

strengthened public finances and macroeconomic stability. Countercyclical fiscal policy in 2010 has helped support a modest economic recovery.

“The 2011 budget appropriately emphasizes increasing public investment to support medium-term growth and poverty reduction, to be financed largely by raising domestic revenue. The authorities are committed to limiting growth in current spending and to curtailing lower priority spending in case of shortfalls in revenue or available concessional financing. Continued strong budget execution, including in priority social spending, will be key.

“Enhancing growth prospects will also depend on sustaining the momentum of reforms, particularly in public finance, debt management, and the investment climate. The clearance of domestic arrears is expected to be completed. Implementation of the recently adopted automatic pricing mechanism for petroleum products will minimize distortions, cushion the social impact of price shocks, and safeguard public finances. It will be important to proceed with the privatization process for state-owned banks.

“Togo has taken the steps necessary to reach completion point under the enhanced HIPC Initiative. To reap lasting benefits from the considerable debt relief, judicious use of opportunities is important. The authorities will need to increase investment in physical and human capital and pursue growth-enhancing structural reforms while maintaining prudent fiscal and debt policies. Continued support from donors will be crucial,” Mr. Portugal added.

**Statement by Kossi Assimaidou, Executive Director for Togo
December 10, 2010**

On behalf of my Togolese authorities, I thank Management and the Executive Board for their continued support to Togo's ongoing economic and structural reform efforts. This support has been instrumental to the important achievements made by the Togolese authorities since 2006, culminating in the meeting of the HIPC completion point requirements. I also thank staff for their dedicated and relentless efforts in providing my authorities with pertinent advice and technical assistance throughout these years.

The profound political and economic reforms on which Togo has embarked since 2006 have helped the country reengage with the international community and lay the ground for stronger economic growth and poverty reduction. Strong policy and reform implementation, including under the current ECF-supported program which was approved in April 2008, contributed to reaching the decision point in November 2008.

My authorities have made significant progress in establishing and preserving macroeconomic stability and launching structural measures. The latter include reforms in the areas of public financial management; fiscal governance (clearance of domestic arrears, move towards a single treasury account, and simplification of the expenditure chain); financial, energy and phosphate sector restructuring; and improvements in the operations of the *Port Autonome de Lomé* (PAL). These achievements, which have led to satisfactory and timely completion of the first four reviews under the ECF, including the third review on a lapse-of-time basis, have been made in a very challenging environment, characterized by a series of exogenous shocks. These shocks include notably the food crisis; the oil price hikes; energy supply shocks; catastrophic floods in 2008 which destroyed roads and bridges and put a halt to the traffic of goods between the PAL and the hinterland countries; and, last but not least, the global economic crisis, which has led to persistently weak global economic conditions. The commitment of my authorities to the program reforms has remained strong all along.

My authorities share the thrust of staff papers on the fifth review under the ECF and the Enhanced HIPC completion point document. Based on the assessment made by staff on the continued good performance of Togo under its Fund-supported program and the authorities' unwavering commitment to their policy and reform agenda going forward, **we seek the support of the Executive Board in favor of the completion of the fifth review of Togo's program under the ECF arrangement.**

Furthermore, in addition to maintaining macroeconomic stability, Togo has fully met all the other requirements for the HIPC completion point. These include the PRSP implementation and its monitoring; the tracking and transparency of expenditure operations; the functioning of the Court of Accounts and the Procurement Regulatory Authority; compliance with

regular public reporting of payments to, and revenues received by the government for the phosphates sector; enhancement of debt management and reporting of external and domestic public debt data; adoption of health development plans; and implementation of the national education sector plan. **Therefore, we call on the Board to support the completion point and debt relief for Togo under the Enhanced HIPC Initiative and the MDRI.**

POLICY TRACK RECORD

My Togolese authorities continue to build a strong record of policy and reform implementation. The objectives, including all the fiscal performance criteria set forth in their ECF-supported program since the fourth review, have been met. In particular, despite a challenging external and financing environment, they have not accumulated any external arrears nor contracted or guaranteed any non-concessional external debt. They are working to complete the implementation of the domestic arrears settlement strategy, with the assistance of the employers' association to contact potential creditors who have not applied for settlement yet. Regarding the external debt, my authorities remain committed to contracting or guaranteeing external borrowing on concessional terms and will continue to consult with Fund staff when questions arise. In particular, these consultations revealed that a recently signed loan had unexpectedly and narrowly failed to meet the minimum concessionality. This loan is not yet effective, as it must undergo a legal ratification process, and my authorities are committed to not proceeding with ratification until they obtain terms that meet the minimum concessionality requirements under their program commitments.

On structural reforms, significant progress has continued to be made since the last review in June. As presented in their new Letter of Intent (LoI), the authorities have pushed forward measures to move towards a single treasury account, simplify budget execution procedures and strengthen financial control.

On the financial sector, despite the delays due to the unexpected need to update the legal framework for the privatization of public banks, the envisaged reforms are proceeding. The members of the privatization commission that will recommend options for the privatization of state-owned banks have been selected, and the commission will be formally established soon. The authorities now expect that the final bids will be issued by end-April 2011. In the meantime, the authorities, in collaboration with the regional Banking Commission will continue to maintain a strict control over the management of the banks to be privatized. Furthermore, the process of establishing a debt collection structure for the recovery of NPLs acquired by the government—with the assistance of the IMF and the World Bank—is proceeding well.

Following technical assistance from Fund staff, the Council of Ministers has approved on November 26, 2010 a new adjustment mechanism for petroleum product prices, which allows for the automatic pass-through of import prices with a smoothing formula. This mechanism

aims at limiting budget risks while mitigating the social impact of sharp oil price fluctuations. At the same time, the government is seeking a solution to the problem of the liabilities generated by the former price adjustment mechanism, in collaboration with the oil distribution companies concerned.

Other structural reforms that have been launched recently by the Togolese authorities include the establishment of a “one-stop window” in the *Port Autonome de Lomé*. While not concluded yet, the procurement process to select the consultants that will help establish the “one-stop window” is well advanced. Thus far, only two consultant companies, instead of three, have responded, and the authorities and the World Bank which is financing the consultants are examining options for moving ahead. Reforms also include increasing the *power supply* with the start of electricity production by a new power plant while preserving the commitment to adjust the power company (CEET)’s electricity rates at cost-recovery levels. In this regard, the authorities approved an increase in electricity prices to take place in January 2011. Among other reforms, we note the implementation of *EITI requirements* and the submission of Togo’s membership application; as well as the ongoing implementation of the phosphate sector revitalization strategy.

Moreover, the Togolese authorities have been very receptive of the World Bank’s recommendations for improving the business climate, and they are modernizing the investment code and the laws and regulations governing the free trade areas, with the view to reflect as much as possible the international best practices.

PURSUING THE REFORM AGENDA

My Togolese authorities view the completion point as an important milestone to create the necessary space for economic development and poverty reduction. In the same vein, they intend to pursue, beyond the completion point, their reform agenda to improve the economy’s productivity and competitiveness while ensuring that the benefits of those reforms are felt more by the population. Building on the reforms already implemented and the strong macroeconomic framework going forward (fiscal discipline, prudent public financial and debt management), the authorities plan to continue implementing in 2011 and beyond, their ambitious structural reforms, in a context of future relations with the Fund. **The authorities have, with Fund staff, fine-tuned the measures to be implemented in the context of the current ECF-supported program, of which they are requesting an extension to provide them with the timeframe necessary to ensure they meet their immediate structural reform objectives.**

The proposed 2011 budget favors investment in infrastructure to begin addressing the severe underinvestment during the prolonged domestic crisis in Togo. The fiscal balance nevertheless remains prudent and fully consistent with debt sustainability. The increased investment is largely financed by improved mobilization of domestic revenue, while the

growth in current spending remains disciplined, to preserve fiscal space for investment. To accompany these significant domestic investment efforts, my authorities encourage donors to support infrastructure development.

Strengthening public financial management remains a key aspect of the authorities' agenda in 2011. As highlighted in their LoI, the authorities will establish a single database for the civil service payroll in efforts to improve budget programming and expenditure execution; increase domestic revenue through the streamlining of tax and customs exemptions, enhancing tax and customs collections, and make progress toward the adoption of a new customs code. They will also make further progress to improve treasury cash management, with notably the adoption of a monthly planning system, the preparation of regulations and decisions to create a new institutional framework for treasury cash management, the adoption of a strategy to establish a single treasury account, and the incorporation of medium-term budget objectives into a debt strategy to better public debt management. My authorities hope that they can continue to rely on Fund technical assistance when needed to advance these fiscal reforms.

Regarding the financial sector, as indicated above, steps towards the privatization of public bank will be taken. Furthermore, the authorities will prepare a strategy to develop the sector and improve financial intermediation while ensuring financial stability. My authorities expect to benefit from the technical and financial support of development partners in designing and conducting such strategy.

The competitiveness of Togo as a regional commercial hub will be enhanced by the envisaged establishment of the one-stop window in the PAL. This will also contribute to raising customs revenue.

DEBT SUSTAINABILITY

Upon reaching the completion point, Togo will benefit from substantial debt relief from multilateral and bilateral creditors accounting for almost all total HIPC eligible debt. The authorities are working towards obtaining the participation of all the remaining few creditors. They also look forward to their negotiations with the Paris Club on the treatment of the Togolese debt, scheduled in December 2010. The country will also benefit from additional debt relief under the MDRI. In total, full delivery of HIPC, MDRI and additional assistance at the completion point would reduce Togo's external debt burden substantially, as indicated in the updated debt sustainability analysis.

To further improve debt dynamics, the authorities intend to use the bank privatization proceeds to repay domestic debt. Nevertheless, the sustainability of the total public debt in the long term will continue to depend on the availability of grants and concessional loans for Togo, as debt indicators show sensitivity to the terms of new external financing and other