffic especially regarding transhipment (70,808.537 or 55.8% of the traffic in 2016). Thanks to the extension and modernization of GNASSIMGBE Eyadema International Airport, airport activities have grown and traffic has increased from 694,335 to 758,784 passengers, representing a rise of 9.2% in 2016. The electrification rate rose from 28.3% in 2014 to 35.5% in 2016, and the fixed and mobile telephony penetration rate rose from 67.11% in 2011 to 77.6% in 2016.

4. With regard to the **promotion of participatory, balanced and sustainable development**, the evaluation of indicators at end 2016 shows progress. Thus, 25.67 billion worth of micro-credits were granted on guarantee funds to support grassroots communities in 2016, compared with 2 billion in 2013. As regards the number of development hubs created, the Government, through SCAPE, planned to promote wealth creation at local level based on the potential of each region. Public action aims to develop agricultural clusters, industrial clusters and service clusters. As regards the balanced emergence of development hubs, no cluster has yet been created.

5. Progress has also been made regarding the strengthening of **governance**. The CPIA indicator rose from 2.94 in 2011 to 3.55 in 2013, and stagnated at 3 as from 2014. The 2016 Mo Ibrahim report on the evaluation of global governance in Africa shows that Togo ranks 33<sup>rd</sup> out of 54 countries evaluated with a score of 48.5 out of 100. Notwithstanding the low overall ranking, Togo, with an average evolution of +9.7 points, was ranked the 2<sup>nd</sup> best governance reformer country during the 2006-2015 period; Transparency International's 2016 report ranks Togo 116<sup>th</sup> out of 176 with a Corruption Perception Index (CPI) of 32 compared to 29 in 2014 on a scale of 0 (high corruption) to 100 (very low corruption).

### **Socio-economic Context**

6. Despite a difficult external environment, economic growth was sustained over the 2013-2016 period with an average rate of 5.2% thanks to the sound performance of the agricultural sector and infrastructure investments. This trend is expected to continue in 2017 and 2018 due to the combined effects of fairly good rainfall and productivity gains from agricultural processing, and operation of the improved transport system. Inflation has also been

contained, falling from 1.8% in 2015 to 0.9% in 2016, and projected at 1.5% in 2017. However, due mainly to infrastructure investments in 2015 and 2016, total public debt increased considerably from 48.8% in 2010 to 80.8% of GDP by the end of 2016, above the Community norm of 70%. As a result of the increase in the above-mentioned infrastructure spending and the high cost of pre-financing commitments, the overall budget deficit (cash basis) widened to 9.6% of GDP in 2016 against 7.8% of GDP in 2015. The deficit, projected at 9.7% in 2017, is expected to improve to, and stagnate at, 3.6% in 2018, according to IMF estimates.

7. An analysis conducted in 2016 by the IMF and the World Bank shows that Togo presents a risk of over-indebtedness in respect of the overall debt stock. Togo's new programme (2017-2019) under the Extended Credit Facility (ECF) with the IMF aims essentially to create favourable conditions for a substantial reduction of Togo's public debt, from 80.8% of GDP in 2016 to 67.8% by 2020. In this regard, the Government has discontinued the practice of pre-financing and has committed to implementing measures to build the institutional public debt management capacity.

## **II. Prospects for 2017-2020**

8. As part of its National Development Programme (NDP), the Government is committed to vigorous action in growth-enhancing sectors, particularly the agricultural sector. It will pay particular attention to improving the governance and performance of social sectors in order to enable our country have a healthy and well-educated population fit for the labour market. The private sector's contribution will be further fostered by improvements in the business climate to enhance its competitiveness for it to become the real driver of strong and inclusive economic growth.

### **Governance and Agribusiness Promotion Support Programme (PAGPA)**

#### **Overall Objectives**

9. The main objective of the PAGPA is to help create conditions conducive to strong, sustainable and inclusive growth. The programme has two components: (i) support to strengthen the mobilisation of domestic resources and optimal management of public investment: this component aims to strengthen domestic mobilisation and streamlining of public investment management, in particular in the agricultural sector; (ii) support for the promotion of agropoles and the strengthening of local governance: this component aims at implementing reforms geared towards setting up effective mechanisms and a business environment conducive to the development of agropoles.

#### **Reforms Supported by the Programme and Expected Outcomes**

10. **Support for the promotion of agribusiness:** the main reforms focus on: (i) the adoption by the Council of Ministers of the National Agropoles Development Strategy; (ii) operationalisation of the Agency for the Promotion of Investment and Free Trade Zones; (iii) development and adoption of the national industrial policy; (iv) preparation and adoption of the national private sector development strategy; (v) adoption of instruments for the establishment of the national standardization and quality control office; (vi) adoption of the land code and a rural land registry; and (viii) adoption of the national gender policy monitoring and evaluation mechanism.

11. **Support for domestic resource mobilisation and optimal public investment management:** The main reforms aim at: (i) the adoption of the new National Customs Code; (ii) establishment and operationalisation of the tax policy unit and adoption of the draft simplified tax code; (iii) establishment of the tax registry in Lomé; (iv) adoption of the draft law on the devolvement of powers and resources to local and regional authorities; (v) adoption of the framework for monitoring the implementation of investment projects at the local level;

(vi) adaptation of SIGFIP to the technical requirements of programme budgets; and (vii) adoption of the decree on the devolution of financial control and powers, organisation and operation of financial control.

12. **The main expected outcomes of the PAGPA are:** (i) improvement of the agricultural trade balance deficit, (ii) strengthening of Togo's resilience to fragility factors related to spatial and gender inequalities; (iii) improvement of the agricultural sector's competitiveness; (iv) securing of land tenure for developed sites; (v) sustained revenue growth, (vi) improvement in the PIP implementation rate; (vii) improvement of local tax governance and (viii) building of the financial and technical capacity of local government bodies.

### **Other Structural Government Reforms during the 2017-2020 Period:**

#### ***Governance, Transparency and Structural Reforms***

13. The Government is committed to further improving public finance management as part of economic and financial governance. In this regard, evaluations (PEFA, PEMFAR, PIMA and DeMPA) were carried out in 2016 and made it possible to update the public finance management action plan. This new action plan covers the 2017-2021 period.

14. The Government is committed to continuing the fight against corruption and fraud as well as the establishment of a judicial and regulatory environment conducive to economic activity. To take into account WAEMU public financial management guidelines, and to attune control bodies to international standards, the instruments governing these bodies are being reviewed by a committee set up for this purpose. Similarly, the Government will continue to strengthen the national public procurement system; revision of the public procurement code to include the PPP management framework, among others, is ongoing and is expected to be finalized during the first quarter of 2018.

15. In addition, the 2017 budget is being implemented with rigour, transparency and efficiency, and regarding the domestic debt clearance process, the Government will no longer accumulate domestic and external arrears or resort to exceptional procedures in the execution of public expenditure. This budget, like the previous one, gives priority to expenditure targeting the social sectors, particularly education, health, and basic socio-economic development in rural and semi-urban areas. Revenue generation and expenditure implementation reflect the implementation of reforms undertaken by the Government. The 2017 budget is based on the Integrated Public Finance Management System (SIGFIP), taking into account the economic and administrative aspects. Arrangements have been made to adapt and implement SIGFIP in all its functionalities and extend it to all ministries, institutions and regions in order to improve coordination and ensure the effectiveness of the programme budget by January 2019. The 2018 draft budget will be adopted by the Council of Ministers and voted by the National Assembly within the constitutional deadline.

#### ***Business Climate Reforms***

16. In order to improve the business environment needed to promote the private sector, Government action will be directed towards: (i) further simplifying business creation procedures and formalities; (ii) further simplifying cross-border trade procedures and formalities; (iii) implementing the SME/SMI Charter; (vi) conducting the inventory and mapping of SMEs/SMIs; (iv) strengthening the private sector promotion and support system; (ix) building the skills of economic operators in SMEs/SMIs; (x) providing support to strengthen the Togolese Court of Arbitration to enable it to play its role of resolving conflicts or disputes between economic operators; (xi) strengthening dialogue and public-private partnership; and (xii) facilitating access to finance and diversifying financial supply and products (Guarantee Fund, leasing, FNFI, etc.).

### ***Agricultural Sector Reforms***

17. Various initiatives are being implemented by the Government to address the major challenges and consolidate the gains made towards achieving Sustainable Development Goal No. 2 (SDG) relating to the elimination of hunger and food security for all. These actions include the development of agricultural mechanization, restructuring of actors in the various sectors around buoyant value chains, definition of a quality label and the setting up of national safety nets.

18. In addition to these actions, and in anticipation of the emergence of agro-industrial enterprises, alongside micro processing enterprises, the Government has undertaken various initiatives to encourage private investors in the agricultural sector, in particular by effecting reforms in the energy, financial, social, and water and sanitation sectors.

### **The NDP Process**

19. The Accelerated Growth and Employment Promotion Strategy 2013-2017 is in its final year of implementation. The Government has engaged with all stakeholders in the process of developing the new national strategy (National Development Plan - NDP) for the period 2018 to 2022. Based on the priorities identified through a countrywide participatory process, NDP 2018-2022 will build on five pillars, namely: (i) the fight against poverty and for the improvement of social welfare; (ii) promotion of sustained and inclusive economic growth; (iii) strengthening of the potential of growth sectors; (iv) sustainable environmental management and reduction of spatial inequalities; and (v) consolidation of governance and peace. As part of implementation of this NDP, the Government undertakes to fully integrate the identified priorities into the budget, and domestically financed social expenditure, in particular for projects with a considerable impact on poverty reduction.

### **Programme Monitoring and Evaluation**

20. The Ministry of the Economy and Finance is responsible for the overall implementation of the reforms supported by the Agribusiness Governance and Promotion Programme (PAGPA). The daily monitoring and evaluation of the programme is the responsibility of the Permanent Secretariat for the Follow-up of Reform Policies and Financial Programmes (SP-PRPF). This structure, which coordinates the implementation of the Government programme, will periodically organise a joint programme review with all stakeholder structures as well as members of civil society, including the Togolese Coordination of Farmers' Organisations and Agricultural Producers. The Government will submit quarterly reports to the AfDB on programme implementation progress, measured against agreed timetables and performance indicators.

### **Request for Financing**

21. The growth prospects of the Togolese economy over the 2017-2018 period remain favourable, with real GDP growth rates projected to average 5.30%. For the year 2017, the macroeconomic framework projects a total revenue (excluding grants) of CFAF 567.5 billion against an expenditure of CFAF 968.1 billion (including arrears payments), or a financing requirement of CFAF 400.6 billion. The financing identified amounts to CFAF 323.3 billion, leaving a residual gap of CFAF 77.3 billion.

The required ADF contribution to cover the 2017 financing needs stands at about CFAF 7.6 billion (at the rate of UA1 = CFAF 799.76).

Please accept, Mr. President, the assurances of my highest consideration.

**Sani YAYA**

MINISTERE DE L'ECONOMIE  
ET DES FINANCES

SECRETARIAT PERMANENT POUR LE SUIVI  
DES POLITIQUES DE REFORMES ET DES  
PROGRAMMES FINANCIERS

N°212 8/MEF/SP-PRPF



REPUBLIQUE TOGOLAISE  
Travail-Liberté-Patrie

Lomé, le 25 SEPT 2017

*Le Ministre de l'Economie et des Finances*

à

Monsieur Akinwumi ADESINA  
Président du Groupe de la Banque Africaine de  
Développement  
Avenue Joseph Anoma  
01 BP 1387 Abidjan 01

Côte d'Ivoire

Objet : Lettre de Politique de Développement.

Monsieur le Président,

La présente Lettre de Politique de Développement (LPD) présente les avancées enregistrées par le Togo dans la mise en œuvre de sa stratégie nationale de développement et ainsi que les perspectives pour 2017-2020. Elle décrit les objectifs et les politiques de développement définis par les autorités pour la poursuite de leur programme de réformes qui vise à consolider la croissance économique et à réduire la pauvreté. Pour atteindre ces objectifs, le gouvernement continue de rechercher l'appui technique et financier de l'ensemble des différents partenaires techniques et financiers notamment celui de la Banque africaine de développement à travers le Programme d'Appui à la Gouvernance et à la Promotion de l'Agrobusiness (PAGPA).

**I. Etat de mise en œuvre de la stratégie de croissance accélérée et de promotion de l'emploi (SCPAE 2013-2017)**

La stratégie de croissance accélérée et de promotion de l'emploi est dans sa dernière année. A fin 2016, la mise en œuvre par axe stratégique se présente comme suit :

1. Pour l'axe de **développement des secteurs à fort potentiel de croissance**, les indicateurs de performances montrent des avancés dans le secteur de production agricole, du développement de l'artisanat et des services. Par contre, le secteur de développement industriel est en deçà des objectifs. Les résultats du secteur agricole sont dus à la mise en œuvre des projets du PNIASA. Ainsi, le PIB agricole a connu une croissance de 7% par rapport à 2015. Le taux de couverture des besoins des produits céréaliers se situe en moyenne à 110% sur la période 2013 – 2016 et celui des produits d'élevage est estimé à 56% des besoins nationaux en 2016. Dans le domaine des services, la balance des biens et services en % du PIB indique une amélioration du déficit qui passe de -21,1 en 2013 à -9 en 2016. S'agissant du développement industriel, l'indice harmonisé de production est passé de 121,9 en 2011 à 147,5 en 2013 pour chuter à 126,9 en 2014, à 99,7 en 2015 et à 97,3 en 2016.

2. Concernant l'axe relatif au **développement du capital humain, de la protection sociale et de l'emploi**, des progrès notables ont été enregistrés notamment dans le secteur de l'éducation, la santé et

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de l'emploi. En effet, le taux d'achèvement au primaire a atteint 94,8% ; les mortalités maternelles et néonatales ont enregistré une tendance à la baisse et 8.143 emplois durables et 11.478 emplois temporaires ont été créés. Les indicateurs sociaux se sont légèrement améliorés ces dernières années mais classent toujours le Togo dans le dernier quintile de l'Indice de développement humain (IDH). Le taux net de scolarisation (TNS) dans le primaire s'est globalement amélioré et a atteint 94,3 % en 2015. L'incidence de la pauvreté est passée de 61,7% en 2006 à 55,1% en 2015 et le taux de l'extrême pauvreté n'a pas connu d'amélioration tangible. L'indice de Gini s'est amélioré, passant de 0,393 à 0,380 entre 2011 et 2015 (ODD 10), en dépit des progrès des cinq dernières années et des inégalités spatiales et en genre persistent. En milieu rural près de 7 togolais sur 10 sont pauvres et le taux de disponibilité des services de soins curatifs a régressé de 41 % en 2014 à 37,7 % en 2015. L'Indice de développement humain 2016 demeure encore faible avec un score de 0,487 faisant occuper le Togo au 166<sup>ème</sup> rang sur 188 pays classés.

3. Au niveau de l'axe de **renforcement des infrastructures**, les progrès significatifs ont été enregistrés. En effet, pour rattraper le retard pris par le Togo en matière d'infrastructures, la politique de réhabilitation et de constructions des infrastructures socio-économique a été l'axe le plus financé de la SCAPE. Les routes revêtues avec un assez bon service ont atteint 60% contre 16,7% en 2011, ainsi la durée moyenne de passage d'un camion le long de la RNI est passée de 72 heures en 2012 à 48 heures en 2016. L'extension du PAL par la construction de la darse et du troisième quai avec une capacité de 14.000 TEU a permis l'accroissement du trafic surtout en transbordement (70808.537 soit 55,8% du trafic en 2016). Grace à l'extension et à la modernisation de l'aéroport international GNASSIMGBE Eyadema, les activités aéroportuaires ont augmenté, le trafic est passé de 694.335 à 758.784 passagers, soit une hausse de 9,2% en 2016. Le taux d'électrification est passé de 28,3% en 2014 à 35,5% en 2016 et le taux de pénétration de la téléphonie fixe et mobile est passé de 67,11% en 2011 à 77,6% en 2016.

4. En matière de **promotion d'un développement participatif, équilibré et durable**, l'évaluation des indicateurs à fin 2016 révèle des progrès. Ainsi, 25,67 milliards de micro-crédits ont été octroyés sur fonds de garantie et pour accompagner les communautés à la base en 2016 contre 2 milliards en 2013. S'agissant du nombre de pôles de développement créés, le gouvernement a envisagé, à travers la SCAPE, d'impulser la création de richesses au niveau local à partir des potentialités de chaque région. L'action publique vise à développer les pôles agricoles, les pôles industriels et les pôles de services. Pour ce qui est de l'émergence équilibrée des pôles de développement, aucun pôle n'a encore été créé.

5. Pour le renforcement de la **gouvernance**, des progrès sont également enregistrés. L'indicateur CPIA est passé de 2,94 en 2011 à 3,55 en 2013 pour stagner à 3 à partir de 2014. Il ressort du rapport 2016 Mo Ibrahim sur l'évaluation de la gouvernance globale en Afrique que le Togo occupe la 33<sup>ème</sup> place sur 54 pays évalués avec une note de 48,5 sur 100. Nonobstant la faiblesse du classement général, le Togo avec une évolution moyenne de +9,7 points, est classé 2<sup>ème</sup> meilleur pays réformateur de la gouvernance sur la période 2006-2015, le rapport 2016 de Transparency International classe le Togo au 116<sup>ème</sup> sur 176 avec un Indice de perception de la corruption (IPC) de 32 contre 29 en 2014 sur une échelle de 0 (corruption élevée) à 100 (corruption très faible).

#### **Contexte socioéconomique**

6. En dépit d'un environnement externe difficile, la croissance économique a été soutenue sur la période 2013-2016 avec un taux moyen de 5,2% en raison des bonnes performances des secteurs agricoles et des investissements en infrastructures. Cette tendance devrait être maintenue en 2017 et en

2018 du fait des effets combinés d'une pluviométrie assez bonne et des gains de productivité induits par la transformation du secteur agricole et l'exploitation du réseau de transport amélioré. L'inflation est également contenue et passe de 1,8% en 2015 à 0,9% en 2016 puis projetée à 1,5% en 2017. Cependant, du fait principalement des investissements en infrastructures réalisés en 2015 et 2016, la dette publique totale s'est considérablement accrue, passant de 48,8% en 2010 à 80,8% du PIB à fin 2016, au-dessus de la norme communautaire de 70%. Sous l'effet de l'augmentation des dépenses d'infrastructures susmentionnées et du coût élevé des engagements liés à la pratique des préfinancements, le déficit budgétaire global (base caisse) s'est creusé pour atteindre 9,6% du PIB en 2016 contre 7,8% du PIB en 2015. Ce déficit projeté à 9,7% en 2017 devrait s'améliorer pour se fixer à 3,6% en 2018 selon les estimations du FMI.

7. Une analyse conduite en 2016 par le FMI et la BM montre que le Togo présente un risque de surendettement pour la dette globale. Le nouveau programme (2017-2019) du Togo au titre de la Facilité élargie de crédit (FEC) avec le FMI vise essentiellement à créer les conditions favorables à une réduction substantielle du niveau de la dette publique du Togo, de 80,8% du PIB en 2016 à 67,8% à l'horizon 2020. A ce titre, le Gouvernement a mis fin à la pratique des préfinancements et s'est engagé à mettre en œuvre des mesures de renforcement des capacités institutionnelles de gestion de la dette publique.

## **II. Les perspectives 2017-2020**

8. Dans le cadre de son programme national de développement (PND), le gouvernement s'engage à mener des actions vigoureuses dans les secteurs porteurs de croissance en particulier le secteur agricole. Il accordera une attention particulière à l'amélioration de la gouvernance et de la performance des secteurs sociaux afin de permettre à notre pays de disposer d'une population en bonne santé et bien formée en adéquation avec le marché du travail. La contribution du secteur privé sera stimulée encore davantage par des améliorations du climat des affaires afin d'accroître sa compétitivité pour lui permettre de devenir le véritable moteur d'une croissance économique forte et inclusive.

### **Programme d'appui à la gouvernance et à la promotion de l'agrobusiness (PAGPA)**

#### **Objectifs généraux**

9. L'objectif principal du PAGPA est de contribuer à la création des conditions favorables à une croissance forte, soutenable et inclusive. Le programme est structuré autour de deux composantes : (i) appui au renforcement de la mobilisation des ressources internes et à la gestion optimale des investissements publics : cette composante vise à renforcer la mobilisation interne et à la rationalisation de la gestion des investissements publics, notamment dans le secteur agricole ; (ii) appui à la promotion des agropoles et au renforcement de la gouvernance locale : cette composante vise la mise en œuvre des réformes destinées à mettre en place des mécanismes efficaces et un environnement des affaires propices au développement des agropoles.

#### **Reformes soutenus par le programme et les résultats attendus**

10. **Appui à la promotion de l'agrobusiness** : les principales réformes concernent : (i) l'adoption par le Conseil des ministres de la Stratégie nationale pour le développement des agropoles; (ii) l'opérationnalisation de l'Agence pour la promotion des investissements et des zones franches ; (iii) l'élaboration et l'adoption de la politique nationale industrielle ; (iv) l'élaboration et l'adoption de la

stratégie nationale de développement du secteur privé ;, (v) l'adoption des textes visant la création du bureau national de la normalisation et du contrôle de la qualité ; (vi) l'adoption du code foncier et d'un cadastre rural ; (viii) l'adoption du dispositif de suivi évaluation de la politique nationale du genre.

**11. Appui à la mobilisation des ressources internes et à la gestion optimale des investissements publics** : les principales réformes visent : (i) l'adoption du nouveau code national des douanes ; (ii) la création et l'opérationnalisation de l'unité de politique fiscale et l'adoption du projet de code simplifié des impôts, (iii) la mise en place du cadastre fiscal à Lomé ; (iv) l'adoption du projet de loi portant transfert des compétences et des ressources aux collectivités territoriales ; (v) l'adoption du cadre de suivi de l'exécution des projets d'investissement au niveau local ; (vi) l'adaptation du SIGFIP aux exigences techniques des budgets programme et (vii) l'adoption du décret portant déconcentration du contrôle financier et attributions, organisation, fonctionnement du contrôle financier.

**12. Les principaux résultats attendus du PAGPA sont** : (i) l'amélioration du déficit de la balance commerciale agricole, (ii) le renforcement de la résilience du Togo aux facteurs de fragilité liés aux inégalités spatiales et de genre ; (iii) l'amélioration de la compétitivité du secteur agricole; (iv) la sécurisation foncière des sites aménagés ; (v) une augmentation soutenue des recettes, (vi) l'amélioration du taux d'exécution du PIP; (vii) l'amélioration de la gouvernance fiscale locale et (viii) le renforcement des capacités financières et techniques des collectivités territoriales.

**Les autres réformes structurelles du gouvernement au cours de la période 2017-2020 :**

#### *Gouvernance, transparence et réformes structurelles*

**13.** Le Gouvernement est déterminé à poursuivre l'amélioration de la gestion des finances publiques dans le cadre de la gouvernance économique et financière. A cet effet, des évaluation (PEFA, PEMFAR, PIMA et DeMPA) ont été réalisées en 2016 et permis d'actualiser le plan d'action de la gestion des finances publiques. Ce nouveau plan d'action couvre la période 2017-2021.

**14.** Le Gouvernement s'engage à poursuivre la lutte contre la corruption et la fraude ainsi que l'établissement d'un environnement judiciaire et réglementaire propice à l'activité économique. Pour prendre en compte les directives de l'UEMOA relatives à la gestion des finances publiques et mettre les corps de contrôle aux standards internationaux, les textes régissant ces différents corps sont en cours de relecture par un comité mis en place à cet effet. De même le Gouvernement poursuivra le renforcement du système national de passation des marchés publics, la révision du code des marchés publics pour prendre en compte entre autres le cadre de gestion des PPP est en cours et devrait être finalisée au cours du premier trimestre 2018.

**15.** Par ailleurs, le budget 2017 est en cours d'exécution avec rigueur, transparence et efficacité et le Gouvernement dans le processus d'apurement de la dette intérieure, ne va plus accumuler d'arriérés intérieurs et extérieurs ni recourir aux procédures exceptionnelles d'exécution des dépenses publiques. Ce budget, comme le précédent, donne la priorité aux dépenses qui vont être orientées vers les secteurs sociaux notamment l'éducation, la santé, le développement socioéconomique de base en milieu rural et semi-urbain. La réalisation des recettes et l'exécution des dépenses reflètent la mise en œuvre des réformes engagées par le Gouvernement. Le budget 2017 s'exécute à partir du Système Intégré de Gestion de Finances Publiques (SIGFIP) prenant en compte les volets économique et administratif. Des mesures ont été prises pour adapter et mettre en œuvre le SIGFIP dans toutes ses fonctionnalités et son extension à tous les ministères, institutions et régions, afin d'améliorer la coordination et assurer

l'effectivité du budget programme en janvier 2019. Le projet de budget 2018 sera adopté en Conseil des Ministres et voté par l'Assemblée Nationale dans les délais constitutionnels.

#### ***Réformes au niveau de l'environnement des affaires***

16. Pour améliorer l'environnement des affaires nécessaire à la promotion du secteur privé, l'action du gouvernement sera orientée vers : (i) la poursuite de la simplification des procédures et formalités de création d'entreprises ; (ii) la poursuite de la simplification des procédures et de formalités du commerce transfrontalier ; (iii) la mise en œuvre de la charte des PME/PMI ; (vi) la mise en œuvre du répertoire et la cartographie des PME/PMI ; (iv) le renforcement du dispositif de promotion et d'appui au secteur privé ; (ix) le renforcement des compétences des opérateurs économiques des PME/PMI ; (x) l'appui au renforcement de la Cour arbitrale du Togo pour lui permettre de jouer son rôle de règlement des conflits ou litiges entre opérateurs économiques ; (xi) le renforcement du dialogue et du partenariat public-privé ; et (xii) la facilitation de l'accès au financement et la diversification de l'offre et de produits financiers (Fonds de garantie, crédit-bail, FNFI, etc.).

#### ***Réformes dans le secteur agricole***

17. En vue de faire face aux défis majeurs et ainsi consolider les acquis pour l'atteinte de l'objectif N°2 de développement durable (ODD) relatif à l'élimination de la faim et à la sécurité alimentaire pour tous, diverses initiatives sont en cours de mises en œuvre par le gouvernement. Au nombre de ces actions, on relève entre autres le développement de la mécanisation agricole, la restructuration des acteurs des différentes filières autour des chaînes de valeurs porteuses, la définition d'un label qualité et la mise en place des filets nationaux de sécurité sociale.

18. Outre ces actions, et en se projetant déjà dans l'ambition de voir émerger des entreprises agro-industrielles, aux côtés des micro-entreprises de transformation, le gouvernement a entrepris diverses initiatives pour favoriser l'installation d'investisseurs ou groupes d'investisseurs privés dans le secteur agricole notamment en menant des réformes dans le secteur énergétique, financier, social, eau et assainissement.

#### **Le processus PND**

19. La Stratégie de croissance accélérée et de promotion de l'emploi 2013-2017 est dans sa dernière année. Le gouvernement a engagé avec toutes les parties prenantes le processus d'élaboration de la nouvelle stratégie nationale (plan national de développement – PND) pour la période allant de 2018 à 2022. Sur la base des priorités identifiées à la suite d'un processus participatifs à l'échelle nationale ; le PND 2018-2022 s'articulera autour de cinq piliers, à savoir : i) la lutte contre la pauvreté et pour l'amélioration du bien-être social ; ii) la promotion d'une croissance économique soutenue et inclusive ; iii) le renforcement du potentiel des secteurs porteurs de croissance ; (iv) la gestion durable de l'environnement et la réduction des inégalités spatiales ; (v) la consolidation de la gouvernance et de la paix. Dans le cadre de la mise en œuvre de ce PND, le Gouvernement s'engage à intégrer pleinement dans le budget les priorités identifiées et à établir un niveau planché pour les dépenses sociales financées sur ressources intérieures, en particulier pour les projets ayant un impact considérable sur la réduction de la pauvreté.

### **Suivi et évaluation du programme**

20. Le Ministère de l'Economie et des Finances est chargé de la mise en œuvre générale du programme soutenu par le Programme d'Appui à la Gouvernance et à la Promotion de l'Agrobusiness (PAGPA). Le suivi quotidien et l'évaluation du programme sont de la responsabilité du Secrétariat Permanent pour le suivi des Politiques de Réformes et des Programmes Financiers (SP-PRPF). Cette structure qui coordonne la mise en œuvre du programme du Gouvernement organisera périodiquement la revue conjointe du programme avec l'ensemble des structures partie prenantes ainsi que les membres de la société civile, notamment, la Coordination togolaise des organisations paysannes et de producteurs agricoles. Le Gouvernement fournira des rapports trimestriels à la BAD sur les progrès dans la réalisation du programme, mesurés par rapport aux calendriers et aux indicateurs de performance convenus.

### **Requête de financement**

21. Les perspectives de croissance de l'économie togolaise sur la période 2017-2018 restent favorables avec des taux réels de croissance du PIB projeté en moyenne à 5,30%. Pour l'année 2017, le cadrage macroéconomique projette un niveau des recettes totales (hors dons) de 567,5 milliards de F CFA contre des dépenses de 968,1 milliards FCFA (y compris paiements des arriérés) soit, un besoin de financement de 400,6 milliards de FCFA. Les financements identifiés se chiffrent à 323,3 milliards FCFA, soit un écart résiduel de 77,3 milliards de FCFA.

L'apport du FAD à la couverture des besoins de financement 2017 s'élève à environ 7,6 milliards de F CFA (au taux de 1UC= 799,76 FCFA).

Veuillez agréer, Monsieur le Président, l'assurance de ma considération distinguée.



## ANNEX II : REFORM MEASURES MATRIX

Objectives	Measures 2017	Measures 2018	Output Indicators	Outcome indicators	IR/SD
<b>A) Support for improved private investment environment and agribusiness promotion</b>					
<b>A.1) Improvement of the private investments environment</b>	Adoption by Council of Ministers of the Land Code		Land code and rural registry adopted by Council of Ministers in 2017	The ownership transfer timeframe is at most 90 days in 2018 (decreases from 283 in 2016)  Number of taxes decreases from 49 in 2016 to at most 39 in 2018.	DB-WB Report  Ministries of Industry  Ministry in charge of Private Sector Development  Ministry of Agriculture  INS/MEF/
	Review and adoption of the Investment Code		New Investment Code adopted in 2018 by the Council of Ministers		
		Investment and Free Zones Promotion Agency operationalized	Appointment of the Director and setting up of the team of the Investment and Free Zone Promotion Agency, which goes operational in 2018		
	Adoption of the revised simplified Tax Code		New Simplified Tax Code available in 2017		
	Private Sector Development Strategy adopted		National Private Sector Development Strategy		
	Creation of the Business Climate Unit		Decree adopted by the Council of Ministers in 2017		Ministry of Agriculture
<b>A.2) Strengthening of the legal and institutional framework of</b>	Adoption by Council of Ministers of the National Strategy for the Development of the Agropoles		National Strategy for Agropole Development is available 2017		

Objectives	Measures 2017	Measures 2018	Output Indicators	Outcome indicators	IR/SD
agribusiness development		Operationalization of the National Agropoles Development Strategy	At least 80 km of rural roads built in 2017 and 35 km in 2018 in the area of the Kara Agropole At least 500 ha in 2017 and 300 ha in 2018 of agricultural land in the area of the Kara Agropole, of which at least 30% for women's and/or mostly women's organizations		Ministry in charge of gender
	Adoption by Council of Ministers of the National Agro-Industry Policy		National industrialization policy adopted in 2018		
		Operationalization of the High Authority for Quality and Technical Quality Structures	The Director General is appointed and his team set up		
<b>B) Support for internal resource mobilization and optimum management of public investments</b>					
B.1) Improved revenue mobilization	Adoption of the new National Customs Code by the Council of Ministers		Code adopted in 2017	Improvement of the tax pressure from 17.9% in 2016 to 18,3% in 2017 and 19,1% in 2018	OTR SP-PRPF
	Establishment of the fiscal policy unit by the MEF.		Establishment in 2017		
	Establishment of the Lomé tax registry.		The decree establishing the tax registry for the Lomé region is adopted in 2017	Improved investment management: PI.11 moves from D in 2016 to C in 2018	Directorate of Budget
	Establishment of the Financial Regime of Local and Regional Authorities		Draft decree adopted in 2017		MEF
	Adoption of the bill on the transfer of authority and resources to local and regional authorities by the Council of Ministers.		Bill adopted in 2017	100% of projects registered for 2018 are validated by the selection committee in accordance with the procedures manual	Ministry of Planning

Objectives	Measures 2017	Measures 2018	Output Indicators	Outcome indicators	IR/SD
	Adoption of the Bill on parity by Council of Ministers.  Study on gender mainstreaming in tax policy.		Bill on gender equality adopted by the Council of Ministers  Study on gender mainstreaming in tax policy validated	100% of the PIP 2017 investment projects supervised at least once in 2018	DADC
		Adoption by the Council of Ministers of the National Gender Strategy incorporating the recommendations of the study  Study on the gender mainstreaming in tax policy	National gender strategy available in 2018		
<b>B.2) Enhanced Investments Management</b>	Production of a manual of procedures for planning, selection and programming of public investments		The validated manual is available in 2017 and the PIP revised		
	Adoption of the ministerial order on the framework for regional monitoring of investment project execution		The committee is set up in 2017		
		Finalization of the adaptation of the SIGFIP to the technical requirements of the programme budget implementation (2019 Budget Policy Debate in line with programme budget format)	Holding of the BPD in 2018 in the National Assembly according to programme budget format		MEF  SP-PRPF

Objectives	Measures 2017	Measures 2018	Output Indicators	Outcome indicators	IR/SD
Adoption by the Council of Ministers of the decree on the deconcentration of financial control and powers, organization and functioning of financial control	Adoption by the Council of Ministers of the decree on the deconcentration of financial control and powers, organization and functioning of financial control		Decree adopted in 2017		
	Implementation of deconcentration		The Controllers of the 5 regions and the Ministry of agriculture) are appointed and installed in 2018		
	Creation of Agency for government participation		Decree adopted in 2017 ; unit to be operational in 2018.		

### ANNEX III: PROGRAMME MATRIX REFLECTING TOGO FRAGILITY FACTORS

Fragility factors identified at fragility assessment	Situation, challenges and resilience measures supported by general State Policy with the backing of technical and financial partners (TFPs)	Measures supported by AfDB intervention under PAGPA (2017-2018)
Political, institutional and security factors	<p><b>1. Legitimate policies and political governance (legitimacy, inclusiveness, strengthening of statehood and trust in State institutions)</b></p> <p><b><u>Legitimacy:</u></b> Togo has achieved significant progress which definitely sets it on the path to lasting resilience. Such achievements include enhanced security and stability, economic recovery with average growth rates of 5% over a ten-year period, implementation of major institutional and economic reforms, stability, consolidated social cohesion and strengthening of regional cooperation. TFPs continue to commend the Togolese government for its efforts to rebuild infrastructure and boost the country's economy following the resumption of cooperation in 2006. These improvements notwithstanding, the reconstruction process in the aftermath of the political/democratic crisis is far from over. The North-South ethnic and regional divide continues to undermine political stability and underpin deep-seated discord among Togo's political protagonists. Slowness in the democratic transition and weak institutions constitute the major challenges to political governance in Togo. This has heightened mutual distrust between the dominant coalitions and weakened ownership of sustainable, courteous, inclusive and constructive mechanisms for socio-political dialogue within the political class and among the elite.</p>	PAGPA proposes a series of reforms designed to improve economic governance and transparency of government actions. The implementation of these reforms should help to systematically address institutional credibility and trust issues and thus mitigate some noted pockets of political governance weaknesses.

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	<p><b>Governance:</b> Togo has undertaken a series of actions to improve its situation. Through this process coordinated by the Permanent Secretariat for Reforms, several instruments have been prepared, including a public procurement code, those on the operationalization of the Audit Court and the Finance General Inspectorate, and the establishment of a single window at the Treasury, as well as the reports on the budget review law. The Togolese administration's capacities remain weak both at the central and local levels in terms of contracts management and award, as well as regarding the preparation, implementation and monitoring and evaluation of development programmes and projects, and the internalization of accountability principles.</p>	<p>The reforms proposed under PAGPA seek enhanced political, economic and financial governance. Greater fiscal credibility, empowerment of audit and anti-corruption agencies, and enhanced local government capacity are expected when the programme ends.</p>
	<p><b>Transparency:</b> Despite remarkable progress, perceptions of corruption remain high according to Transparency International's Corruption Perception Index (116<sup>th</sup> among 176 countries in 2016 against 107<sup>th</sup> among 168 countries in 2015) and Togo's corruption perception rating puts it below the global average (30 against 43) of the most corrupt countries out of 168. Public-private partnerships (PPPs) are plagued by the non-existence of a formal consultative framework and are often misused to award contracts by direct negotiation. Other challenges include non-transparency in natural resources management and allocation. The lack of transparency and good governance in public procurement contract awards and unlawful use of private permits in large-scale land allocations for mining purposes are symptomatic of major unresolved resource governance issues and weaknesses. To remedy this situation, the government deemed fit to set up an institution with the necessary resources to combat corruption, hence an independent administrative institution, HATPLC, was established on 28 July 2015. Its members were appointed on 3 January 2017 and were officially sworn in on 7 February 2017. This body is tasked with promoting and strengthening corruption prevention as well as combating corruption and related offences in the administration, public institutions, private enterprises and non-governmental organizations. It enjoys administrative and financial</p>	

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	<i>autonomy. It shall also protect whoever reports to the competent authorities, in good faith, all facts relating to established offences. Not being a State crackdown apparatus or court of law, it must forward substantiated complaints to the public prosecutor.</i>	
	<p><b>2. Security and violence issues, security sector capacity and performance</b></p> <p><b><u>Security:</u></b> Despite the largely stable security situation in Togo, potentially destabilizing incidents continue to occur sporadically, thus justifying a sustained social sector reform effort to address the diverse and now recurrent demands for better living conditions in the education and health sectors. Overall, security problems manifest through violent attacks on individuals and property as well as the criminalization of the economy, including the informal or even illicit exploitation of natural resources.</p>	While PAGPA does not directly contribute to the security issue, it however provides solutions that mitigate the risks likely to undermine the security situation.
	<p><b>3. Justice sector (inclusive access to justice, rule of law and independence of the judiciary, checks and balances)</b></p> <p><b><u>A weakened judicial system:</u></b> The successive crises arising from the democratic transition and the sanctions imposed for over a decade by Togo's leading technical and financial partners very negatively impacted the judicial system. Rendered dysfunctional by the various fragility factors, it has been exploited for political gain by the entire political class and is undermined by a lack of independence, corruption, and inadequate technical and material resources. Thus, in the aftermath of the crises, deep distrust remains between litigants and the justice system. Aware of this situation, regional leaders in each member country have embarked on justice sector reform. To date, significant progress has been achieved, albeit modest compared to the people's expectations. In the light of this, Togo was called upon and pledged to accelerate the justice system modernization process, the adoption of the Penal Code and the Criminal Procedure Code, and the reform of the National Commission on Human Rights (CNDH).</p>	PAGPA while not directly contributing to the justice system, addresses the issue of inclusion, which is a source of social injustice by mainstreaming the vulnerable groups, notably women and youth, in the reforms to be carried out.
Economic and financial factors	<p><b>4. Strengthening the economic base and community resilience (equitable access to infrastructure and natural resource benefits)</b></p>	

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	<p>Togo has recorded encouraging macro-economic performances which have enabled its return to growth. However, it remains fragile and particularly sensitive to exogenous shocks and climatic hazards due to the structure of its economic fabric which in recent years has scarcely changed. Growth remains structurally constrained by low overall productivity and high production factor costs. Similarly, although labour force quality has improved thanks to better education, physical capital accumulation has stagnated since the 1990s, contributing to a steady decline in total factor productivity since 1980. Togo must explore ways of turning its geographical position into an asset. The modernized port and airport as well as the presence of the ASKY airline hub constitute impactful infrastructures through which it can regain its past position.</p>	<p>Various reforms proposed under PAGPA will contribute towards creating an environment conducive to Togo's economic diversification in order to cushion the effects of exogenous shocks, through the Agropoles to be set up and professionalization of agriculture.</p>
<p>Social factors: poverty and inequality</p>	<p><b>5. Increased mobilization of resources to develop opportunities relating to employment, income and inclusive access to basic social services, focusing on the crucial role of the State, improved financial governance and an appropriate refocusing of the functions of the State</b></p> <p><b>Inequalities:</b> Progress in human development varies across regions and prefectures and will fall short of the goals of Agenda 2030 for sustainable development. The education and health systems as well as the living standards of the Togolese people while slowly improving, face multiple setbacks, namely inequalities, which diminish the impact of growth on poverty reduction; the lack of genuine structural transformation, which limits economic opportunities; and stagnation in gender equality, which reflects on skills and business development. Beyond this, there are enormous challenges delivering human development to an ever-growing, youthful and mobile employment-seeking population which the government must factor into the huge reform task it has embarked upon with the resumption of cooperation with various donors.</p>	<p>The range of PAGPA-supported reforms is aimed at preparing an environment conducive to the operationalization of Agropoles as a key element of the structural transformation of a rural social fabric that is affected more by inequalities.</p>
	<p><b>Revenue sources:</b> The economy's dependence on the phosphate sector as well as port and airport traffic is a fragility source. The largest share of GDP is generated by two prominent sectors: the port of Lomé and the exploitation of a huge phosphate deposit, which accounts for more than 40% of export earnings. The country is the world's fifth largest phosphate producer. Many studies have revealed that "countries whose</p>	<p>The indicators proposed under PAGPA include sustained revenue mobilization and</p>

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	<p><i>economies depend on the export of a limited number of commodities are more prone to political fragility" and conflict. To avert this, the authorities plan to invest heavily in the structural transformation of the under-productive agricultural sector by developing Agropoles and thus consolidating the agricultural sector's GDP share and progressively curbing food import expenditure</i></p> <p><b><u>Regulatory framework (State's role in services provision):</u></b> Togo has the advantage of having renovated its road networks connecting it to neighboring countries, and developed good quality urban roads in the capital city even if these have deteriorated due to the political/democracy crisis. The constraints on infrastructure development by the State to improve the quality of its services vary across activity sectors. Although progress is recorded in the international transport sector despite significant lingering regional disparities, the public utility sectors (water, waste, electricity and transport) are struggling to take off due to the lack of quick and efficient action, and also delayed financing. The unbalanced distribution of public utilities between regions and population strata is another fragility factor likely in the long term to heighten sociopolitical tensions if remedial measures are not taken to stamp out any social divide.</p>	<p><i>rationalized management of public investments required to boost local resources.</i></p> <p>The noted urban-rural service availability imbalance will be significantly mitigated by operationalizing the Agropoles for which the PAGPA proposes a number of reforms designed to facilitate the establishment of Agropoles, which will be comprehensively serviced agribusiness centres of excellence, conducive to the socioeconomic integration of communities.</p>

## **ANNEX IV: Note on the relationship with IMF**

IMF Staff Team Completes Review Mission to Togo

October 31, 2017

End-of-Mission press releases include statements of IMF staff teams that convey preliminary findings after a visit to a country. The views expressed in this statement are those of the IMF staff and do not necessarily represent the views of the IMF's Executive Board. Based on the preliminary findings of this mission, staff will prepare a report that, subject to management approval, will be presented to the IMF's Executive Board for discussion and decision.

- Economic activity expanded at a moderate pace in the first half of 2017, accompanied by a low inflation.
- Performance under the ECF-supported program has been good, with all quantitative performance criteria met and structural reforms continuing to be gradually implemented.
- Lingering tensions could take a toll on the macroeconomic situation.

An International Monetary Fund (IMF) team led by Ivohasina Razafimahefa visited Lomé during October 23-30, 2017 to conduct discussions on the first review of the program supported by an Extended Credit Facility (ECF) which was approved in May this year.

At the conclusion of this visit, Mr. Razafimahefa issued the following statement:

“Economic activity expanded at a moderate pace in the first half of 2017, accompanied by a low inflation. End-year economic growth is expected to be slightly below 5 percent. Headline year-on-year inflation rate through July was -2.5 percent, driven primarily by lower food prices; the core inflation rate, excluding food prices, was 0.6 percent. Fiscal consolidation has begun with the aim of reducing debt to a safer level. Expenditure has been curtailed significantly. The primary fiscal balance registered a surplus of 1.4 percent of GDP during January-June 2017.

“Despite broadly positive medium-term outlook, supported by the expected boost in productivity from recent infrastructure upgrading and external concessional financing, Togo’s economy faces risks. In particular, lingering tensions could affect consumer and investor sentiment and, thus, take a toll on macroeconomic performance.

“The authorities are making strong efforts to align the draft 2018 budget with the authorities’ economic reform agenda supported under the ECF arrangement. The authorities target further fiscal consolidation with a projected domestic primary fiscal deficit of 0.2 percent of GDP. This consolidation will be achieved through both an increase of revenue and a reduction of domestically financed investment. The mission encouraged the authorities to pursue their consolidation efforts to bring debt below the threshold of heightened risk of public sector debt. These efforts will help create fiscal space for additional social spending which are critical for poverty reduction. The mission also reiterated the need to further improve the business climate and encourage private investments.

“The mission reached staff level agreement with the authorities on economic and financial policies that could support approval of the first review of their three-year program under the ECF. The country’s economic program has remained broadly on track, with all quantitative performance criteria under the program met and structural reforms continuing to be gradually implemented. In particular, the non-orthodox financing of public investment—which had led to a rapid debt accumulation in recent years—was halted. The first review under the ECF is tentatively scheduled to be considered by the IMF Executive Board in December 2017.

“The mission met with President Faure Gnassingbé, and held discussions with Minister Sani Yaya (Minister of Economy and Finance), Kossi Assimaidou (Minister of

Development Planning), Kossi Ténou (National Director of the regional central bank BCEAO), other senior government officials, as well as representatives of the private sector and development partners. The IMF team wishes to express its gratitude to the authorities for their hospitality and all interlocutors for the collaborative discussions.”

IMF Communications Department