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EBS/89/208

CONFIDENTIAL

October 31, 1989

To: Members of the Executive Board

From: The Secretary

Subject: Togo - Midterm Review Under the First Annual Arrangement Under the Enhanced Structural Adjustment Facility

Attached for consideration by the Executive Directors is the staff report for the midterm review under the first annual arrangement for Togo under the enhanced structural adjustment facility, which is proposed to be brought to the agenda for discussion on Monday, November 27, 1989. A draft decision appears on page 20.

Mr. Petersen (ext. 8390) or Mr. Kouwenaar (ext. 7190) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

Att: (1)

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INTERNATIONAL MONETARY FUND

TOGO

Staff Report for the Midterm Review Under the First Annual Arrangement Under the Enhanced Structural Adjustment Facility

Prepared by the African Department

(In consultation with the Exchange and Trade Relations, Fiscal Affairs, Legal, and Treasurer's Departments)

Approved by Mamoudou Touré and Thomas Leddy

October 30, 1989

I. Introduction

The discussions for the midterm review under the first annual arrangement under the enhanced structural adjustment facility (ESAF) took place on August 29-September 12, 1989 in Lomé and in Washington on September 25-29. 1/ In the attached letter dated October 30, 1989 (Appendix I), the Minister of Economy and Finance notes that economic developments thus far are largely in line with the program and that substantial progress has been made in the area of structural adjustment. Government revenues, however, have been significantly below their programmed level, necessitating additional revenue measures and expenditure savings to approximate the program target. The Government remains committed to pursuing the policies contained in the letter of April 21, 1989.

The three-year ESAF arrangement in support of Togo's economic and financial program covering the period 1989-91, and the first annual arrangement thereunder, were approved by the Fund on May 31, 1989. Total access under the ESAF arrangement, which replaced Togo's arrangement under the structural adjustment facility (SAF), approved in March 1988, is in an amount equivalent to SDR 46.08 million, representing

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1/ The Togolese representatives included Mr. Alipui, Minister of Economy and Finance; Mr. Barqué, Minister of Planning and Mines; Mr. Djondo, Minister of Industry and State Enterprises; Mr. Tchalla, Minister of Rural Development; Mr. Aho, National Director of the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO); and other senior officials concerned with economic and financial matters. The staff team consisted of Mr. Petersen (head-AFR), Mr. Kouwenaar (AFR), Mr. Andely (AFR), Mr. Harris (EP-ETR), Mrs. Kabedi (EP-AFR), and Ms. Quartey (secretary-AFR). Mr. Gondwe (AFR) participated in the discussions during the period September 4-8.

120 percent of Togo's quota in the Fund, with annual access equivalent to SDR 15.36 million, or 40 percent of quota. The first semiannual disbursement under the ESAF arrangement, equivalent to SDR 7.68 million, was effected on June 15, 1989 and the second may be made after November 14, 1989, subject to the observance of performance criteria for end-June 1989 and the completion of the present review (Appendix IV, Table I). All quantitative performance criteria were observed, except for the one on external arrears; arrears were accumulated by end-June, largely for technical reasons, but were eliminated on July 5. The two structural performance criteria were also only observed after some delay. The authorities have requested, and the staff proposes, that waivers be granted. The prospective position of the Fund during the ESAF arrangement is outlined in Appendix IV, Table II.

Togo has received substantial financial support from multilateral and bilateral creditors in 1989. The World Bank expects to disburse during the last quarter of the year the second tranche of the third Structural Adjustment Credit (SAC) of US$25 million. In June 1989, the Paris Club agreed to reschedule on concessional terms debt service payments falling due to participating creditors in the period April 16, 1989-June 30, 1990 in an amount equivalent to SDR 58.5 million.

Summaries of Togo's relations with the Fund and the World Bank Group are contained in Appendices II and III. Appendix IV contains additional statistical information.

II. Background

After having deteriorated in 1987, Togo's economic and financial situation improved markedly during 1988 and the macroeconomic objectives of the program for that year, which were supported by a SAF arrangement as well as by a 13-month stand-by arrangement, were largely attained. 1/ Real GDP is now estimated to have risen by 5.6 percent, the rate of inflation remained low (2.2 percent, as measured by the GDP deflator), and the external current account deficit, excluding official transfers, declined from the equivalent of 14.4 percent of GDP in 1987 to 10.2 percent, reflecting an improvement in both export volumes and prices (Table 1). This overall favorable outcome was partly the result of tight fiscal policies, which reduced the overall fiscal deficit (on a payment order basis and excluding grants) to 5.4 percent of GDP, significantly lower than in 1987 (9.0 percent) although higher than the targeted 4.3 percent. Credit policy was restrained in line with program targets, and the Government reduced its net indebtedness vis-à-vis the banking system.

All the structural measures in the program for 1988 were implemented, although some with delays and modifications, while in other

1/ EBS/89/90, May 10, 1989.

Table 1. Togo: Selected Economic and Financial Indicators, 1985-92

	1985	1986	1987	1988	1989		1990	1991	1992
				Est.	Prog.	Rev. Prog.	Projections		
				(Annual percentage changes)					
National income									
GDP at constant prices	3.1	3.5	1.5	5.6	4.0	3.8	4.2	4.3	4.5
GDP deflator	4.5	3.6	2.0	2.2	3.0	2.1	3.0	3.0	3.0
Consumer price index	-1.9	4.1	—	1.0	2.0	1.3	2.0	2.0	2.0
External sector (on the basis of CFA francs)									
Exports, f.o.b.	-0.3	-26.3	-4.8	8.6	4.1	7.0	11.5	7.2	5.6
Excluding re-exports	-5.7	-35.7	-7.7	10.8	4.5	8.5	14.6	8.5	6.4
Imports, f.o.b.	16.0	-8.3	-14.4	-2.5	3.9	6.1	8.1	7.3	7.4
Export volume									
Including re-exports	2.5	-7.8	9.0	3.2	2.0	1.3	7.5	2.7	1.0
Excluding re-exports	-3.1	-17.4	10.8	4.0	3.4	2.1	9.8	3.5	1.3
Import volume	13.9	10.4	-13.2	-4.6	0.7	0.1	5.3	4.0	4.1
Terms of trade (deterioration -)	-4.5	-3.7	-11.5	2.9	-1.0	-0.4	1.0	1.1	1.3
Nominal effective exchange rate (depreciation -)	5.4	9.6	5.5	3.0	...	2.5 1/	...	...	...
Real effective exchange rate (depreciation -) 2/	-4.3	8.0	-0.6	-7.1	...	-6.6	...	...	...
Consolidated government operations									
Revenue and grants	10.7	5.1	-19.2	8.1	6.1	4.0	7.8	6.2	7.3
Total expenditure	9.3	13.8	-10.0	-3.3	5.5	4.6	6.2	3.9	4.5
			(Annual changes in percent of broad money at beginning of period)						
Money and credit									
Net domestic assets 3/ 4/	5.1	22.5	-3.8	-3.5	5.6	4.7	...	...	...
Of which: Government	(0.8)	(9.4)	(0.1)	(-3.2)	(-1.7)	(-1.7)	(...)	(...)	(...)
private sector	(4.9)	(12.1)	(3.7)	(1.6)	(7.8)	(6.2)	(...)	(...)	(...)
Money and quasi-money (M2)	9.0	13.2	4.1	-7.8 5/	7.2	9.0	...	...	...
Velocity (GDP relative to M2)	2.0	1.9	2.0	2.3	2.3	2.3	...	...	...
Interest rates on savings deposits	8.5	6.5	6.5	7.0	7.5	7.5	...	...	...
Normal discount rate	10.5	8.5	8.5	9.5	10.0	10.0	...	...	...
				(In percent of GDP)					
Consolidated government deficit (-) 6/									
Including grants	-1.6	-4.5	-6.8	-3.4	-3.2	-3.5	-2.9	-2.3	-1.5
Excluding grants	-6.2	-8.8	-9.0	-5.4	-5.1	-5.4	-4.7	-4.2	-3.6
Foreign financing (net)	1.5	1.2	3.3	4.9	5.5	5.8	3.7	2.9	1.9
External payments arrears (end of period)	—	0.8	8.5	—	—	—	—		—
Current account balance									
Including all transfers	-3.8	-10.8	-8.9	-5.0	-4.5	-4.7	-3.8	-3.1	-2.9
Excluding official transfers	-13.0	-18.1	-14.4	-10.2	-9.4	-9.6	-8.4	-7.7	-7.5
Gross domestic investment	28.6	26.8	23.9	21.3	21.5	21.3	22.0	22.5	22.6
Gross domestic savings	19.5	12.9	13.4	14.5	15.1	14.8	16.4	17.2	17.0
External debt 7/	96.0	89.6	88.0	81.7	80.7	83.5	81.7	79.1	74.8
Debt service ratio 8/									
Accrual basis	35.9	39.8	40.4	37.8	30.5	30.8	27.1	21.8	20.1
Cash basis 9/	29.1	35.6	17.9	28.5	30.5	19.1	22.3	21.8	20.1
Interest due (in percent of exports of goods and nonfactor services)	13.7	13.8	12.7	12.0	11.0	11.7	9.9	8.4	7.5
				(In millions of SDRs, unless otherwise specified)					
Overall balance of payments (deficit -)	-13.1	-53.3	-60.1	-25.4	-11.6	-20.9	-20.6	-13.6	-6.4
Gross reserves (in months of imports, c.i.f.; end of period)	8.6	8.8	9.0	8.0 5/	7.8	7.8	7.8	7.8	7.1
External payments arrears (end of period)	—	7.4	84.0	—	—	—	—	—	—
Exchange rate: CFA franc per U.S. dollar, period average	449.3	346.3	300.5	297.9	300.0	325.0	325.0	325.0	325.0
GDP (nominal, in billions of CFA francs)	338.2	362.5	375.1	404.8	431.4	429.0	460.5	494.7	532.4

Sources: Data provided by the Togolese authorities; and staff estimates and projections.

1/ Average of first seven months.

2/ Estimated on the basis of consumer price data.

3/ Domestic credit and other items (net), excluding net long-term external liabilities.

4/ Deposits of OPAT (CFAF 9 billion) and Petroleum Fund (CFAF 3.5 billion), transferred to the Government in November 1987 and January 1988, respectively, are included in money and quasi-money in the data before end-December 1987, but included in net domestic credit to the Government after these dates.

5/ In July 1988, the BCEAO made a statistical adjustment to the estimates for net foreign assets and currency in circulation for all member countries in the WAMU. In the case of Togo, this led to a downward correction of both items by CFAF 11.4 billion.

6/ On a payment order basis.

7/ Public and publicly guaranteed debt. Includes the accumulation of arrears on amortization in 1986-88. All stocks and flows affecting debt are based on the current or projected exchange rates. The external debt outstanding includes new financing, ESAF and gap financing, but excludes the impact of any rescheduling or cancellation of debt.

8/ External debt service obligations of the Government, in percent of exports of goods and nonfactor services, including re-exports. Before mid-1986, the debt service ratio was calculated on the basis of exports of goods and total services; as data on nonfactor services have become available, the series has been recalculated.

9/ Includes rescheduling and arrears accumulation or repayment; for 1988-90 reflects the impact of the 1988 and 1989 Paris Club and 1988 London Club reschedulings.

areas the authorities went further than had been envisaged. Progress was made in restructuring public enterprises and in increasing the efficiency of agricultural output and marketing, and the liberalization of trade policies was accelerated.

III. Program Implementation

1. The three-year program

The objectives of the program for 1989-91 are as follows: (a) to sustain the growth of real GDP at some 4 percent per annum; (b) to contain the rate of inflation (measured by the GDP deflator) at about 3 percent; (c) to reduce the external current account deficit, excluding grants, to 7.7 percent of GDP by 1991 (3.1 percent, including grants), a level that is expected to be financeable in subsequent years without recourse to exceptional financing; and (d) to reduce the scheduled debt service ratio by 16 percentage points to 21.8 percent. Fiscal policies aim at increasing budgetary savings and lowering the overall fiscal deficit, while encouraging growth through a balanced choice of tax measures--aimed at broadening the tax base rather than raising tax rates--and through the increased effectiveness of expenditures. The overall fiscal deficit, excluding grants, is programmed to decline from 5.4 percent of GDP in 1988 to 4.2 percent in 1991, which will allow a sizable net repayment of domestic bank credit; including grants, the deficit will be reduced to 2.3 percent of GDP by the end of the program period.

The program seeks to achieve sustainable growth in output through shifts in the composition of government expenditures, wide-ranging structural measures aimed at a more efficient public enterprise sector, and liberalization of the legislative and institutional framework in which the private sector operates.

2. Economic developments

Economic developments in 1989 appear to be broadly in line with the program. The growth rate of real GDP is officially projected at 3.8 percent on account of favorable climatic conditions and strong traditional exports. Domestic demand in the monetized sector (excluding autoconsumption), however, has been increasing more slowly than expected, which has had an adverse impact on government revenues. Gross domestic savings in relation to GDP are projected to increase from 14.5 percent to 14.8 percent. As gross domestic investment is likely to remain constant at 21.3 percent and as factor payments decline slightly in relation to GDP, the current account of the balance of payments (excluding official transfers) should improve in line with program projections from the equivalent of 10.2 percent of GDP in 1988 to 9.6 percent in 1989. Taking into account the rescheduling of debt service payments in the context of the Paris Club agreement of June 1989, net foreign reserves are projected to increase significantly more than programmed (by CFAF 7.6 billion) in spite of somewhat smaller short-term capital inflows. Reflecting in part the good crops, consumer prices declined by 1 percent in the first seven months of 1989 and are likely to remain within the program target for the year as a whole.

3. Fiscal policy

Government revenues fell significantly short of program projections in the first half of the year. However, this was more than compensated by temporarily lower government expenditure so that the overall fiscal deficit (excluding grants), at CFAF 5.8 billion, was slightly lower than programmed.

Government revenues in the first six months of the year amounted to CFAF 46.3 billion, or about CFAF 6 billion (1.4 percent of GDP) less than programmed (Table 2). Indirect taxes, mainly import-related, remained roughly at the 1988 level and thus fell significantly short of projections (by CFAF 3.3 billion). This was mainly on account of the unexpected deceleration in domestic demand but may also to a certain extent reflect the temporary acceleration of customs clearances in December 1988, which yielded additional revenues of about CFAF 1 billion in that month. The structure of imports differed from that programmed, with significantly lower imports of consumer goods. Within the latter group, imports of highly taxed items were lower than programmed in part because of the delay until June 1989 of the effective liberalization of imports of sugar, rice, tobacco, and alcoholic beverages. Taxes on profits were CFAF 0.6 billion lower than projected partly because of delays in interim tax payments by certain enterprises and partly on account of lower-than-expected profits in 1988. Finally, the contribution of certain public enterprises to the budget by end-June fell CFAF 1.4 billion short of the level specified in one of the structural performance criteria. The nonobservance was due to technical reasons, as the Treasury had used an earlier version of the contribution schedule, and the difference was paid in early July.

Government expenditure in the first half of 1989 amounted to CFAF 52.1 billion, or CFAF 7.3 billion less than programmed, reflecting both lower current and capital expenditure. The shortfall in current expenditure was related to purchases of materials and supplies and occurred mainly because of the delay in putting in place the budget for 1989. In the case of investment expenditure, in addition to the delay in budgetary procedures, the lower expenditure could also be attributed to delays in the preparation of certain projects as well as to delays in the disbursement of foreign financing.

On the basis of the trends in the first half of 1989, the overall fiscal deficit for the year as a whole would have been significantly higher than programmed had offsetting measures not been introduced. Taking into account the partly reversible factors that affected the first half (delays in interim tax payments and contributions of enterprises) and assuming some pickup in imports with the effective

Table 2. Togo: Consolidated Government Operations, 1989 1/

	1989 1st half Prog.	1989 1st half Est.	1989 2nd half Prog.	1989 2nd half Est.	1989 Prog.	1989 Rev. Prog.
	(In billions of CFA francs)					
Revenue and grants	56.1	48.6	55.7	61.0	111.8	109.6
Revenue	52.3	46.3	51.2	55.0	103.5	101.3
Tax revenue	45.2	39.3	42.3	47.1	87.6	86.4
Of which: import duties	(18.0)	(16.4)	(19.2)	(18.1)	(37.2)	(34.5)
OTP	(3.5)	(3.0)	(2.5)	(4.0)	(6.0)	(7.0)
OPAT	(0.8)	(0.3)	(0.4)	(0.9)	(1.2)	(1.2)
other public enterprises	(0.3)	(0.5)	(0.2)	(2.0)	(0.5)	(2.5)
petroleum fund	(4.5)	(3.8)	(3.5)	(5.2)	(8.0)	(9.0)
Nontax revenue	7.1	7.0	8.8	7.9	15.9	14.9
Grants (project and program)	3.8	2.3	5.0	6.0	8.3	8.3
Expenditure and net lending	59.5	52.1	66.0	72.2	125.5	124.3
Current expenditure	45.8	39.8	46.3	52.2	92.1	92.0
Personnel	(18.0)	(17.3)	(17.9)	(18.6)	(35.9)	(35.9)
Interest due on external debt 2/	(8.3)	(7.3)	(7.9)	(9.8)	(16.2)	(17.1)
Materials and supplies	(9.8)	(5.5)	(9.7)	(13.1)	(19.5)	(18.6)
Transfers	(1.9)	(1.7)	(1.9)	(2.2)	(3.8)	(3.9)
Other 3/	(7.9)	(7.9)	(8.7)	(8.7)	(16.6)	(16.6)
Investment expenditure	13.7	11.0	19.7	21.4	33.4	32.4
Nangbéto Dam	(0.2)	(--)	(0.1)	(0.3)	(0.3)	(0.3)
Other investment	(13.5)	(11.0)	(19.6)	(21.1)	(33.1)	(32.1)
Unclassified expenditure and net lending	--	1.3	--	-1.3	--	--
Overall deficit (-) on payment order basis	-3.4	-3.5	-10.3	-11.2	-13.7	-14.7
Payments arrears (decrease -)	-1.4	-0.5	-3.0	-3.9	-4.4	-4.4
Domestic	-1.4	-2.1	-3.0	-2.3	-4.4	-4.4
External	--	1.6	--	-1.6	--	--
Overall deficit (-) on cash basis	-4.8	-4.0	-13.3	-15.1	-18.1	-19.1
Financing	4.8	4.0	13.3	15.1	18.1	19.1
Domestic financing	-1.1	-2.6	-4.5	-3.0	-5.6	-5.6
Banking system	-1.1	-2.0	-1.9	-1.0	-3.0	-3.0
Counterpart of net use of Fund resources 4/	(0.6)	(-2.6)	(-0.3)	(2.6)	(0.3)	(--)
Other	(-1.7)	(0.6)	(-1.6)	(-3.6)	(-3.3)	(-3.0)
Nonbank financing	--	-0.6	-2.6	-2.0	-2.6	-2.6
External financing	6.6	6.6	8.9	18.0	7.0	24.6
Borrowing 5/	9.8	6.9	18.6	20.8	28.4 6/	27.7
Amortization due 7/	-11.7	-9.8	-9.7	-10.4	-21.4	-20.2
Agreed rescheduling	--	9.2	--	7.8	--	17.0
Arrears on amortization (- reduction)	--	0.3	--	-0.3	--	--
Financing gap (- surplus)	7.7	--	8.9	--	16.6	--
	(As percent of annual GDP)					
Overall deficit on payment order basis						
With grants	-0.8	-0.8	-2.4	-2.6	-3.2	-3.5
Without grants	-1.7	-1.4	-3.5	-4.0	-5.1	-5.4
Tax revenues	10.5	9.1	9.9	10.9	20.3	20.1
Budgetary savings 8/	3.4	2.9	3.0	3.2	6.4	6.1

Sources: Data provided by the Togolese authorities, the BCEAO, and the World Bank; and staff estimates and projections.

1/ Includes treasury operations, external government debt service and payments arrears, government operations directly financed by OTP, and expenditure financed by foreign grants and loans; excludes the Social Security Fund (CNSS).

2/ Interest due before rescheduling, plus moratorium, penalty interest, and interest on new and gap financing.

3/ Includes revenue/expenditure of the University of Benin, the University Hospital Center, the School of Administration (ENA), the Retirement Fund (Caisse de Retraite), and local authorities, net of budgetary transfers to those entities.

4/ Net purchases from the Fund, excluding Trust Fund, but including ESAF purchases of CFAF 6 billion each year for 1989-91. Repurchases are according to BCEAO valuation of government purchases in the past.

5/ Project and program loans, excluding future exceptional financing.

6/ This amount could be modified by CFAF 5.8 billion in external financing from bilateral and multilateral creditors to cover the cash liabilities of the agricultural credit bank (CNCA) in the context of its restructuring during 1989-90.

7/ Amortization due after 1988 includes the impact of the 1988 and 1989 Paris Club and 1988 London Club rescheduling arrangements.

8/ Defined as total revenue minus current expenditure excluding interest payments.

implementation of the liberalization measures, revenues in the second half of the year were expected to be close to the programmed level. Thus, for the year as a whole, without any offsetting measures, revenues would have amounted to CFAF 97.3 billion, or CFAF 6.2 billion (equivalent to 1.4 percent of GDP) less than programmed. On the expenditure side, exchange rate developments were expected to increase the interest payments on the external debt by some CFAF 0.9 billion above the original projections. Other expenditures were likely to pick up in the second half of the year and were expected to reach the levels initially projected for the year as a whole.

In these circumstances, the Government took immediate steps to increase the resources of the Treasury by raising CFAF 4.0 billion in additional contributions from public enterprises. It was found that the projection of the cash flow of the Petroleum Fund at the beginning of the year had been too cautious and that additional funds of CFAF 1 billion were available as an additional contribution to the budget. In view of the increase in phosphate prices and somewhat-higher-than-programmed export volumes, the Office Togolais des Phosphates (OTP) was able to increase its contribution by a minimum of CFAF 1 billion. The remaining amount was to be raised from other public enterprises. While this reflected the availability of larger-than-programmed nontreasury public sector resources, the budgetization of these was an important step to validate this better outcome. By end-September 1989, contributions by public enterprises already exceeded the originally programmed amount by CFAF 2 billion.

As to expenditures, the Government took steps to reduce expenditures by each ministry on materials and supplies by between 5 percent and 10 percent, which will yield savings of CFAF 1 billion. 1/ Such expenditure is nonetheless expected to increase by 7 percent in 1989, or slightly more than the rate of GDP growth. Taking into account the freeze on government wages, salary payments will increase by only 1.4 percent, helping to restrain the growth of current expenditure to 4 percent for the year as a whole. Although the completion of a computerized civil service roster has been postponed until December 1989, the development of a medium-term strategy for civil service employment is still expected to be ready by year-end. Government investment expenditures will also be reduced by CFAF 1 billion from programmed levels, consistent with the rate of execution in the first half of the year. Thus, the rate of growth of investment expenditures is now expected to amount to 7 percent compared with the programmed level of 9 percent.

Taking into account the above measures, total government revenues are currently projected to increase by 4.2 percent to CFAF 101.3 billion, but to decline slightly in relation to GDP, from 24.0 percent in

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1/ Following an interministerial meeting, instructions to this effect were circulated in September.

1988 to 23.6 percent in 1989 (Appendix IV, Table III). Government expenditure for 1989 is expected to increase by 4.6 percent to CFAF 124.3 billion, but to decline slightly in relation to GDP, from 29.4 percent to 29.0 percent. Thus the overall consolidated deficit (on a payment order basis and excluding grants) is now expected to be contained at the equivalent of 5.4 percent of GDP compared with the program target of 5.1 percent; including grants, the deficit would amount to the equivalent of 3.5 percent of GDP.

The Government reduced its indebtedness vis-à-vis the banking system by CFAF 2 billion during the first half of the year (CFAF 1 billion more than programmed). Domestic nonbank debt and domestic arrears were also reduced by somewhat more than programmed. Net foreign financing was in line with projections. However, the Government was not able to respect the performance criterion on the nonaccumulation of external arrears by end-June, partly because of administrative delays in its obtaining access to the ESAF funds disbursed on June 15. The arrears were subsequently eliminated on July 5.

For the year as a whole, the originally established schedule for reducing domestic bank and nonbank debt as well as domestic arrears remains valid. In spite of the slightly larger overall deficit, the budget will be fully financed because of slightly larger net external financing. The effects of exchange rate developments on disbursements and unexpectedly low amortization payments are likely to offset somewhat lower World Bank disbursements because of the delay in releasing the second tranche of the SAC (now foreseen for October) 1/ and moderately lower project financing linked to the lower investment outlays.

4. Monetary developments

The main targets of monetary policy in 1989 are to allow a significant increase in credit to the private sector consistent with the growth objective, while providing a substantial cushion of net foreign reserves. In support of these objectives, the program foresees a sizable reduction of the net indebtedness of the Government vis-à-vis the banking system and a flexible interest rate policy.

During the first half of the year, developments were largely in line with the program (Table 3). Both overall domestic assets and net credit to the Government at end-June were well within the ceilings, as was credit to selected enterprises. Credit to the private sector (other than OTP/OPAT) 2/ accelerated somewhat in the 12 months to June 1989 but the rate of increase of 9 percent was lower than the target of 12 per-

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1/ The delay relates to the World Bank requirement that the tax and tariff reform be enacted by the Parliament (now foreseen for October) before the tranche release.

2/ OPAT, crop marketing agency.

Table 3. Togo: Monetary Survey, 1987-89

(In billions of CFA francs; end of period)

	1987	1988				1989							
	Dec.	March	June	Sept.	Dec.	March		June		Sept.		Dec.	
						Prog.	Actual	Prog.	Actual	Prog.	Proj.	Prog.	Proj.
Foreign assets (net)	64.59	69.79	74.12	60.61 1/	56.50 1/	58.40	66.75	62.72	66.17	60.61	65.21	59.19	64.11
Central Bank	72.18	74.56	75.14	57.21	44.44	...	49.67	...	49.56	...	...	...	...
Deposit money banks	-7.58	-4.77	-1.02	3.40	0.07	...	5.08	...	4.61	...	...	...	...
Treasury	—	—	—	—	12.00	...	12.00	...	12.00	...	...	...	...
Domestic assets (net)	128.89	118.01	113.19	120.37	122.23	128.17	121.28	128.76 2/	121.83	129.75	127.63	132.00	130.47
Claims on the Government (net) 3/	27.03	21.17	21.64	19.48	20.96	19.01	17.68	19.90 2/	18.86	17.42	17.42	17.96	17.96
Claims on the economy	100.20	99.94	97.90	101.32	103.31	111.99	106.46	111.69	104.62	115.16	111.68	116.86	114.16
OPAT and OTP	(21.33)	(22.76)	(17.28)	(17.86)	(19.05)	(23.00)	(22.16)	(21.30) 2/	(16.93)	(19.10)	(19.10)	(20.71)	(20.71)
Other	(78.87)	(77.18)	(80.62)	(83.46)	(84.26)	(88.99)	(84.30)	(90.39)	(87.69)	(96.06)	(92.76)	(96.15)	(93.45)
Long-term foreign borrowing	-3.19	-3.13	-3.12	-3.09	-2.98	-2.83	-2.92	-2.83	-2.83	-2.83	-2.83	-2.83	-2.83
Other items (net)	4.85	0.03	-3.23	2.66	0.95	—	0.07	—	1.18	—	1.18	—	1.18
Money and quasi-money	189.21	183.52	183.01	176.68 1/	174.43 1/	182.29	183.72	187.20	183.49	186.08	188.30	186.91	190.08
Currency and demand deposits	95.24	87.33	82.32	70.75	65.24	...	...	...	71.31	...	...	...	...
Time deposits	93.97	96.19	100.68	105.93	109.19	...	...	...	112.18	...	...	...	...
SDR allocation	4.28	4.28	4.31	4.31	4.31	4.28	4.28	4.28	4.51	4.28	4.51	4.28	4.51

Sources: Central Bank of West African States (BCEAO); and staff estimates and projections.

1/ In July 1988, the BCEAO made a statistical adjustment to the estimates for net foreign assets and currency in circulation for all member countries of the West African Monetary Union. In the case of Togo, this led to a downward correction of both items by CFAF 11.4 billion.
2/ Performance criterion.
3/ Includes foreign deposits of the Treasury from December 1988.

cent. Net foreign assets increased by CFAF 3.5 billion more than programmed in the first half of this year while money and quasi-money rose somewhat less than expected.

For the year as a whole, net foreign assets are likely to exceed the programmed level by CFAF 4.9 billion because of the favorable rescheduling under the Paris Club. This is likely to be only partly offset by a somewhat-lower-than-programmed increase in net domestic assets, as credit to the private sector is projected to pick up toward the end of the year. Thus, money and quasi-money are projected to increase by 9 percent, compared with the programmed rate of increase of 7.2 percent and the projected rate of growth of nominal GDP of 6 percent. The resulting decline in the velocity of circulation from 2.32 to 2.26 is a partial reversal of the sharp increase in velocity in 1988, and is likely to be sustainable in view of the increase in interest rates at end-1988 and early 1989. Interest rates are significantly positive in real terms--6 percent for savings deposits and up to 13 percent for lending rates.

The financial position of the Togolese banking system is basically sound. The reorganization of the two banks experiencing difficulties is progressing largely as scheduled. In the case of the Banque Togolaise de Développement (BTD), the rehabilitation plan has been under way since 1988. The Caisse Nationale de Crédit Agricole (CNCA) is scheduled to commence liquidation procedures before the end of 1989. The financing of the liquidation was confirmed at a donors' meeting in early October. A feasibility study for a new rural credit system, which was conducted by the Food and Agriculture Organization, was also discussed at that meeting; bilateral discussions continue on the modalities and the financing for this new system.

Togo will continue to pursue a flexible interest rate policy in the context of the reforms currently under way within the West African Monetary Union (WAMU). The reforms are likely to include the eventual elimination of the preferential discount rate (which already has been brought to within 1 percentage point of the normal rate), the discontinuation of sectoral credit ratios, changes in procedures for prior authorizations, strengthened banking supervision, and revised procedures for crop financing to ensure a better recovery of crop loans.

5. Structural policies

a. Tax reform

The introduction of a comprehensive tax and tariff reform is a key element of structural policies in 1989. It involves (a) the integration of the turnover tax on domestic production and the current tax on imports into a three-tier value-added tax; (b) the harmonization and simplification of the taxes on imports into four ranges--5 percent for capital goods and agricultural imports, 10 percent for intermediate and essential consumer goods, 20 percent for ordinary consumption goods, and

35 percent for luxury goods; (c) the further reduction of exemptions; (d) the application of a uniform minimum statistical tax to all imports; and (e) the updating of standard price quotations to better reflect current values. The approval of the tax and tariff reform by the Council of Ministers was a structural performance criterion for end-June. For technical reasons, primarily connected with the need to conduct additional simulations of alternative tax rates to ensure that the reform would not lead to any revenue losses, the preparation of the draft law took longer than expected. It was approved by the Council of Ministers on September 13 and will be voted by the Parliament in its October session. Thus, the program objective of implementing the reform as of January 1990 is expected to be met.

b. Public enterprise reform

As part of the ongoing process of rationalizing the operations and increasing the efficiency of public enterprises, their financial relations with the Government are being clarified in the context of the ESAF program. As planned, the general principles for the assumption by public enterprises of their debt service liabilities were established by end-September and agreements were reached with seven key enterprises on the amounts to be paid in 1990 (CFAF 5.1 billion). These enterprises account for 40 percent of the turnover of public enterprises and 50 percent of public enterprise employment. The remaining enterprises will reach agreements with the Government as their financial situations permit, and the amounts of these agreements will be renegotiated as their financial situations improve.

Concurrent with these efforts, the Government is undertaking a study of the taxation of public enterprises with the purpose of submitting them to general tax regulations by 1990. With the regular payment of debt service and tax liabilities, enterprises would no longer be required to provide ad hoc contributions to the budget. Thus, these changes would not provide significantly larger government revenue but would help improve the environment for rational and efficient operations of the enterprises.

The redefinition of the institutional framework of public enterprises is also being pursued as planned. The Government has now approved the Reform Committee's recommendations for improving the autonomy and accountability of these enterprises with the aim of adopting them into law from January 1990. In this framework, wholly state-owned enterprises will be considered autonomous management units and semipublic companies will be subjected to the provisions of the commercial code and will thus be removed from the direct control of the Government.

With respect to the privatization program, negotiations with a group of foreign investors for the sale of the two major textile enterprises earlier in the year did not come to fruition as expected. Negotiations with a new group are now at an advanced stage and should be completed in early 1990. Of the six other public enterprises identified to be privatized under the program, negotiations concerning four of these are currently in process. In addition, the Government has identified three new enterprises to be privatized, and ten for which shares would be sold to the public.

c. Crop marketing

The operations of the crop marketing agency (OPAT) have been redefined with the progressive relinquishment of unrelated activities, such as hotel management. Costs have been reduced significantly and the number of employees fell from almost 1,200 at the beginning of 1988 to 250 at present. The elaboration of the second phase of the reorganization (a structural benchmark) was well under way by end-June, although not all aspects had been completed by that time. The Board of Directors approved the final element, a revised organization chart, at end-August. As envisaged, the budget for 1989/90 was approved by end-September. In addition, the per-kilogram floor prices for the 1989/90 crop year for the three principal products were announced by end-October as follows: CFAF 350 to CFAF 200 for coffee; CFAF 300 to CFAF 225 for cocoa; and unchanged at CFAF 95 for cotton. The prices were determined so as to reflect developments in the world market prices for the major commodities and to avoid any losses to the OPAT.

d. Commercial policies

The implementation of the structural elements relating to commercial practices is proceeding essentially on schedule. Price controls on domestic manufactured goods and fixed profit margins were abolished for most products by the end of January. The system for the renewal of business licenses was deregulated and export licenses for industrial products were abolished in March. The effective liberalization of certain goods that had been imported by the state trading monopoly (sugar, rice, tobacco products, and alcoholic beverages) took somewhat longer than expected. However, by end-May, all import licenses and quotas, except for a few strategic products (wheat flour, cement, and reinforcing bars) had been eliminated.

Other measures in support of the private enterprise sector are proceeding as scheduled, and include the drafting of a new charter for Togolese enterprises and the establishment of a mutual insurance fund (with assistance from the World Bank). The revised investment code will be adopted in October, together with the new tax and tariff reform. The project for creating an export processing zone is progressing with foreign participation; in early August, the Government published the institutional framework and eligibility requirements for interested enterprises.

6. External sector developments

The recovery of Togo's balance of payments is likely to continue in 1989 (Table 4). Export values are projected to rise by 7 percent, a greater increase than originally envisaged, as an unexpectedly sharp jump in export prices for phosphates (19 percent) will more than compensate for the drop in coffee and cocoa prices (9.4 percent and 10.2 percent in CFA franc terms, respectively). Export volumes (excluding re-exports), however, are projected to increase by only 2.1 percent (compared with the programmed 3.4 percent) because of lower volumes of cotton and cocoa exports. Imports of consumer goods are likely to remain below expected levels as a result of the deceleration of domestic demand. However, overall import volumes will probably be unchanged from 1988, and, given the effects of the exchange rate depreciation vis-à-vis the U.S. dollar and the increase in the dollar prices of imported petroleum products, the value of total imports is likely to be close to the original program projections. The deficit on the services account is estimated to exceed program projections marginally, in part owing to the impact of exchange rate developments on interest payments on the external debt. Taking into account private transfer payments, the current account deficit is presently projected to decline from the revised 1988 estimate of 10.2 percent of GDP in 1988 to 9.6 percent in 1989 (compared with the originally programmed decline from 9.6 percent in 1988 to 9.4 percent in 1989); including official transfers, the current account deficit will decline from 5.0 percent to 4.7 percent (compared with a slight increase from 4.43 percent to 4.48 percent foreseen in the original program).

The surplus in the capital account is likely to increase from CFAF 10.1 billion in 1988 to CFAF 11.3 billion in 1989, mainly on account of a decline in scheduled amortization payments from CFAF 28.6 billion to CFAF 20.9 billion. Inflows of official capital are anticipated to be some CFAF 0.9 billion above the level of 1988. The net inflow of long-term private capital, mainly in the form of direct investment, is projected to fall short of the programmed level on account of the delay in completing the privatization of the two textile companies. On the basis of trends early in the year, short-term capital inflows appear to be significantly lower than envisaged. 1/ Accordingly, the capital account surplus is now expected to be CFAF 3.4 billion below the level projected in the program. Thus, the overall balance of payments deficit, although somewhat improved compared with 1988, will be nearly double the projected level, at CFAF 8.7 billion (equivalent to 2 percent of GDP). The balance of payments gap will be fully covered by the June rescheduling under the Paris Club, which provided debt relief of CFAF 17 billion, and will enable the accumulation of CFAF 7.6 billion in external reserves, to the equivalent of 7.7 months of imports.

1/ The sharp fall in short-term capital flows compared with 1988 reflects the relatively large errors and omissions in that year.

Table 4. Togo: Balance of Payments, 1985-92

	1985	1986	1987	1988	1989		1990	1991	1992
				Est.	Prog.	Rev. Prog.	Projections		
				(In billions of CFA francs)					
Exports, f.o.b.	126.7	93.4	89.0	96.6	104.2	103.3	115.2	123.4	130.4
Coffee	11.9	8.6	8.2	6.7	7.3	6.8	6.0	7.0	7.9
Cocoa	6.8	9.5	8.8	6.5	4.4	4.7	3.6	3.6	3.5
Cotton	11.6	10.3	9.2	12.5	15.1	12.9	23.3	28.1	30.0
Phosphates	42.8	28.7	26.1	36.4	38.2	41.7	43.0	44.2	46.7
Other	32.7	11.0	10.6	7.6	11.5	9.6	10.7	11.0	12.0
Re-exports	20.9	25.3	26.1	26.9	27.7	27.7	28.5	29.4	30.3
Imports, f.o.b. 1/	-137.1	-125.7	-107.7	-105.0	-111.6	-111.4	-120.4	-129.2	-138.8
Trade balance	-10.3	-32.3	-18.7	-8.4	-7.4	-8.0	-5.2	-5.8	-8.5
Services (net)	-37.1	-33.5	-35.6	-34.5	-35.9	-36.1	-36.4	-35.7	-36.0
Of which: interest due 2/	(-22.7)	(-17.6)	(-16.3)	(-16.5)	(-16.2)	(-17.2)	(-16.0)	(-14.5)	(-13.6)
Unrequited transfers (net)	34.7	26.7	20.9	22.6	24.0	24.1	24.3	26.3	29.2
Private	3.5	0.1	0.2	1.8	2.7	2.8	2.9	3.3	4.4
Public	31.2	26.6	20.7	20.8	21.3	21.3	21.4	23.1	24.9
Current account balance	-12.7	-39.0	-33.4	-20.3	-19.3	-20.0	-17.3	-15.2	-15.2
Capital account	7.9	18.6	11.2	10.1	14.7	11.3	8.8	9.5	12.5
Public external borrowing	31.9	33.4	26.7	28.5	31.9 3/	30.2	25.3	23.7	26.5
Of which:									
public enterprises	(7.4)	(10.4)	(7.6)	(1.7)	(3.5)	(2.5)	(4.5)	(4.5)	(4.5)
Amortization due 4/	-32.8	-32.5	-31.3	-28.6	-22.1	-20.9	-22.8	-20.5	-20.3
Net long-term private capital	3.3	6.8	4.9	3.0	2.5	1.4	3.3	3.3	3.3
Short-term capital and errors and omissions	4.4	9.7	11.1	7.8 5/	2.5	0.6	3.0	3.0	3.0
Overall balance	-6.0	-21.7	-23.4	-9.6	-4.5	-8.7	-8.6	-5.7	-2.7
Financing	6.0	21.7	23.4	9.6	2.7	8.7	-2.7	-2.6	-0.3
Net foreign assets (- increase)	-6.4	16.4	-4.9	-3.4	-2.7 3/	-7.6	-5.1	-2.6	-0.3
Of which: net use of Fund resources 6/	(3.0)	(3.9)	(-4.2)	(0.2)	(0.5)	(0.5)	(1.8)	(4.0)	(-2.4)
Counterpart of revaluation 7/	1.1	-0.1	-0.7	0.3	--	-0.7	0.2	--	--
Agreed rescheduling	13.7	2.5	--	44.5	--	17.0	7.5	--	--
Paris Club	...	...	...	37.1	--	17.0	7.5	--	--
London Club	...	...	...	7.4	--	--	--	--	--
Arrears (- reduction)	-2.4	2.9	28.9	-31.8	--	--	--	--	--
Financing gap	--	--	--	--	7.2	--	5.9	8.3	3.0
				(As percent of GDP)					
Memorandum items:									
Current account deficit (-)									
Including all transfers	-3.8	-10.8	-8.9	-5.0	-4.5	-4.7	-3.8	-3.1	-2.9
Excluding official transfers	-13.0	-18.1	-14.4	-10.2	-9.4	-9.6	-8.4	-7.7	-7.5
Exchange rate, period average, CFAF/SDR	456.15	406.28	388.62	400.30	390.00	417.00	417.00	417.00	417.00

Sources: BCEAO; and staff estimates and projections.

1/ Including imports related to the Nangbéto project on account of Benin.
2/ Includes moratorium and penalty interest, and interest on new and gap financing.
3/ These amounts could be increased by CFAF 5.8 billion of external financing from bilateral and multilateral creditors to cover the cash liabilities of the agricultural credit bank (CNCA) in the context of its restructuring during 1989/1990.
4/ Amortization due after 1988 includes the impact of the 1988 and 1989 Paris Club and 1988 London Club rescheduling arrangements. Includes Trust Fund.
5/ Includes CFAF 0.6 billion debt cancellation from the Federal Republic of Germany.
6/ Based on repurchases in the Fund's accounts converted at the projected exchange rate of CFAF 417 per SDR.
7/ Also includes a correction for the Trust Fund repayments included in net foreign assets according to BCEAO definition.

Nominal and real effective exchange rate developments are shown in Chart 1. In the first seven months of 1989, the real effective exchange rate depreciated further, by 6.6 percent, owing mainly to the decline in Togo's consumer prices.

7. Medium-term outlook

The medium-term outlook remains roughly unchanged from that presented at the time the program was approved. Gross domestic savings are projected to continue to increase gradually, from the equivalent of 14.8 percent of GDP in 1989 to 17.0 percent of GDP in 1992. Gross domestic investment, on the other hand, is expected to increase more slowly over the same period, from 21.3 percent of GDP to 22.6 percent, reducing in relative terms the economy's dependence on foreign savings (Chart 2). Thus, taking into account the decline in interest payments associated with the concessional debt relief received in the recent debt rescheduling as well as the partial debt forgiveness by certain creditors, the current account deficit by 1992 (including official transfers) is likely to decline further, to the equivalent of 2.9 percent of GDP (compared with the original program target of 2.6 percent), a level that should be financeable without recourse to exceptional financing.

Cotton production is projected to increase sharply in 1990 and 1991, as the investments in the cotton sector take effect. However, the volume of cocoa produced is now expected to decline slightly through 1992, reflecting in part the effects of a problem with pests. Overall, total export volumes (excluding re-exports) should grow consistently through 1992, but at a somewhat slower rate than foreseen in the program. Similarly, in view of recent developments in world market prices, both coffee and cocoa prices are projected to decline further in 1990 before stabilizing at new levels. In terms of U.S dollars, the average price of cocoa is projected to decline by 36 percent between 1988 and 1990, and that of coffee by 34 percent. Phosphate prices, which are estimated to have increased by 10 percent in U.S. dollar terms in 1989, are projected to increase by an annual average of 3 percent in 1990 and 1991. As a consequence, the overall value of exports, while continuing to increase steadily, will do so at a slightly slower rate than originally foreseen in the program. By contrast, the growth rates of import volumes and values will remain virtually unchanged vis-à-vis the original program projections.

Despite the shortfall in the capital account surplus vis-à-vis the programmed level in 1989, the inflows of capital are expected to reach their originally projected levels through 1992: in particular, the inflows of short-term private capital are likely to begin to respond more strongly to the interest rate increases implemented in 1988 and 1989. Scheduled amortization payments on the external debt (excluding to the IMF) will remain virtually constant in 1990 and decline by some CFAF 2 billion in 1991 and 1992. The debt service ratio (on an accrual basis) is projected to decline slightly more slowly than initially programmed, reflecting primarily the reduced level of exports. By 1992, the debt service ratio is now projected to amount to 20.1 percent, compared with 19.8 percent previously envisaged (Appendix IV, Table V).

Whereas the overall deficit of the balance of payments is now projected to be slightly larger than in the original program, primarily because of the reduced value of exports relative to the program, the residual financing gaps remain within the range of magnitude foreseen in the original program. In particular, after taking into account the debt relief for 1990 received from the 1989 Paris Club rescheduling, the residual financing gap for 1990 is now projected at less than half its original level. The residual financing gap for 1990 and beyond could be covered by further rescheduling under the Paris Club.

Medium-term projections are very sensitive to assumptions on the evolution of exports (Appendix IV, Table IV). For example, a 5 percent decline in the price of all the major export products (phosphates, cocoa, coffee, and cotton) would increase the current account deficit by CFAF 4.15 billion in 1991, equivalent to 0.8 percent of GDP, and would increase the government deficit by the equivalent of 0.3 percent of GDP on account of lower transfers from the OTP and the OPAT (scenario A). However, the effect of lower agricultural exports alone (scenario B) is more moderate, with the impact on the current account equivalent to 0.4 percent in 1991. The impact of higher oil prices (scenario C) would be reflected in larger imports and lower transfers to the Treasury from the Petrolum Fund.

IV. Performance Criteria

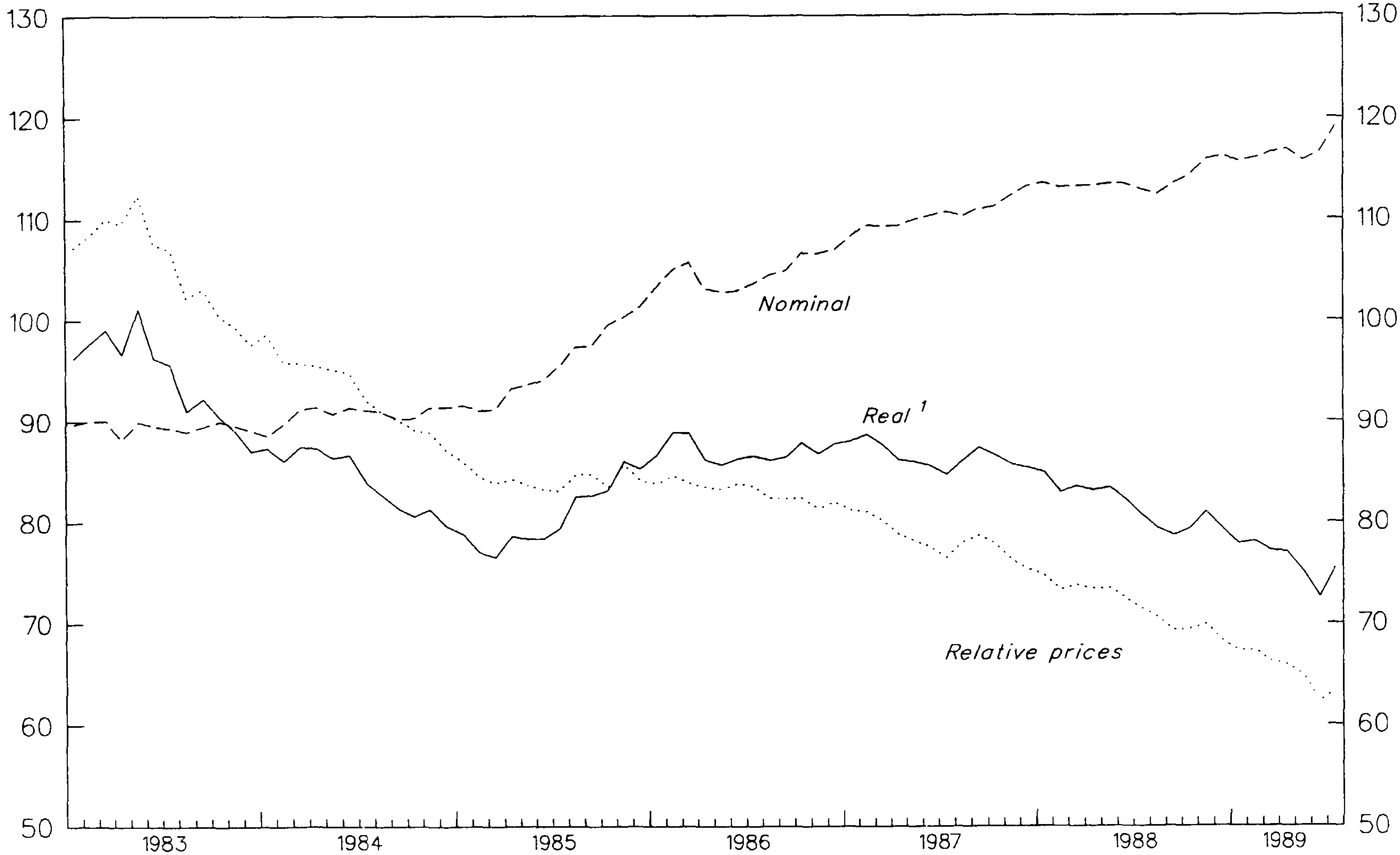
The ESAF arrangement contains a number of quantitative performance criteria and two structural performance criteria for end-June 1989 as well as benchmarks throughout the period covered by the first annual arrangement. The performance in relation to these is shown in Table 5. As noted above, largely for technical reasons, the performance criteria on the nonaccumulation of external arrears and the contributions of public enterprises to the budget at end-June were not met. The arrears were eliminated and the additional contributions received in early July. The structural performance criterion on the approval by the Council of Ministers of the tax and tariff reform by end-June was also not met, as its elaboration took longer than expected. It was approved on September 13, and will be introduced as of January 1, 1990, as originally envisaged. The remaining performance criteria have been observed. All structural benchmarks for end-June were observed on schedule or have subsequently been met. Structural benchmarks for end-September have been observed or subsequently met, except for the one on the introduction of a computerized civil service roster which will be in place by end-1989.

CHART 1

TOGO

EFFECTIVE EXCHANGE RATES, JANUARY 1983–JULY 1989

(Index 1980=100)



Source: Staff estimates.

1 Based on consumer price index.

CHART 2

TOGO

SAVINGS AND INVESTMENT, 1984–92

(In percent of GDP)

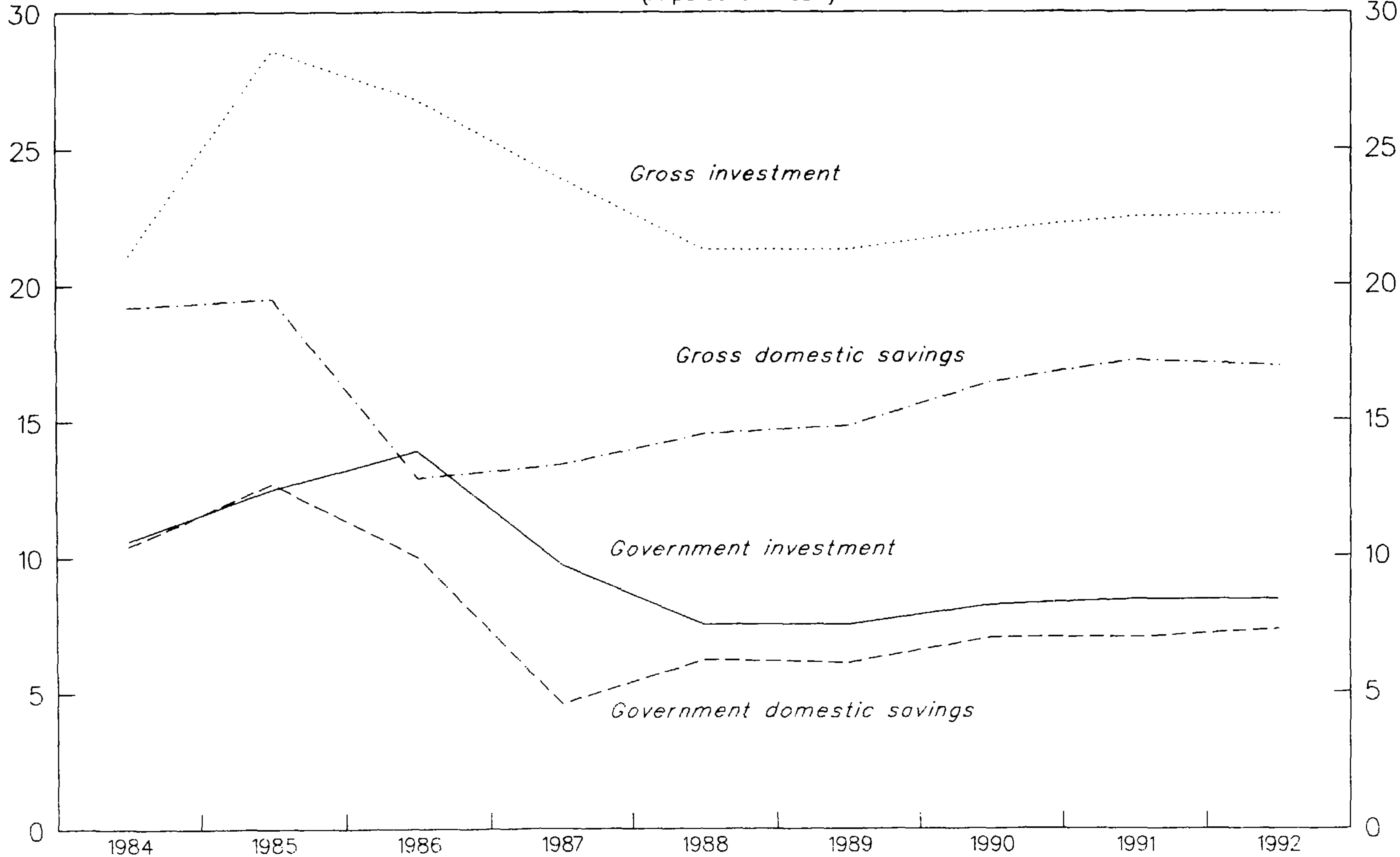


Table 5. Togo: Performance Criteria and Quantitative and Structural Benchmarks Under the First Annual Arrangement Under the Enhanced Structural Adjustment Facility, 1989

(In billions of CFA francs)

	1988	1989					
	Dec. 31	March 31		June 30		Sept. 30	Dec. 31
	Actual	Quantitative benchmarks Prog.	Actual	Performance criteria	Actual	Quantitative benchmarks	
Quantitative performance criteria and benchmarks		(Ceilings on the outstanding amounts at the end of each period)					
Net domestic assets of the banking system 1/ 2/	122.23	128.17	121.28	128.76	121.83	129.75	132.00
Net claims on the Government 2/ 3/	20.96	19.01	17.68	19.90	18.86	17.42	17.96
Credit to OTP and OPAT 4/	19.05	23.00	22.16	21.30	16.93	19.10	20.71
New nonconcessional external loans contracted or guaranteed by the Government in the 1- to 12-year maturity range	—	—	—	—	—	—	—
New short-term external loans, excluding normal import financing	—	—	—	—	—	—	—
External payments arrears	—	—	1.45	—	1.90 5/	—	—
Treasury domestic payments arrears 6/	7.35	7.35	6.23	6.00	5.05	5.00	4.00
Nontreasury domestic payments arrears	4.3	4.3	4.3	4.3 7/	4.3	4.3	4.3

Structural performance criteria	Target dates	Status
Contributions by government entities and the Petroleum Fund to the Treasury as indicated in Table 1 of the letter of intent.	June 30 and December 31, 1989	Observed July
Adoption of the tax and tariff reform.	June 30, 1989	Adopted September 13
Full implementation of the tax and tariff reform.	December 31, 1989	On schedule
Structural benchmarks		
Adoption of a formal agreement between Government and public enterprises, establishing the principles and exact amounts of the liabilities of these enterprises to the Treasury for external debt servicing.	September 30, 1989	Observed
Establishment of a computerized civil service roster.	September 30, 1989	Delayed until December 31
Development of a civil service employment strategy.	December 31, 1989	Preparation on schedule
Adoption of a public investment program for 1990 approved by the World Bank and compatible with the macroeconomic targets of the program.	December 31, 1989	On schedule
Implementation of the second phase of the restructuring of OPAT.	June 30, 1989	Observed August 25
Adoption of the annual budget of OPAT as well as establishment of floor prices for farmers for the 1989/90 crop year.	September 30, 1989	Observed
Adoption of a plan of action for the reorganization of the CNCA, including agreements on external financing.	June 30, 1989	Adopted October 5

Sources: Letter of intent; and Togolese authorities.

1/ Domestic credit and other items (net) less long-term external liabilities of the banks.
2/ If the Government receives external financing, including debt rescheduling, in excess of the programmed level, these ceilings and targets will be reduced pro tanto.
3/ Figures adjusted to adapt their coverage to that of the data for consolidated government operations; certain public agencies, including the Caisse Nationale de Sécurité Sociale, have been reclassified in the private sector.
4/ These ceilings are based on the following assumptions regarding the volume of exports in 1989: cocoa, 10,000 tons; coffee, 12,500 tons; cotton, 35,700 tons; and phosphate, 3.2 million tons.
5/ Paid on July 5, 1989.
6/ The normal average amount of expenditure for which payment is pending is CFAF 4.0 billion. Excluding the nontreasury domestic arrears for which the Government has assumed responsibility.
7/ Quantitative benchmark only.

V. Staff Appraisal

Economic and financial developments in 1989 have thus far been broadly in line with program projections. Favorable climatic conditions and strong traditional exports should ensure that the real rate of growth will be close to the target. Domestic demand, however, appears to be sluggish, which has had an unfavorable impact on government revenues. The improvement in the balance of payments is likely to continue, with the current account deficit staying close to the programmed level. The rate of inflation has remained modest. Fiscal policy has remained tight and credit and monetary policy have been restrained. Substantial progress has been made in the implementation of structural policy elements, although there were temporary delays in some areas.

Underlying this picture, however, a significant shortfall in government revenues for the first half of 1989, combined with a likely pickup in expenditures, threatened to result in a significantly larger-than-programmed fiscal deficit for the year as a whole. In response, the authorities promptly took steps to increase revenues and to keep expenditure below programmed levels. This should ensure a continued increase in savings by the public sector, which is an essential element of the medium-term strategy of assigning a greater role to the private sector while gradually reducing external and domestic imbalances. The authorities will continue to monitor carefully government revenues and expenditures and will react swiftly should further corrective action be required. The authorities recognize the importance of elaborating a budget law that will allow the achievement of the originally programmed fiscal target for 1990.

A good start has been made on the clarification of the financial relationship between the Government and the public enterprise sector with the recent elaboration of agreements with key enterprises on the servicing of their external debts. A study of the tax liabilities of public enterprises is currently under way. The staff would underscore the importance of making these enterprises subject to normal tax rules from January 1990 with the simultaneous elimination of ad hoc contributions. While it is as yet uncertain whether these measures will provide a significant net increase in government revenues, they would increase transparency and improve the operating environment of the enterprises. At the same time, the private sector, which is relatively heavily taxed, would be placed on a more even footing with the public enterprises.

The elaboration of the tax and tariff reform and its implementation from January 1990 are key elements in the structural reform policies. The introduction of a value-added tax and the harmonization and simplification of import taxes should contribute to increasing efficiency in the productive sectors. The incentive framework for the private sector will be further streamlined with the new investment code. Commendable progress has also been made in the deregulation of trade and prices. However, part of the government revenue shortfall could probably have been avoided if the effective liberalization of imports subject to trade monopoly had been implemented earlier, as envisaged. It remains critically important to implement all the structural elements of the program in a timely manner.

As exchange rate policies and the utilization of certain monetary instruments are largely determined in the context of the institutional arrangements of the WAMU, greater emphasis must be placed on other measures to safeguard the competitiveness of Togolese exports. The authorities are actively pursuing efforts to contain price and wage levels, including the freezing of civil service salaries in 1989 for the second year in a row. As for agricultural exports, continued efforts are aimed at reducing the costs of OPAT, the crop marketing agency. The authorities have been successful in recent years in keeping the rate of inflation below that experienced by partner countries. However, they will need to stand ready to further tighten fiscal and monetary policies should inflationary pressures arise.

The authorities have requested that waivers be granted for the nonobservance of the end-June performance criteria relating to the nonaccumulation of external arrears, the contributions to the budget of public enterprises, and the approval by the Council of Ministers of the tax and tariff reform. Inasmuch as the deviations were largely for technical reasons and have since been rectified, and the targets of the program remain achievable, the staff proposes that the waivers be granted and that the present review be completed.

VI. Proposed Decision

The following decision is proposed for adoption by the Executive Board:

Review Under First Annual Arrangement Under ESAF

1. The Fund determines that the review contemplated in paragraph 2(c) of the first annual arrangement under the enhanced structural adjustment facility for Togo (EBS/89/90, May 10, 1989) has been completed.

2. The letter of the Minister of Finance dated October 30, 1989 shall be attached to the ESAF arrangements for Togo (EBS/89/90, May 10, 1989), and the letter of the Minister of Finance dated April 21, 1989 shall be read as supplemented and modified by the letter dated October 30, 1989.

3. The Fund finds that no further understandings are necessary and that Togo may proceed to request the disbursement of the second loan referred to in paragraph 1(c)(ii) of the first annual arrangement, notwithstanding the nonobservance of the performance criteria specified in paragraphs 2(a)(iv), 2(a)(vii), and 2(a)(viii) of the arrangement.

Lomé, October 30, 1989

The Managing Director
International Monetary Fund
Washington, D.C. 20431

Sir:

1. In conformity with the arrangement under the enhanced structural adjustment facility approved for Togo by the Fund's Executive Board on May 31, 1989, we recently held discussions with a Fund mission on the midterm review of the first program year. The discussions centered on the progress made during the first six months of 1989 and on the outlook for the program during the remainder of the year. The results in terms of economic growth, inflation, and balance of payments generally conformed to the program. However, as government revenue fell below the expected level, additional efforts have become necessary in the implementation of the fiscal program. Considerable progress has been made in the formulation of the agreed structural adjustment measures, although the implementation of certain measures has taken somewhat longer than anticipated, mainly for technical reasons. A number of important decisions, which are examined more closely below, have been taken, and the Government of Togo remains determined to pursue the policies contained in my letter of April 21, 1989.

2. Following the good economic performance of 1988--the rate of growth for that year is currently estimated at 5.6 percent in real terms, compared with the previous estimate of 4.1 percent--economic activity slowed somewhat in 1989. Mainly as a result of a deceleration in domestic demand and a slump in some re-exports stemming from economic difficulties in neighboring countries, growth in certain sectors was weak, which led to a lower-than-expected level of consumer goods imports and consequently to a less favorable trend in government revenue. However, good weather conditions and a strong performance by the main exports should contribute to a growth of GDP approaching the programmed level (4 percent). The inflation rate, as measured by the consumer price index, remained modest; in fact, the average in the first seven months fell by 1.3 percent, compared with the corresponding period of 1988. For food products the decline was more than 4 percent, reflecting both a good harvest and lower prices for sugar and rice, a result of the elimination of the import monopoly. To a certain degree, this price decrease offset the temporary negative effect of the adjustment measures, especially the freeze on public sector salaries.

3. The improvement in the current account balance in 1988 should continue in 1989, mainly as a consequence of the increase in export values, following a rise of almost 18 percent in the average price of phosphate. This would soften the impact both of the continued decline in export prices for coffee and cocoa and of the low volume of Togo's manufactured goods exported to other countries of the subregion. Compared with the program, imports of consumer goods may decline slightly as a result of the slowdown in economic activity. By contrast, the deficit in the services balance may increase, reflecting among other things the impact of exchange rate fluctuations on interest payments on external debt. With net transfers at their expected level, the current deficit could reach CFAF 20 billion, or 4.7 percent of GDP, compared with the programmed 4.5 percent. On the other hand, the capital account surplus could decrease by CFAF 3.4 billion in 1989, compared with the program, mainly as a result of the drop in the net inflow of short-term private capital. The residual financing gap of CFAF 17 billion, taking into account the accumulation of reserves, would be financed through debt relief on concessional terms obtained from the Paris Club in June 1989.

4. The overall fiscal deficit on a payment order basis (excluding grants) for the first half of 1989 was about CFAF 5.9 billion, slightly below the program level of CFAF 7.1 billion. This generally positive result notwithstanding, tendencies emerged in the first six months that would have generated a deficit much larger than that anticipated for the year as a whole had no corrective measures been taken. Revenue amounted to CFAF 46.3 billion, which was CFAF 6 billion (equivalent to 1.4 percent of GDP) less than expected. Direct taxation brought in CFAF 2.7 billion less than projected. Primarily for technical reasons, the contribution to the budget by some public enterprises did not reach the programmed level, which led to nonobservance of the relevant structural performance criterion as of June 30. In addition, there was a revenue shortfall as regards the tax on profits, owing in part to a decrease in profits for certain enterprises in 1988 compared with 1987, but also in part to late payment by taxpayers of tax installments. Indirect taxes fell CFAF 3.3 billion short of projections, with the import component being the most seriously affected. This is partly the result of a change in import patterns (imports of basic--generally less heavily taxed--goods have increased) and partly the result of the delay in implementing trade liberalization measures. Revenue from indirect taxes on domestic transactions was also lower than anticipated.

5. The lower level of government revenue was offset during the first half of 1989 by reduced expenditure: CFAF 52.1 billion, or CFAF 7.3 billion less than expected. Current expenditure fell CFAF 6 billion short of the programmed amount because of diminished outlays for materials and supplies. This development was due principally to the delayed enactment of the 1989 budget, which kept budgetary credits from becoming available until mid-March. It could thus prove to be temporary. During the first half of the year, public investment expenditure amounted to CFAF 11 billion, or CFAF 2.7 billion less than

programmed. Several factors were at the root of this development, in particular the delay in the opening of budgetary credits and in the preparation of projects, as well as the difficulties encountered in mobilizing the expected external financing.

6. The financing of the deficit of the consolidated government operations was somewhat different from what had been anticipated under the program. The Government reduced its net debt to domestic banks by CFAF 2 billion, or CFAF 1 billion more than programmed. It also reduced its nonbank debt, including domestic arrears, by CFAF 2.7 billion, or CFAF 1.3 billion more than anticipated. Net external financing was in conformity with program provisions. Owing to technical difficulties, the Government nevertheless accumulated external arrears of CFAF 1.9 billion and was thus unable to observe the relevant end-June performance criterion. These arrears were, however, completely eliminated by July 5, 1989.

7. In view of the above and the outlook for the Togolese economy, the Government has revised its budgetary program for the remainder of 1989 so as to approximate the program objectives. In the absence of additional measures, government revenue would reach CFAF 97.3 billion, or CFAF 6.2 billion less than programmed. This projection presupposes a slight reversal in some trends that had a negative influence on revenue during the first six months of the year and takes into consideration the impact that the complete application of trade liberalization measures will have on the import volume of consumer goods. With regard to expenditure, interest payments on external debt will increase by CFAF 0.9 billion as a result of the appreciation of the U.S. dollar against the CFA franc. In view of present tendencies, the Government will make additional efforts to keep current budgetary expenditures CFAF 1 billion below the level stipulated in the program. It will also endeavor to carry out the investment program so as to ensure achievement of the program's long-term growth objectives. Nevertheless, owing to delays in program execution during the first eight months, investment expenditure will amount to CFAF 32.4 billion, or CFAF 1 billion less than planned.

8. Given all of these developments, additional revenue of CFAF 5 billion would be necessary to achieve the original objective of reducing the deficit of consolidated government operations on a payment order basis (excluding grants) from 5.4 percent of GDP in 1988 to 5.1 percent in 1989. However, in view of the diminished tax revenue and economic activity in Togo this year, the Government is able to identify only CFAF 4 billion of additional resources, thus stabilizing the budget deficit at 5.4 percent in 1989. Higher phosphate prices will translate into substantially increased resources for the Office Togolais des Phosphates (OTP), allowing it to augment its budget contribution from CFAF 6 billion to a minimum of CFAF 7 billion. The financial situation of the petroleum fund is such that its contribution to the budget may also be increased, from CFAF 8 billion to CFAF 9 billion. In addition, other public enterprises will be able to increase their contribution by

a total of CFAF 2 billion. In line with these revisions, contributions by the above entities by end-September exceeded the level originally programmed for that date by CFAF 2 billion. The Government is currently preparing the tax measures for the 1990 Budget Law, which will enable it to achieve the objective of an overall deficit on a payment order basis (excluding grants) of 4.7 percent in 1990, as provided for in the program.

9. The target of reducing domestic arrears by CFAF 4.4 billion and preventing the accumulation of further external arrears in 1989 remains unchanged, as do the goals of reducing domestic bank financing by CFAF 3 billion and nonbank financing by CFAF 2.6 billion. The present status of the implementation of the structural components, including the recently adopted decisions described below, should permit release of the second tranche of the World Bank's third structural adjustment credit in October 1989. The authorities will seek to expedite disbursement of the structural adjustment credit and related cofinancing, in particular by preparing in advance the required package of import invoices. Owing to the favorable restructuring of external debt service obtained from the Paris Club, the budget should be fully financed.

10. The program's monetary performance criteria were observed as at June 30, 1989: net domestic assets rose to CFAF 121.83 billion as against a ceiling of CFAF 128.76 billion, while net claims on the Government amounted to CFAF 18.86 billion compared with an authorized maximum of CFAF 19.90 billion. For the rest of the year, the credit ceilings outlined in my letter of April 21, 1989 are still valid, i.e., net domestic assets of no more than CFAF 129.75 billion and CFAF 131.99 billion for end-September and end-December 1989, respectively, and net claims on the Government of no more than CFAF 17.42 billion and CFAF 17.96 billion for the same dates, respectively. As regards the reorganization of the two banks experiencing difficulties, the plan for rehabilitating the Togolese Development Bank (BTD) is being implemented, and the authorities still intend to liquidate the National Agricultural Credit Fund (CNCA). During a donors' meeting, held on October 5 and 6, the Government received agreement in principle on the financing of a new structure to replace the CNCA. The feasibility study of this structure, undertaken with the help of the Food and Agriculture Organization, will be elaborated further. The liquidation decree and the agreements for opening credit with the various donors in regard to the CNCA will be signed before the end of 1989. In the context of the reforms currently under way within the West African Monetary Union (WAMU), Togo will be pursuing a flexible interest rate policy, designed inter alia to retain capital and eventually eliminate the preferential discount rate, which is now only 1 percentage point less than the normal discount rate. The Togolese authorities are also adhering to the other planned reforms, that is, discontinuation of sectoral credit ratios, introduction of changes in the system of prior authorizations, strengthening of bank monitoring and supervision, and revision of procedures for crop financing to ensure a better performance of crop loans.

11. The 1989 financial and economic program comprises a large number of structural measures, most of which are now in progress. The Council of Ministers' approval of the tax and tariff reform is a structural performance criterion for end-June. For technical reasons, primarily connected with the goal of preventing any downturn in revenues, preparation of the draft laws took longer than expected. The tax and tariff reform was adopted on September 13 and will now go to the forthcoming budgetary session of the National Assembly in October. The program objective of introducing this reform in 1990 will be achieved as planned. The new Investment Code could be introduced only in conjunction with the tax and tariff reform, given the numerous connections between the two draft laws. The new Code will come into effect in October 1989.

12. In the continuing efforts to reduce the processing and marketing costs of the Office des Produits Agricoles du Togo (OPAT), preparation of the second phase of the reform process was well under way by end-June, although not all aspects of the second phase had been addressed at that time. The OPAT's Board of Directors approved the final components of the second phase at end-August, and its budget was adopted at end-September. The floor price for cotton for the 1989/90 crop year was also announced by end-September. The floor prices (per kilogram) for producers of coffee and cocoa for the 1989/90 crop year were announced before end-October. They entail a reduction from CFAF 350 to CFAF 200 for coffee and from CFAF 300 to CFAF 225 for cocoa. The latter two measures represent structural benchmarks.

13. Public enterprise reform is progressing in accordance with the program. As regards the reform of the juridicial and institutional framework of state-owned companies, the Reform Committee's recommendations for improving the autonomy and accountability of these companies have been approved by the Government and will be adopted as law in January 1990. The sale and reorganization of two textile enterprises (ITT and TOGOTEX) are currently under negotiation. As envisaged in the program, six other enterprises have been earmarked for privatization. Negotiations concerning four of them are currently in progress.

14. The agreements under which the public enterprises will assume responsibility for their external debt have been prepared and was signed by end-September 1989. These agreements affect seven enterprises whose total liabilities amount to approximately CFAF 5.1 billion. The principal points of the agreements are as follows: payment of the enterprises' obligations will begin no later than January 1, 1990; guaranteed and renegotiated debt service will be assumed in full by the enterprises themselves; service of the Government's direct debt attributable to the public enterprises will comprise only the service on debts that made a direct contribution to the activities of those enterprises; all public enterprises shall be responsible for their debt service under the terms of their original loan agreements, as modified by agreements of rescheduling under the Paris and London Clubs concluded before 1989. In any event, starting from 1989, any profits resulting

from differences between the terms stipulated in the enterprises' original loan agreements and the terms of rescheduling shall revert to the Government. In addition, the authorities are conducting a study of the taxation of public enterprises, which will begin early in January 1990 to pay their tax liabilities, as determined by the study.

15. With respect to deregulation of imports and marketing, the decision to abolish import licenses and the interministerial regulation to abolish quotas were signed on May 26 and May 29, respectively. The Government will take all necessary steps to reduce the time required to process applications for registration to no more than two weeks. Furthermore, price controls and fixed profit margins for goods manufactured in Togo were abolished at end-January 1989, and the system for renewal of business licenses was deregulated in early March. Export licenses for industrial products were abolished in March. A project for creating an export processing zone has been started by the Government with the support of foreign investors. The law defining the institutional framework and eligibility requirements for interested enterprises was approved on September 16, 1989.

16. As regards the monitoring of wage costs, the Government will be introducing a computerized civil service roster before the end of December 1989. Work has begun on the civil service employment strategy, which will be implemented in 1990 as provided for in the program.

17. As mentioned previously, the authorities will continue to take all necessary steps to achieve the program's overall objectives and to fulfill the end-December 1989 structural and financial benchmarks. In this context, the Government of Togo asks that the Fund grant waivers for noncompliance with the end-June 1989 performance criteria relating to the contributions to the budget by certain public enterprises, the accumulation of external arrears, and the Council of Ministers' approval of the tax and tariff reform.

Sincerely yours,

/s/

Komla Alipui
Minister of Economy and Finance

Togo - Relations with the Fund
(As of September 30, 1989)

I. Membership Status

Date of membership	August 1, 1962
Status	Article XIV

A. Financial Relations

II. General Department

(a) Quota SDR 38.40 million	
(b) Total Fund holdings of local currency	SDR 76.25 million (198.57 percent of quota)
(c) Fund credit	SDR 51.50 million (134.11 percent of quota)
(1) General Resources Account under credit tranche	SDR 13.03 million (33.93 percent of quota)
Supplementary financing	--
Enlarged access	SDR 25.03 million (65.18 percent of quota)
(2) Special disbursement account	
Structural adjustment facility	SDR 7.68 million
Enhanced structural adjustment facility 1/	SDR 5.76 million
(d) Reserve tranche position	SDR 0.21 million (0.55 percent of quota)

III. Stand-By Arrangements and Special Facilities

Previous stand-by arrangements

(1) Approved March 16, 1988	
Duration	From March 16, 1988 to April 15, 1989
Amount	SDR 13.00 million
Utilization	SDR 13.00 million
(2) Approved June 9, 1986	
Duration	From June 9, 1986 to April 8, 1988
Amount	SDR 23.04 million
Utilization	SDR 8.64 million

1/ In addition to the amount reported here, utilization of the ESAF arrangement included SDR 1.92 million from the ESAF Trust Account which is reported below under Administered Accounts (item IV).

Togo - Relations with the Fund (continued)
(As of September 30, 1989)

(3)	Approved May 17, 1985	
	Duration	From May 17, 1985 to May 6, 1986
	Amount	SDR 15.36 million
	Utilization	SDR 15.36 million
(4)	Approved May 7, 1984	
	Duration	From May 7, 1984 to May 6, 1985
	Amount	SDR 19.0 million
	Utilization	SDR 19.0 million
(5)	Approved March 4, 1983	
	Duration	From March 4, 1983 to April 3, 1984
	Amount	SDR 21.38 million
	Utilization	SDR 21.38 million
(6)	Approved February 13, 1981	
	Duration	Feb. 13, 1981 to Feb. 12, 1983
	Amount	SDR 47.50 million
	Utilization	SDR 7.25 million
(7)	Approved June 11, 1979	
	Duration	June 11, 1979 to December 31, 1980
	Amount	SDR 15.00 million
	Utilization	SDR 13.25 million

IV. Administered Accounts

(a)	Trust Fund Loans	
	Disbursed	SDR 14.66 million
	Outstanding	SDR 0.80 million
(b)	SFF Subsidy Account	
	Payments by Fund	SDR 1.08 million
(c)	ESAF Loans: Trust Account	SDR 1.92 million

V. SDR Department

(a)	Net cumulative allocation	SDR 10.98 million
(b)	Holdings	SDR 0.14 million (1.26 percent of net cumulative allocation)
(c)	Current Designation Plan	--

Togo - Relations with the Fund (concluded)
(As of September 30, 1989)

B. Nonfinancial Relations

VI. Exchange rate arrangement

Togo is a member of the West African Monetary Union (WAMU), the common currency of which is the CFA franc. The CFA franc is pegged to the French franc, the intervention currency, at the fixed rate of CFAF 1 = FF 0.02. Like other WAMU members, Togo maintains an exchange system that is free of restrictions on payments and transfers for current international transactions.

VII. Last Article IV Consultation

The report on the 1988 Article IV consultation discussions (EBS/89/90) was discussed by the Executive Board on May 31, 1989. No decision was required.

VIII. Enhanced Structural Adjustment Facility

The Executive Board discussion of Togo's request (EBS/89/90) was held on May 31, 1989. The decision was as follows:

1. The Government of Togo has requested a three-year structural adjustment arrangement under the enhanced structural adjustment facility, and the first annual arrangement thereunder.

2. The Fund notes the updated Policy Framework Paper for Togo set forth in EBD/89/128.

3. The Fund approves the arrangements set forth in EBS/89/90.

IX. Recent Technical Assistance

(a) Assistance by two staff members and one fiscal panel expert	February 6-26, 1989
(b) Assistance by one staff member and two fiscal panel experts	June 27-July 15, 1988
(c) Assistance by staff member and two fiscal panel experts	November 11-December 4, 1987
(d) Assistance by staff member and fiscal panel expert	June 3-19, 1986
(e) Assistance by staff member, general economic data	October 22-November 2, 1985

Fund resident representative

On July 31, 1988, the office was closed.

Togo: Relations with the World Bank Group

(In millions of U.S. dollars, as of June 30, 1989) 1/

	Original Principal 2/			Disbursed and Outstanding		
	IDA	IBRD	Total	IDA	IBRD	Total
Fully disbursed dollar loans and credits	68.76	3.50	72.26	68.78	0.97	69.73
Fully disbursed SDR credits	113.41	--	113.41	117.18	--	117.18
All disbursing credits	255.20	--	255.20	98.95	--	98.95
Second rural development	30.40	--	30.40	24.68	--	24.68
Education improvement	12.40	--	12.40	7.73	--	7.73
Lomé water supply	12.00	--	12.00	8.14	--	8.14
Nangbéto hydroelectric	15.00	--	15.00	11.01	--	11.01
Technical assistance III	6.20	--	6.20	4.73	--	4.73
Coffee and cocoa development II	14.00	--	14.00	13.71	--	13.71
Coffee and cocoa development III	17.90	--	17.90	7.79	--	7.79
Agricultural extension	9.70	--	9.70	1.05	--	1.05
Private enterprises development	11.50	--	11.50	0.93	--	0.93
Transport rehabilitation	40.00	--	40.00	0.19	--	0.19
Structural adjustment III	45.00	--	45.00	18.99	--	18.99
Cotton sector development 3/	15.10	--	15.10	--	--	--
Grassroots development initiatives 3/	5.00	--	5.00	--	--	--
Preinvestment 3/	5.00	--	5.00	--	--	--
Telecommunications 3/	16.00	--	16.00	--	--	--
Grand total for all loans	--	3.50	3.50	--	0.97	0.97
Grand total for all credits	437.37	--	437.37	284.89	--	284.89
Grand total for all loans and credits	437.37	3.50	440.87	284.90	0.97	285.86

Sources: IBRD and IDA statements of loans and development credits, June 1989.

1/ Discrepancies between original and disbursed amounts are due to fluctuations in US$/SDR exchange rate in period of disbursement. Credits denominated in SDRs are shown in U.S. dollar equivalent based on the exchange rates in effect at time of negotiations.
2/ Not yet effective as of June 30, 1989.
3/ Not yet effective as of June 30, 1989.

Togo -- Relations with the World Bank Group (concluded)

Commentary on World Bank Lending Operations

1. As of June 30, 1989, IDA lending to Togo totaled 31 credits, amounting to US$437.37 million, of which US$284.89 million was disbursed, and IBRD lending amounted to US$3.50 million. In addition to the structural adjustment programs, IDA lending has financed agriculture (cocoa, coffee, cotton, and food crops), transport, water supply, power, education, and private enterprise development as well as technical assistance to the Ministries of Planning, Rural Development, and State Enterprises. Togo has also benefited from Bank Group support to regional operations, including two credits to the West African Development Bank (BOAD), two credits for the feasibility study and construction, respectively, of the Nangbéto regional hydroelectric project, and, finally, a Bank loan and an IDA credit together totaling US$55.2 million to CIMAO (a regional clinker plant now closed) which are jointly and severally guaranteed by Côte d'Ivoire, Ghana, and Togo, plus a further IDA credit of US$5.7 million for CIMAO. Technical assistance at the macro level is currently provided under the Third Technical Assistance Credit.

2. Recent and proposed lending is designed to provide an appropriate mix of policy-based operations and investment operations in the respective sectors. The most recent of the Bank Group's policy-based operations in Togo is an IDA credit of US$45 million, supplemented by US$38 million in cofinancing from the Government of Japan and the African Development Bank, which was approved by the Bank's Board in March 1988 to support the third phase of the Government's structural adjustment program. Complementary to structural adjustment lending, operations approved in FY89 or envisaged for the next two years, FY90-91, include sector-wide programs in agriculture, power, telecommunications, education, and health. Additionally, operations approved in FY89 included a credit for a Pre-Investment Fund to facilitate investment programming and, secondly, for a Grassroots Development Initiatives Project in support of nongovernmental organizations (NGO) activity in Togo.

Table I. Togo: Schedule of Disbursements
Under ESAF Arrangements

Amount	Availability date	Conditions necessary for disbursement 1/
SDR 7.68 million	June 15, 1989	Executive Board approval of the ESAF arrangement and the first annual arrangement thereunder.
SDR 7.68 million	After November 14, 1989	Observance of the performance criteria for June 30, 1989, and completion of the semiannual review under the arrangement.
SDR 7.68 million	After March 30, 1990	Executive Board approval of the second annual arrangement.
SDR 7.68 million	After November 14, 1990	Observance of the performance criteria for June 30, 1990, and completion of the semiannual review under the arrangement.
SDR 7.68 million	After March 30, 1991	Executive Board approval of the third annual arrangement.
SDR 7.68 million	After November 14, 1991	Observance of the performance criteria for June 30, 1991, and completion of the semiannual review under the arrangement.

Source: IMF.

1/ Other than the generally applicable conditions under the ESAF arrangement, including the performance clause on the exchange and trade system.

Table II. Togo: Fund Position During 1987-91

	1987	1988	1989				1990				1991			
			Jan.-March	April-June	July-Sept.	Oct.-Dec.	Jan.-March	April-June	July-Sept.	Oct.-Dec.	Jan.-March	April-June	July-Sept.	Oct.-Dec.
	(In millions of SDRs)													
Transactions under tranche policies (net)	-10.77	-7.25	-4.35	-1.63	-3.98	-4.23	-2.90	-3.21	-2.09	-2.96	-0.80	-2.18	-0.63	-2.17
Purchases	--	10.36	--	2.64	--	--	--	--	--	--	--	--	--	--
Ordinary resources	(--)	(3.44)	(--)	(0.88)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Enlarged access resources	(--)	(6.92)	(--)	(1.76)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)	(--)
Repurchases	10.77	17.61	4.35	4.27	3.98	4.23	2.90	3.21	2.09	2.96	0.80	2.18	0.63	2.17
Ordinary resources	(7.91)	(13.49)	(3.25)	(3.13)	(2.89)	(2.57)	(1.62)	(1.24)	(0.99)	(0.99)	(0.50)	(0.60)	(0.45)	(0.38)
Borrowed resources	(2.86)	(4.12)	(1.10)	(1.14)	(1.09)	(1.66)	(1.28)	(1.97)	(1.10)	(1.97)	(0.30)	(1.58)	(0.18)	(1.79)
Structural adjustment facility (SAF) loans	--	7.68	--	--	--	--	--	--	--	--	--	--	--	--
Enhanced structural adjustment facility (ESAF) loans	--	--	--	7.68	--	7.68	--	7.68	--	7.68	--	7.68	--	7.68
Total Fund credit outstanding (end of period)	55.28	55.70	51.35	57.40	53.42	56.87	53.97	58.44	56.35	61.07	60.27	65.77	65.14	70.65
Tranche policies	55.28	48.02	43.67	42.04	38.06	33.83	30.93	27.72	25.63	22.67	21.87	19.69	19.06	16.89
Special facilities	--	--	--	--	--	--	--	--	--	--	--	--	--	--
SAF	--	7.68	7.68	7.68	7.68	7.68	7.68	7.68	7.68	7.68	7.68	7.68	7.68	7.68
ESAF 1/	--	--	--	7.68	7.68	15.36	15.36	23.04	23.04	30.72	30.72	38.40	38.40	46.08
	(As percent of quota)													
Total Fund credit outstanding (end of period)	143.96	145.04	133.72	149.48	139.11	148.10	140.55	152.19	146.74	159.04	156.95	171.64	169.64	183.98
Tranche policies	143.96	125.04	113.72	109.48	99.11	88.10	80.55	72.19	66.74	59.04	56.95	51.28	49.64	43.98
Special facilities	--	--	--	--	--	--	--	--	--	--	--	--	--	--
SAF	--	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00	20.00
ESAF 1/	--	--	--	20.00	20.00	40.00	40.00	60.00	60.00	80.00	80.00	100.00	100.00	120.00

Source: IMF, Treasurer's Department.

1/ Including ESAF trust borrowing.

Table III. Togo: Consolidated Government Operations, 1985-92 1/

	1985	1986	1987	1988	1989		1990	1991	1992
				Est.	Prog.	Rev. Prog.	Projections		
				(In billions of CFA francs)					
Revenue and grants	114.7	120.5	97.4	105.3	111.8	109.6	118.2	125.5	134.6
Revenue	99.2	104.9	89.2	97.2	103.5	101.3	110.2	116.2	123.9
Tax revenue	76.1	78.6	73.5	79.6	87.6	86.4	95.1	100.8	108.1
Of which:									
import duties	(32.4)	(34.1)	(32.7)	(34.7)	(37.2)	(34.5)	(37.9)	(40.2)	(42.9)
OTP	(13.0)	(13.6)	(3.5)	(4.6)	(6.0)	(7.0)	(7.5)	(7.8)	(8.5)
OPAT	(6.6)	(6.6)	(2.5)	(0.6)	(1.2)	(1.2)	(0.4)	(0.8)	(1.9)
other public enterprises	(5.0)	(1.7)	(3.4)	(1.7)	(0.5)	(2.5)	(1.2)	(1.2)	(1.2)
Petroleum Fund	(...)	(...)	(3.5)	(7.5)	(8.0)	(9.0)	(8.0)	(8.0)	(8.0)
Nontax revenue	23.2	26.3	15.7	17.7	15.9	14.9	15.1	15.4	15.9
Grants (project and program)	15.5	15.6	8.2	8.1	8.3	8.3	8.0	9.3	10.7
Expenditure and net lending	120.1	136.7	123.0	118.9	125.5	124.3	132.0	137.2	143.3
Current expenditure	78.0	82.9	86.7	88.5	92.1	92.0	94.0	95.8	98.6
Personnel	(27.8)	(28.8)	(34.2)	(35.4)	(35.9)	(35.9)	(37.0)	(38.1)	(39.2)
Interest due on external debt 2/	(21.7)	(17.7)	(14.7)	(16.5)	(16.2)	(17.1)	(15.9)	(14.4)	(13.5)
Materials and supplies	(13.0)	(15.7)	(21.0)	(17.4)	(19.5)	(18.6)	(19.9)	(21.4)	(23.0)
Transfers	(3.5)	(3.8)	(3.7)	(3.7)	(3.8)	(3.9)	(4.0)	(4.1)	(4.2)
Other 3/	(12.0)	(16.9)	(13.1)	(15.6)	(16.6)	(16.6)	(17.3)	(17.9)	(18.6)
Investment expenditure	42.1	50.4	36.3	30.3	33.4	32.4	38.0	41.3	44.7
Nangbéto Dam	(6.9)	(6.5)	(5.3)	(2.5)	(0.3)	(0.3)	(0.2)	(--)	(--)
Other investment	(35.2)	(43.9)	(31.0)	(27.8)	(33.1)	(32.1)	(37.8)	(41.3)	(44.7)
Unclassified expenditure and net lending	--	3.4	--	0.1	--	--	--	--	--
Overall deficit (-), payment order basis	-5.4	-16.2	-25.6	-13.6	-13.7	-14.7	-13.8	-11.7	-8.7
Payments arrears (decrease -)	-3.6	-2.6	9.6	-10.4	-4.4	-4.4	--	--	--
Domestic	-1.2	-3.3	3.3	-3.3	-4.4	-4.4	--	--	--
External	-2.4	0.7	6.3	-7.1	--	--	--	--	--
Overall deficit (-), cash basis	-9.0	-18.8	-16.0	-24.0	-18.1	-19.1	-13.8	-11.7	-8.7
Financing	9.0	18.8	16.0	24.0	18.1	19.1	13.8	11.7	8.7
Domestic financing	3.9	14.6	3.7	4.1	-5.6	-5.6	-3.4	-3.0	-1.5
Banking system	6.8	15.8	-10.0	-6.1	-3.0	-3.0	-3.0	-3.0	-1.5
Counterpart of net use of Fund resources 4/	(5.1)	(4.7)	(-6.6)	(-0.9)	(0.3)	(--)	(1.3)	(2.8)	(-3.0)
Other	(1.7)	(11.1)	(-3.4)	(-5.2)	(-3.3)	(-3.0)	(-4.3)	(-5.7)	(1.5)
Nonbank financing	-2.9	-1.3	13.7	10.2	-2.6	-2.6	-0.4	--	--
External financing	5.1	4.2	12.3	19.8	7.0	24.6	5.7	-1.3	1.7
Borrowing 5/	24.5	30.5	19.3	27.5 6/	28.4 7/	27.7	20.8	19.2	22.0
Amortization due 8/	-33.1	-31.0	-29.6	-27.5	-21.4	-20.2	-22.7	-20.5	-20.3
Agreed rescheduling	13.7	2.5	--	44.5	--	17.0	7.6	--	--
Arrears on amortization (- reduction)	--	2.2	22.6	-24.7	--	--	--	--	--
Financing gap (- surplus)	--	--	--	--	16.6	--	11.6	16.0	8.6
				(As percent of GDP)					
Overall deficit (-), payment order basis									
With grants	-1.6	-4.5	-6.8	-3.4	-3.2	-3.5	-2.9	-2.3	-1.5
Without grants	-6.2	-8.8	-9.0	-5.4	-5.1	-5.4	-4.7	-4.2	-3.6
Tax revenues	22.5	21.7	19.6	19.7	20.3	20.1	20.7	20.4	20.3
Budgetary savings 9/	12.7	10.9	4.6	6.2	6.4	6.1	7.0	7.0	7.3

Sources: Data provided by the Togolese authorities, the BCEAO, and the World Bank; and staff estimates and projections.

1/ Includes treasury operations, external government debt service and payments arrears, government operations directly financed by OTP, and expenditure financed by foreign grants and loans; excludes the Social Security Fund (CNSS).

2/ Interest due before rescheduling, plus moratorium, penalty interest, and interest on new and gap financing.

3/ Includes revenue/expenditure of the University of Benin, the University Hospital Center, the School of Administration (ENA), the Retirement Fund (Caisse de Retraite), and local authorities, net of budgetary transfers to those entities.

4/ Net purchases from the Fund, excluding Trust Fund, but including ESAF purchases of CFAF 6 billion each year for 1989-91. Repurchases are according to BCEAO valuation of government purchases in the past.

5/ Project and program loans, excluding future exceptional financing.

6/ Includes CFAF 0.6 billion debt cancellation from Germany.

7/ This amount could be modified by CFAF 5.8 billion external financing from bilateral and multilateral creditors to cover the cash liabilities of the agricultural credit bank (CNCA) in the context of its restructuring during 1989-90.

8/ Amortization due after 1988 includes the impact of the 1988 and 1989 Paris Club and 1988 London Club rescheduling arrangements.

9/ Defined as total revenue minus current expenditure excluding interest payments.

Table IV. Togo: Medium-Term Balance of Payments and Fiscal Scenario, 1989-92

	1989	1990	1991	1992
	(Revised baseline scenario)			
Current account deficit (CFAF billions)	-20.03	-17.33	-15.17	-15.22
Current account as percent of GDP	-9.63	-8.41	-7.73	-7.53
Overall balance (CFAF billions)	-8.69	-8.58	-5.65	-2.69
Fiscal deficit (CFAF billions), excluding grants	-23.04	-21.84	-20.99	-19.40
Fiscal deficit (in percentage of GDP; excluding grants)	-5.37	-4.74	-4.24	-3.64
	(Scenario A) 1/			
Change vis-à-vis revised baseline scenario 2/	5 percent lower prices of four major exports			
Current account deficit (CFAF billions)	3.30	3.80	4.15	4.40
Current account as percent of GDP	0.77	0.82	0.84	0.83
Overall balance (CFAF billions)	3.30	3.80	4.15	4.40
Effect on fiscal receipts	1.23	1.43	1.57	1.66
Fiscal deficit (in percentage of GDP; excluding grants)	0.29	0.31	0.32	0.31
	(Scenario B) 3/			
Change vis-à-vis revised baseline scenario 2/	5 percent lower volumes of major agricultural exports			
Current account deficit (CFAF billions)	1.22	1.65	1.94	2.07
Current account as percent of GDP	0.28	0.36	0.39	0.39
Overall balance (CFAF billions)	1.22	1.65	1.94	2.07
Effect on fiscal receipts	0.49	0.66	0.78	0.83
Fiscal deficit (in percentage of GDP; excluding grants)	0.11	0.14	0.16	0.16
	(Scenario C) 4/			
Change vis-à-vis revised baseline scenario 2/	10 percent higher oil prices			
Current account deficit (CFAF billions)	0.87	0.93	0.97	1.05
Current account as percent of GDP	0.20	0.20	0.20	0.20
Overall balance (CFAF billions) 5/	0.87	0.93	0.97	1.05
Effect on fiscal receipts	0.87	0.93	0.97	1.05
Fiscal deficit (in percentage of GDP; excluding grants)	0.20	0.20	0.20	0.20
Memorandum items:				
Original baseline scenario				
Current account deficit (CFAF billions)	-19.33	-17.83	-15.74	-13.82
Current account as percent of GDP	-9.42	-8.44	-7.72	-7.24
Overall balance (CFAF billions)	-4.52	-9.78	-6.57	-0.89
Fiscal deficit (CFAF billions), excluding grants	-21.99	-21.58	-20.71	-19.19
Fiscal deficit (in percentage of GDP; excluding grants)	-5.10	-4.66	-4.16	-3.58

1/ Five percent lower CFA franc price of coffee, cotton, cocoa, and phosphates.
2/ The impact on all variables is negative.
3/ Five percent lower export volumes of coffee, cotton, and cocoa.
4/ Ten percent increase in the CFA franc price of oil imports at constant import volumes.
5/ Owing to the assumption of the accumulation of foreign reserves as constant in terms of months of imports, the residual financing gap would be higher.