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To: Members of the Executive Board

From: The Secretary

Subject: Togo - Enhanced Structural Adjustment Facility - Economic Policy Framework for 1989-91

Attached for consideration by the Executive Directors is the policy framework paper under the enhanced structural adjustment facility for Togo which will be brought to the agenda for discussion on a date to be announced.

Mr. Kapur (ext. 8732) is available to answer technical or factual questions relating to this paper prior to the Board discussion.

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INTERNATIONAL MONETARY FUND

TOGO

Enhanced Structural Adjustment Facility

Economic Policy Framework for 1989-91 1/

Prepared by the Togolese authorities in collaboration with the staffs of the Fund and the World Bank

March 18, 1989

I. Introduction

1. Togo is a small open economy based mainly on agricultural cash crops (cocoa, cotton, and coffee), mining (phosphate), and regional trade. Togo is a member of the West African Monetary Union (WAMU) and has a relatively developed banking system which has become a regional financial center. During the first half of the 1970s, the favorable evolution of the world prices for Togo's major export commodities led to a sharp increase in the public sector's financial resources and the Government embarked on a major program to expand public investment and increased the number and functions of government agencies and public enterprises. Some of these investments were associated with low rates of return and contributed to a weakening of the fiscal and external positions. These imbalances widened sharply following the marked decline in commodity prices in 1978, notwithstanding the efforts to scale back somewhat government spending, necessitating a stepped up recourse to external borrowing. Despite considerable efforts by the Government to ameliorate the situation, Togo's economic and financial position had deteriorated further by the end of 1982.

2. During the period 1983-85 major progress was made in addressing the financial and structural problems confronting the economy. The authorities successfully implemented three successive adjustment programs aimed at strengthening the growth performance and significantly reducing the financial imbalances that existed. These adjustment efforts were supported by the use of Fund resources under three successive stand-by arrangements, two IDA structural adjustment credits, and sizable assistance from bilateral and multilateral donors. The thrust of the authorities' policies involved a sharp reduction in the overall fiscal deficit, accompanied by broad-ranging structural measures to reduce the size of the public enterprise sector through a privatization program, a strengthening of the supply incentives in agriculture through higher producer prices, and a

1/ This paper updates and extends the policy framework paper for 1988-90 of January 22, 1988.

reorientation of investment policies toward rural and infrastructural development. Aided in part by favorable exogenous factors, these policies gave rise to a recovery in output growth, a reduction in inflation, a narrowing of the external current account deficit, and the elimination of domestic and external arrears by the end of 1985.

3. A further Fund-supported adjustment program was put in place for 1986-87. Economic developments during this period were greatly influenced by the sharp decline in the world prices of Togo's main commodity exports, which was aggravated by the depreciation of the U.S. dollar against the CFA franc. This led to marked declines in export earnings and budgetary revenues and, combined with a major overrun in government spending, to a widening in the fiscal and external imbalances. As a result, certain performance criteria were not met for end-December 1986 and Togo was unable to make further purchases from the Fund. Togo's economic and financial situation deteriorated markedly in 1987. In addition to the above adverse developments, unfavorable weather conditions affected foodcrop production, regional economic difficulties resulted in a stagnation in the trading sector, and domestic investment declined. The weakened fiscal and balance of payments situation led to a sizable accumulation of domestic and external payments arrears. Even though the banking system's foreign exchange reserves amounted to the equivalent of nine months of imports, the Government was unable to use these reserves to service the outstanding public debt since it was close to its statutory credit ceiling at the Banque Centrale des Etats de l'Afrique de l'Ouest (BCEAO) and could not obtain the necessary domestic funds.

II. Economic Performance in 1988

4. In response to the serious economic and financial difficulties facing the country by the end of 1987, the Government of Togo undertook a comprehensive adjustment program in the context of a medium-term framework with a view to rapidly restoring financial stability and accelerating structural reforms so as to allow a recovery of growth within the altered external environment. In support of Togo's adjustment efforts, the Fund approved, in March 1988, a 13-month stand-by arrangement and a three-year structural adjustment arrangement for 1988-90. In March 1988 the World Bank approved a third structural adjustment credit for 1988-89. Substantial assistance was also provided by other multilateral and bilateral donors, and Paris and London Club creditors.

5. The objectives of the Government's program for 1988 (revised in June 1988) were to achieve real GDP growth of 3.9 percent and bring down the current account deficit to less than 12 percent of GDP, with the GDP deflator rising no more than about 3 percent. To this end, the Government targeted a reduction in the overall fiscal deficit, on a payments order basis and excluding grants, from 9.1 percent in 1987 to 4.3 percent in 1988, through reduced expenditures combined with

increased tax revenues. In support of the fiscal stance and external current account objectives, the program included tight monetary and credit policies with a decline in the Government's net indebtedness to the banking system, restraints on credit to the major public enterprises, and a moderate increase in credit to the rest of the economy.

6. In addition, the program specified several structural measures aimed at increasing incentives to the private sector: first, the adoption of a system of flexible agricultural producer prices, linked to world prices, and a restructuring plan for the state agricultural marketing enterprise, OPAT; second, the abolition of the monopoly of the state import and trading company, SONACOM; third, the introduction of a tax and tariff reform, harmonizing the fiscal burden on imported and domestic products and facilitating tax revenue collection; fourth, the continuation of the program of restructuring, liquidating and privatizing public enterprises, with the sale of two major ones and improved auditing and internal control procedures for the ones remaining in the state portfolio.

7. The rate of growth of real GDP rose sharply in 1988 to an estimated 4.1 percent from 1.6 percent in 1987. The acceleration in growth was due to a sizable expansion in agricultural and phosphate production and an increase in manufacturing output, largely as a result of a recovery in output of privatized enterprises. Inflation remained low with the consumer price index rising by an estimated 0.2 percent, and the GDP deflator increasing by an estimated 4 percent, largely on account of higher phosphate prices.

8. The 1988 fiscal program aimed at reinstating budgetary discipline, accelerating fiscal reform and improving planning and monitoring of expenditures. To strengthen the revenue base, the authorities implemented several new tax revenue measures, including increases in the rates of the statistical tax, collection of the turnover tax at the customs level, consolidation of the turnover tax rates on domestic transactions at the highest rate, and increases in the specific taxes on rice and sugar. A start was made with the process of scaling back import tax exemptions and strengthening the customs administration, while preparatory work on a comprehensive tax and tariff reform was initiated with technical assistance from the Fund and the World Bank.

9. Revenue developments during 1988 were broadly in line with the program targets, despite an unexpected shortfall that appeared late in the year. The shortfall reflected mainly lower transaction tax on imports and turnover tax receipts and lower nontax receipts (interest and proceeds from the sale of state enterprises). To compensate for this, the authorities accelerated the clearance of accumulated import stocks and increased the transfers from state enterprises.

10. On the expenditure side, slippages in the monitoring of personnel outlays gave rise to a modest overrun of current expenditure. In addition, investment expenditure exceeded program estimates by CFAF 1.3 billion, owing largely to unanticipated outlays on the major dam project and higher-than-expected implementation of certain projects. The higher investment spending, however, was financed by additional foreign assistance. The Government undertook an unanticipated repayment of CFAF 3.2 billion in domestic nontreasury arrears from 1986 and 1987, for which the Government had assumed responsibility. These arrears were eliminated using concessional foreign bilateral assistance. The budget deficit in 1988, excluding grants and on a payments order basis, is estimated at 5.4 percent of GDP (5.1 percent excluding the unforeseen investment outlays financed from abroad), down from 9 percent in 1987, but higher than the program target of 4.3 percent. The Government's net indebtedness to the banking system was substantially reduced and all external arrears were eliminated as scheduled by end-1988. A residual gap of about CFAF 3.4 billion gave rise to the emergence of treasury arrears by year-end.

11. The monetary program for 1988 provided for a reduction in net bank credit to the Government, and allowed for a substantial increase in private sector credit (other than credit to OPAT and OTP). As OPAT and OTP reduced their credit use by CFAF 2.3 billion during the period, private sector credit expanded by an additional CFAF 5.3 billion. In addition, lower-than-expected private net capital inflows limited the expansion in net foreign assets to about one-third the programmed level. As a consequence, broad money supply actually declined by almost 8 percent, compared with a programmed increase of 7.6 percent, resulting in a 15 percent increase in the velocity of circulation. In December 1988, interest rates were adjusted upward in the West African Monetary Union (WAMU), with a view to strengthening further the mobilization of financial savings and discouraging capital outflows. In particular, the prime lending rate was raised to 7.5 percent (from 6 percent) and the interest rate on savings deposits to 7 percent (from 6.5 percent), levels significantly in excess of the current rate of inflation.

12. Several structural measures have been adopted in 1988. One of the more important measures was the implementation of a system of flexible agricultural producer prices and the reduction of operating costs of OPAT with a view to lower processing and marketing costs of the agricultural export products. With respect to the Government's public enterprise privatization program, by the end of 1988, 10 enterprises had been liquidated, 7 enterprises had been privatized, 4 enterprises had been leased to groups outside the Government, while negotiations were initiated for the privatization of another 8 enterprises. End-1988, the Government initiated a thorough assessment of the privatization experience and of the existing institutional and legal framework of the parastatal sector. The auditing of public enterprises, which was started in 1986, together with improvements in management structures, will help strengthen their financial positions.

13. With respect to the industrial and commercial sectors, beginning in early 1988, the Government commenced a thorough overhaul of the existing complex system of protection as well as important modifications in the regulatory framework governing business activity. This reform is built on the following elements and principles: (a) protection based on the customs tariff only and reduction of exemptions; (b) a simplified tariff structure and reduced dispersion of rates, harmonized border and domestic taxation; (c) liberalization of business establishment licensing and of pricing; and (d) abolition of state trading monopolies. Measures taken in 1988 and beginning 1989 include (a) the abolition of quantitative restrictions on imports and the commitment to gradually reduce--and completely suppress--the list of specifically regulated goods for which domestic purchase requirements exist; and (b) the revision of the price control regime with a view to deregulating it, and of the fixed profit margins for key consumer goods, as well as the regulations requiring periodic renewal of business establishment permits. The abolition of import licensing will become effective April 1, 1989, except for one strategic product (wheat flour) and the products for which special quotas exist (such as reinforcing bars and cement).

14. In June, the Government announced the details of the elimination of all the trading and marketing monopolies of the state company SONACOM by end-December 1988, with the liberalization phased in three stages. The liberalization of the marketing arrangements would allow significant reductions in the high profit margins and, in turn, in the retail prices of essential commodities such as rice, sugar, and milk.

15. The tight fiscal and monetary policies in 1988 contributed to a marked improvement in Togo's external current account position. Exports increased overall by 12.5 percent in value terms, primarily owing to favorable prices and increased volumes of cotton and phosphate exports, offsetting the effects of declines in the world market prices of coffee and cocoa, while imports remained virtually unchanged at their 1987 level. As a consequence, the current account deficit (excluding official transfers) fell to 9.6 percent of GDP from 14.6 percent the previous year. The capital account, however, weakened in 1988. Private capital inflows were considerably lower than anticipated, as a proposed foreign investment in connection with the privatization of two textile companies could not be concluded by year-end. As a result, even though the overall deficit improved markedly relative to 1987 (falling from CFAF 22 billion to CFAF 9 billion), it was larger than the program target of CFAF 2 billion. The financing gap was fully covered by three sources of exceptional financing: major debt relief through a rescheduling of Togo's external debt and arrears by its Paris Club and London Club creditors; exceptional bilateral financing from major official donors; and recourse to the use of Fund resources.

III. Objectives and Strategies for 1989-91

16. Substantial progress was made during 1988 in reducing the financial and structural imbalances in the Togolese economy and in laying the basis for further improvement. Nevertheless, the Togolese authorities are fully aware that serious structural problems continue to exist in the economy, that the financial situation is still fragile, and that the levels of real per capita income remain unacceptably low. Export earnings and government receipts continue to rely heavily on a few primary commodities the prices of which in world markets have declined sharply in recent years with few prospects for any significant improvement over the program period. The level of the current account deficit is still high, requiring substantial amounts of external finance on concessional terms, and the external debt burden is heavy. An acceleration of the growth in the economy would require continued efforts to strengthen producer incentives, particularly in agriculture and light industry.

17. Against this background, the authorities reaffirm their commitment to consolidate in the period 1989-91 and beyond the gains from past adjustment policies, while directing new policies toward eliminating the remaining structural rigidities, and generating sustained growth through greater efficiency in the allocation of resources. The authorities are keenly aware of the need to make an enhanced effort at coordinating financial and structural policies into a coherent medium-term strategy and determined to take the necessary steps in that direction. In view of the unfavorable external environment, the authorities believe that the reinforcement of domestic adjustment policies is necessary, both to acquire the much-needed external support as well as to create the conditions for sustained growth.

18. The major objectives of the 1989-91 program are: (a) to sustain the growth of real GDP at more than 4 percent per annum, allowing an average annual increase in real per capita income of about 1 percent; (b) to maintain a low rate of inflation, as measured by the GDP deflator, at around 3 percent; and (c) to reduce the external current account deficit, excluding grants, to under 8 percent of GDP by 1991, a level that could be covered in subsequent years without recourse to exceptional financing.

19. Achieving these objectives will require the combination of policies of fiscal and monetary restraint with fundamental structural reforms designed to remove key impediments to economic efficiency and to stimulate growth. The three major sources of potential growth are agriculture, light industry, and commerce. Agricultural policy will be directed at improving producer incentives and efficiency through higher investment in agriculture and strengthened extension services. In the area of industry and commerce, the fixed profit margins maintained on industrial products will be replaced by market-based pricing practices, and improvements in the institutional framework for private incentives will be undertaken. The abolition of major state trading monopolies

that took place in 1988 will be supported by the continued privatization and liquidation of state enterprises, scaling back government involvement in industry and trade, and enhancing the opportunities for private entrepreneurship. The reform of the tariff structure and the rationalization of the tax system are of major importance in this area of structural policy.

20. Fiscal policy will focus on strengthening the Government's savings position and on steadily lowering further the overall budget deficit. These objectives are to be achieved through a tight rein on current expenditures, a strengthening of tax buoyancy through fundamental reforms of the tax and tariff systems, and a rationalization of the operations of public enterprises. These measures would contribute toward bringing the overall budget deficit to a level that could be covered by official grants and normal external financing, and would at the same time allow a reduction in the Government's indebtedness to the domestic banking system. In addition, the Government will continue to refrain from borrowing on nonconcessional terms in accordance with the long-term strategy for gradually reducing the burden of debt service.

21. Monetary and credit policy will be directed at providing adequate credit to the private sector while restraining the overall expansion of domestic credit to levels consistent with the balance of payments and inflation objectives. In this context, domestic and external borrowing by public enterprises will be closely monitored, and restricted if necessary. A flexible interest rate policy will also be maintained so as to stimulate private financial savings.

IV. Macroeconomic Adjustment Policies

1. Government revenue mobilization and expenditure policies

22. The medium-term fiscal policy will be aimed at increasing government savings and reducing the overall deficit, but it will also be instrumental in fostering growth by a well-balanced choice of tax measures--aiming at broadening the tax base rather than increasing tax rates--and by increasing the effectiveness of expenditure programs. In view of the need to lower the debt burden, and given the likely inflows of grants, the budget deficit before grants will be brought down from 5.4 percent of GDP in 1988 to about 4 percent in 1991. Moreover, the Government will reduce its net indebtedness to the banking system in order to build up a safety margin for unforeseen shortfalls.

23. The achievement of these objectives will require as a minimum the maintenance of the tax/GDP ratio at its present level of 20 percent, which is relatively high in comparison with other African countries, mainly through a broadening of the tax base and a rationalization of the tax rate structure. A reduction in expenditures relative to GDP will be necessary, combined with a major reorientation of current outlays, so as to improve economic and social services.

24. The authorities' tax policy is aimed both at strengthening the revenue base and improving private sector incentives through the removal of tax distortions, the reduction of tax exemptions, and the rationalization of tax and tariff rate structure. The tax and tariff reform will give due consideration to achieving an equitable distribution of the tax burden between consumption and production by easing the direct tax burden on the latter. The authorities intend to implement during 1989-91 a broadly based program of tax reforms, based on the recommendations of two Fiscal Committees instituted in November 1987 and the tax review studies prepared by the Fund and the World Bank. In particular, the authorities' reform program, to be enacted before April 30, 1989 and implemented from July 1, 1989, involves: (a) the integration of the turnover tax (TGA) and import tax (TT) into a single value-added tax; (b) the harmonization and simplification of a droit fiscal d'entrée (DF) in order to eliminate discrimination against domestic production; (iii) the reduction of tax exemptions; (c) the establishment of a statistical tax (TS) of at least 3 percent as the minimum import tax; (d) a broadening of the tax base for direct taxes on salaries and profits of enterprises; (e) the expansion of the tax base, and imposition on all public enterprises of normal taxation based on common law with no exemptions; (f) the updating of standard price quotations (valeurs mercuriales) to better reflect current values; and (g) the improvement of the tax administration by strengthening collection and control procedures, by assigning sufficient personnel and equipment to assessment and audit tasks, and by fully computerizing customs data processing.

25. The tax and tariff reform should not have a negative effect on revenue in 1989. The gradual broadening of the tax base and the introduction of the value-added tax on domestic transactions will permit an increase in receipts beginning 1990. The authorities also expect that their program of action on the harmonization of tariffs, coupled with the elimination of import monopolies and improved tax administration, will make a significant contribution to a sound commercial, industrial, and investment policy. Import liberalization combined with the reduction in exemptions will in principle benefit both Government and consumers, but import tax rates will be set so as to avoid harming local producers, while at the same time protecting consumers from an abrupt price change.

26. With regard to current expenditure under the overall budget, the authorities intend to give priority to the agricultural support service, health and education, support of local authorities, agricultural extension services, and the basic material and institutional infrastructure for small industries.

27. The authorities intend to restrain the overall personnel expenditure. In view of the large increases recorded over the past two years (averaging 12 percent per annum), the total wage bill will barely increase in 1989 and will not rise by more than 3 percent per annum through 1991. Nonetheless, increases in real wages in selected

categories could still be possible by utilizing the savings from a reduction in the size of the civil service. To strengthen the procedures for monitoring and controlling personnel outlays, developments in the various components of the wage bill will be more closely reviewed and assessed through the establishment before end-September 1989 of a new civil service roster, for which foreign technical assistance has been requested. Following the establishment of a civil service roster, the Government will, during 1990, develop a coherent government employment strategy.

28. In general, the administrative procedures of the Ministry of the Economy and Finance for controlling and monitoring expenditures will be strengthened. In this regard, the recurrent expenditures connected to investments will be programmed with the Ministry of Planning and Mining and will appear on the current budget. Receipts and investment expenditures financed by commodity grants will be incorporated in the three-year public investment program.

29. Overall, these policies would facilitate an increase in budgetary savings (defined as total revenue minus current expenditure excluding interest payments) in order to reduce the reliance on foreign financing, while at the same time reducing the Government's indebtedness to the banking system. Since at the end of 1988 the Government was at its statutory credit ceiling, a safety buffer against shortfalls in receipts requires--at 1988 current expenditure levels--building up an amount of CFAF 15 billion in accessible credit. To this end, the adjustment program allows for an average reduction in the Government's net indebtedness to the banking system of about CFAF 3 billion per year through end-1991.

2. Public investment program

30. The public investment program attaches high priority to rural development and to the rehabilitation and maintenance of the country's economic and social infrastructure. Government investment outlays (excluding phosphate countertrade-financed spending) are programmed to rise during 1989-91 by an average of 12 percent per year. The authorities believe that this rapid increase in investment spending will be possible, given the recent improvements in the Government's project implementation and management capacity, and the identification with World Bank assistance of a sufficient number of high-return projects with low-cost external finance. The total amount of public investment expenditures for 1989-91 was determined in agreement with the International Monetary Fund and the World Bank, and the composition and content of the program were examined with the World Bank. The impact of the investment program on economic growth, public finance, and the balance of payments will be reviewed and discussed with the Fund and World Bank each year in the light of the Government's development policy objectives.

31. The total public investment program for 1989-91, including investment expenditure by public enterprises as well as the Government, comprises outlays of CFAF 171 billion (US$570 million excluding phosphate countertrade) for which financing has already been identified. As with the 1988-90 program, strong priority is accorded to rural development and basic economic infrastructure. Rural development projects account for over 26 percent of the total, while projects in the transport, water supply, power, and telecommunications sectors account for about 44 percent of the total. Foreign grants and concessional lending are expected to finance about three quarters of the proposed outlays. The actual level of public investment expenditure in 1989 is estimated at CFAF 47-48 billion (US$157-160 million) given the available financing and the likely rates of project implementation. The Government will only undertake new projects or additional spending beyond the level foreseen in the public investment program after consultation with the World Bank and the Fund.

32. To help ensure the smooth implementation of the public investment program, the authorities intend to introduce several measures to strengthen the procedures for project preparation, evaluation and monitoring. The recent creation of planning units in the ministries is a partial response to these concerns. In addition, the existing system of "rolling" three-year public investment programming and budgeting will be consolidated. In the annual budgets, the authorities will ensure that sufficient appropriations are made for recurrent outlays to support the investment program, especially for maintenance and rehabilitation in agriculture, transportation, infrastructure, health, and education. Annual and quarterly reviews of the content and stage of implementation of the investment program will be held with assistance from the World Bank.

33. Investment financed by barter exports of phosphates or the counterpart of foreign commodity grants will be incorporated into the public investment program. Every effort will be made to resolve the problems in the implementation of priority projects, in particular measures will be taken to authorize the execution of a project at the same time as the issuance of the payment order, so as to permit effective monitoring by the Treasury. Project preparation will be improved. Investment will be made for approved projects only, with outlay projections based on agreed implementation rates for new projects and estimated spillover expenditures for already-concluded projects. Other measures include improvements in the project preparation capacity of the technical ministries and, by June 1989, the establishment, with the assistance of the World Bank and UNDP, of a fund (Fonds de Préinvestissement Public) for undertaking project feasibility studies. To further assess the quality of the investment portfolio, the Ministry of Planning is undertaking efforts to expand its capacity for projecting the balance of payments, fiscal and GDP implications of the three-year program. Finally, to accelerate project execution, the Government is

currently taking measures to simplify procurement and contract award procedures pending adoption of a new government procurement code scheduled for late 1989.

3. Public enterprise reform

34. The performance of public enterprises has generally been weak owing in the past to insufficient clarity and consistency in their objectives and in their relationship with the Central Government. The authorities have consequently been pursuing in recent years a determined program to rationalize the public enterprise sector. Public enterprises which are chronically in the red or are deemed nonstrategic are being liquidated or privatized. A reform is currently under way of the institutional and legal framework of those enterprises which are designated to remain in the government portfolio. The latter enterprises include public entities and wholly owned state enterprises mainly involved in the provision of essential public services, the hotel sector, and the exploiting and marketing of local resources, as well as mixed enterprises chiefly involved in industrial, commercial, and service activities.

35. Initially undertaken to reduce the financial burden of the parastatal sector on budgetary resources, the divestiture/privatization process is increasingly perceived as a means of galvanizing entrepreneurial skills and stimulating private investment. In respect of the latter, it has been instrumental in attracting private capital from abroad both for the purchase of equity and for rehabilitating the capital stock of the formerly state-owned enterprises.

36. Privatization strategy has been based on invitations to bid extended to potential investors, the requirement of real financial participation by investors, government refusal to participate in the financing of new investments, and finally, a commitment by investors eventually to allow participation by private national stockholders, and to faithfully open managerial positions to qualified Togolese nationals. However, this strategy has for various reasons not been pursued on an overall basis. For instance, some agreements have been concluded under terms which appear to offer balanced, tangible benefits for both the Government and investors, while the terms of other agreements appear to have benefited more the newly privatized enterprises. The deficit position of many enterprises slated for transfer and the relative tightness of the market have been such that in some cases proceeds from the sale of assets have not been sufficient to cover the outstanding debt of the former enterprises which remain with the Government. Fully aware of this situation, the Government is currently carrying out with World Bank assistance a review of privatization operations undertaken so far, to learn from them and chart a strategy for future divestitures. The results of this review preceding adoption of a strategy for future privatizations will be available by mid-April 1989.

37. Although new privatizations are planned, the parastatal sector will remain fairly important. The Government is scheduled to implement in early 1990 a comprehensive reform of the institutional and legal framework of the parastatal sector, aiming at granting to public enterprises greater financial and managerial autonomy. A review of the existing system, including the adoption and promulgation of new laws, will be completed by end-1989. Under the new institutional arrangements, mixed enterprises will be clearly distinguished from wholly owned state enterprises in terms of their relationship with the Government. In particular, they will be subjected to provisions similar to those of the Commercial Code and thus allowed to operate as fully commercial entities outside the full supervision of the Government. The relationship of the wholly owned state enterprises to the Government, on the other hand, will be redefined, so as to limit the role of the Government to that of providing broad policy directions, leaving all operational decisions to the Board of Directors of these enterprises.

38. The new framework envisaged for the parastatal sector will be complemented by measures to enhance the financial and managerial efficiency of state enterprises. First, the authorities are extending the coverage of the management information system (SIG) to encompass the bulk of public enterprises; full implementation of the system is expected by mid-1989. Second, financial audits of the public enterprises, including OPAT, will continue to be conducted regularly; the authorities will ensure the implementation of the recommendations of these financial audits. Finally, the authorities are committed to taking measures to ensure full cost recovery by the public utilities, including the service of domestic and foreign debt, and adopt, by June 1989, a plan of action to reduce or rationalize the operations of the national railway company (CFT) so as to curtail the financial losses presently incurred.

4. Commercial and pricing policies

39. Togo plays an important role as a regional trading center. The authorities will continue their traditional open-door policy in external trade. In order to promote the commercial sector, the tariff and trade system will be further rationalized with more uniform rates, increased efficiency, and the reduction of exemptions. At the same time, the average rates will be kept in line with those in neighboring countries that compete with Togo for West Africa's transit trade.

40. The authorities' tax and tariff policy aims at strengthening the incentives for domestic industrial production, in particular that by small- and medium-size enterprises. The present wide dispersion in effective rates of protection and other distortions will be reduced, and the price controls and regulations in industry diminished. The authorities will review the remaining fixed profit margins and price authorization (from the Administration of Prices and Domestic Commerce) with the intention of liberalizing the prices of domestically produced manufactured goods.

41. Apart from prices paid to producers of export crops, which will be linked to world prices (see section 51), only petroleum and utility prices will continue to be directly controlled. However, the authorities will pursue a flexible pricing policy aimed at supporting production incentives by setting producer prices broadly in line with developments in world markets. In setting the prices of petroleum products, the authorities will pay due regard to the need to cover costs and conserve energy, as well as the need to contribute to budgetary revenues. The tariffs for public utilities, such as water and electricity, will also be regularly adjusted to reflect production costs--taking into account productivity gains--and enable utility companies to finance a larger part of their new investment.

5. Monetary and credit policies

42. The growth of broad money during the program period will be kept in line with the real GDP growth and inflation objectives. In particular, broad money is envisaged to increase in line with the growth in nominal GDP. Shifts in the velocity of circulation, which has been rather volatile in recent years, will be monitored closely with a view to the timely identification of any changes in underlying factors and making any necessary corrections in monetary policy. Part of the money stock in the Togolese banking system consists of deposits held by nonresidents whose center of interest is in Togo. To help stabilize domestic liquidity conditions, the authorities intend to follow a flexible interest rate policy and improve as far as possible the statistical reporting of holdings of financial assets by nonresidents.

43. In the context of the adjustment program, targets for net domestic assets will be set so as to allow both stable money growth and a gradual improvement in net foreign assets, given the need to maintain a sizable cushion of international reserves against unforeseen fluctuations in external receipts. Due to the marked volatility of external payments and receipts (including private capital inflows), the authorities will make every effort to maintain the present level of gross reserves in terms of months of imports. This, together with the projected changes in the position vis-à-vis the Fund, implies an increase in net foreign assets of about 6 percent per annum. Given the money supply objectives, net domestic assets will be allowed to increase on average by around 7.5 percent, slightly higher than the average nominal GDP growth rate during the 1989-91 period.

44. As indicated above, the Government's net indebtedness to the banking system will be reduced considerably during the program period, creating a buffer against unforeseen developments in public finances. In effect, this leaves room for a strong expansion of credit to the rest of the economy, particularly the private sector. Within the overall credit program, commercial banks will be encouraged to orient a substantial part of total credit to the private sector, particularly to small- and medium-size enterprises in the framework of the IDA-financed private enterprise development project.

45. With regard to interest rates, the Togolese authorities intend to continue to work toward adequate interest rate flexibility in the context of the West African Monetary Union (WAMU). The maintenance of high positive real interest rates and appropriate interest rate differentials vis-à-vis major financial centers would strengthen the mobilization of domestic financial savings and help reduce the variability of private capital movements, with a stabilizing effect on the velocity of circulation.

46. The process of rehabilitating two state-owned banks in difficulty--the development bank (BTD) and the agricultural credit bank (CNCA)--will be speeded up. A program for the restructuring and rehabilitation of the Banque Togolaise de Développement was adopted in January 1988 and is in the process of implementation. The Government will increase its efforts to execute the program, which includes consolidating litigious and doubtful loans, increased efforts to recover frozen loans, and improving the administrative and management structure with reinforced internal and external control. In order to compensate for cumulative losses of the past, new share capital will be provided, 40 percent of which will come from the Government. To strengthen the liability side of the balance sheet further, more long-term financing sources are being ensured, in particular through rescheduling of the existing debt vis-à-vis the BCEAO and acquiring other longer term foreign credits. Finally, the average return on loans outstanding will be improved by orienting credit to short-term, low-risk sectors. The Government has contributed to the first tranche of the equity increase in 1988, and has made a similar provision in the budget for 1989. The financial viability of the Caisse Nationale de Crédit Agricole (CNCA), specialized in loans for agricultural production and commercialization, has been impaired by deficiencies in management (fraud, lack of motivated and skilled manpower, and insufficient loan preparation and control), by a concentration of loans in risky activities, and finally, by a too high dispersion of the loans. The CNCA will consequently be liquidated and replaced by a new system of rural banking services. The liquidation of CNCA will require CFAF 8.8 billion in 1989 which will be provided by external bilateral and multilateral financing, and by consolidation of BCEAO claims. The feasibility of a new credit network is under study. The network envisaged would consist of a system of community level rural savings and credit unions which would offer credit and savings services to farmers, villagers, and other clients who had remained creditworthy under the former CNCA.

47. Commercial bank supervision will be reinforced with strict control measures, reporting requirements, and minimum own-capital ratios, while measures will be taken so as to ensure application of the Central Bank's recommendations by the commercial banks. The external and internal debt positions of the main state enterprises will also continue to be closely monitored, on a quarterly basis, by the Ministry of Economy and Finance, the Ministry of Industry and State Enterprises, and the BCEAO.

V. Sectoral Adjustment Policies

48. With the aim of reaching a sustainable rate of growth of over 4 percent per annum in the early 1990s, the Government is undertaking a strategy which is comprehensive and, at the same time, closely focused on the growth potential and constraints of the key sectors--agriculture, light industry, and commerce. The key issues for the medium term at the sectoral level, such as farm productivity, marketing efficiency and liberalization of the business climate for light industry and commerce, are being addressed both through investment projects in the respective sectors and as an integral part of the Government's overall adjustment program. The major elements of the latter are a system of agricultural producer prices which responds flexibly to world market conditions, cost reduction in the marketing of agricultural exports, and the establishment of a new industrial incentive system.

1. Agricultural policies

49. Agriculture is the dominant sector in the Togolese economy, accounting for over 30 percent of GDP, 30 percent of export earnings, and employing about 80 percent of the civilian labor force. Recent assessments estimate the overall growth potential of the sector at 4 to 5 percent per annum over the medium term. In the cotton subsector, production is estimated to rise by as much as 60 percent over the next 5 years, assuming that systematic increases in productivity and area under cultivation can be achieved. International prices for cotton lint are expected to recover from their present low levels, resulting in a substantial rise in cotton export earnings into the mid-1990s. In the coffee and cocoa subsectors, significant growth rates could also be realized through the same period, assuming successful results from newly planted high-performance trees and improvements in farm management. At forecast world market prices, this would generate an average annual increase in the export value of coffee and cocoa together of about 9 percent into the mid-1990s. In foodcrops, which account for about 70 percent of total value-added in the primary sector, conditions are particularly favorable to further growth. Output through the early 1990s could expand at a rate approaching 5 percent per annum while exports could rise at that pace or faster if regional markets can be expanded.

50. The raising of rural sector incomes and incentives through producer price increases has improved income distribution under Togo's adjustment program since its inception in 1983. The producer price issue has become more complex, however, as the world market outlook for prices of Togo's export crops has dimmed and, secondly, as the value of the U.S. dollar has declined in relation to the CFA franc. These factors make it highly unlikely that substantial price increases can be accorded to farmers over the medium term. Under these circumstances, policy measures complementary to producer prices have become increasingly important in achieving the necessary level of incentives and the

rural income growth objectives. These include measures to deregulate marketing and input supply, reduce production and marketing costs, and expand and improve research, extension services, and farmers' credit.

51. The authorities adopted in 1988 a system of flexible pricing for export crops which ensures a maximum passthrough of export prices to the farmers compatible with world market conditions. Under the new price policy, the final prices paid to producers are composed of a guaranteed floor price and, market conditions permitting, a supplement at the end of the marketing season; the latter will be calculated as a share of surplus revenue after accounting for standard costs of processing and marketing, and will be shared among the farmers, the processors and traders, and the Treasury. The floor price for each of the three crops will be reviewed annually at the beginning of the crop year; the general allocation of profits will be reviewed at the end of the crop year by a fiduciary commission. Floor prices for the 1988/89 crop year have been fixed at CFAF 350/kg. for coffee, CFAF 300/kg. for cocoa, and CFAF 95/kg. for cotton. Assuming that export prices for coffee and cotton stabilize at their 1988 levels, the final producer prices for coffee and cotton would be the same in 1989 as in 1988 (CFAF 400/kg. and CFAF 105/kg., respectively); for cocoa, the almost 25 percent fall in the export price forecast for 1989 would lead to a reduction in the final producer price by about 12 percent (CFAF 360/kg. in 1988).

52. The issue of establishing adequate prices to producers for coffee, cocoa, and cotton clearly cannot be dissociated from the question of the cost and efficiency of marketing and processing these crops. The Government therefore initiated in 1988 a reform of the operations of OPAT, the export crop marketing agency, with a view to reducing its costs so as to protect farmer incomes as well as Togo's competitiveness in export crop production. First, major cuts in OPAT's costs were made through reductions in personnel and other administrative costs, and in activities other than export marketing (plantations, an oil seed mill). Secondly, the various functions for which OPAT is responsible with respect to both major and minor crops are being evaluated, and OPAT's overall costs (including subsidies and marketing costs) are being analyzed with a view to further cost reductions and adoption of an appropriate budget for OPAT, starting from the definition of the activities it should perform. Newly defined functions, a new organizational structure, and a schedule for further cost reductions will be put into effect by April 1989. The additional cost reductions would be achieved both by trimming overheads and by eliminating subsidies on fertilizers and progressively reducing subsidies on pesticides.

53. To realize the growth potential of Togolese agriculture, the Government's strategy is to complement pricing and marketing measures with improvements in research, extension, input supply, and seed production services. These services would serve the needs of farmers for improved productivity-raising technologies and advice on their

application, as well as the inputs necessary to support new technologies. For many years, the authorities have attempted to meet this need through crop-specific and area-specific projects. The new focus will be more broadly based by servicing all farmers on a volunteer and demand basis without restriction. In this way, more responsibility for production decisions and farm-level resource use will be transferred to individual farmers. Advantages in the new approach are: (a) lower cost per farmer served; (b) flexibility in resource use; and (c) induced diversification of production in response to market signals. The authorities started operationalizing this strategy by improving the efficiency of the government institutions concerned, controlling their costs, and raising the level of daily contact with farmers in the field. They have increased the nonpersonnel operating budgets of regional rural development agencies (DRDRs), which had been systematically underfunded; they have undertaken, with IDA assistance, a program to improve the efficiency of agricultural extension services; and they are presently preparing a further program for improving agricultural extension services (research, seed production and input supply, etc.). With respect to cocoa, production of which has tended to stagnate in recent years, the authorities will undertake in November 1989, in consultation with the World Bank and other donors, a special evaluation of new methods of cocoa planting and disease control.

54. Notwithstanding a major concern for food security in periods of low or variable production, the Government recognizes that cereals and other foodcrop markets must be liberalized and expanded to absorb what has become a structural production surplus in this important agricultural subsector. Foodcrops are generally marketed by a large number of relatively small-scale traders at prices which are market-determined. These traders tend to be undercapitalized and rely for their profits on rapid turnover at small margins. Their activity is therefore relatively ineffectual in smoothing interseasonal price variations. The authorities have thus adopted a policy of promoting village marketing and cooperative storage facilities so as to facilitate interseasonal arbitrage and raise average price levels. In 1986, as a further response to changing foodcrop supply conditions, the authorities replaced an earlier ban on private foodcrop exports with a system of export licensing in order to expand marketing of cereals surpluses. In practice, however, licenses have been issued for a relatively small share of the apparent marketable surplus. The authorities believe that a more comprehensive and aggressive program is needed for the promotion of cereals marketing, exports in particular. The assessment of liberalization measures taken to-date is in progress; following an examination of options to promote more actively the export of marketable surpluses, a new action plan will be prepared by April 1989 and introduced gradually.

55. With respect to the food grain security agency, TOGOGRAIN, the role of which has been confined to managing a security stock of 12,000 tons of cereals, the authorities are examining further options for increasing TOGOGRAIN's operating efficiency, reducing its costs, and

harmonizing its stock-holding with management of imports and exports. New cost-reduction measures will be adopted by December 1989. To complement these efforts, as well as to improve the assessment of annual cereals surpluses available for export, the authorities will establish by December 1989 a production monitoring system to forecast production shortfalls and surpluses.

2. Industrial policies

56. Commerce, especially the role of Togo as one of the major regional centers of transit trade, is an important contributor to overall growth of the economy (20-25 percent of GDP), whereas manufacturing as yet plays a relatively marginal role (5-10 percent of GDP). The formal manufacturing sector, consisting of about 100 enterprises, is concentrated in the Lomé area and employs only about 1 percent of the active population. Within manufacturing, agro-industry accounts for over 50 percent of value added. Constraints to the development of manufacturing have been, first, an incentive framework which has favored concentration at the expense of a deepening of the industrial structure and the creation of higher value-added activities. Second, regulations governing business activity, such as the renewal of establishment licenses, have discouraged entrepreneurs. Third, the internal terms of trade favor commerce, which, with lower risk, has attracted investment and entrepreneurial resources. Fourth, the poor performance of public sector industrial enterprises in past years has discouraged private investment in industry. In addition to other factors, the incentive framework, coupled with international exchange rate movements, has favored import-substitution activities at the expense of export production.

57. However, Togo has a number of important advantages for further development of manufacturing output and export, including labor costs which are relatively low by regional standards, a stable political and social environment, a tradition in business including transit trade-related activities, a relatively well-developed infrastructure, and a convertible currency. Led by manufacturing, the secondary sector as a whole could expand by close to 6 percent per annum by the early 1990s, despite projected continuing stagnation in mining. The authorities are now making major strides to extend and deepen these industrial policy reforms in the following areas: the system of protection, the regulatory framework and investment incentives, and export promotion.

58. Having largely removed restrictions on imports in 1988 and thereby reduced the former system of protection to one based on the customs tariff only, the authorities are now proceeding to reform the tariff regime itself and to harmonize border and domestic taxation. Whereas the overall level of the present tariff regime is moderate, adjustments are envisaged to simplify the structure of the rates and reduce the presently high dispersion of the rates. While the new tariff/tax rate regime aims at strengthening the industrial incentive framework, it is also designed to preserve budgetary revenue levels.

59. The tariff/tax reform, to be enacted by April 30, 1989 and implemented from July 1, 1989, will consist of a statistical tax of at least 3 percent, a four-tier droit fiscal d'entrée (DF), and a three-tier value-added tax (TVA). The DF, ranging from 5 percent to 37 percent, will substantially reduce the present wide dispersion and excessive effective rates of protection afforded to many industries using imported raw materials and intermediates. The value-added tax (TVA) will be applied at the same rate on both imported goods and domestic manufactures, as well as on sales by domestic wholesalers, in an effort to harmonize border and domestic taxation. The full TVA will be collected on imports (at the point of entry), while the TVA on domestic transactions will be collected upon effectiveness of the new scheme. In order to reinforce the services responsible for the administration and collection of this tax (tax authorities and customs), technical assistance of CFAF 176 million is planned.

60. The authorities have recently focused attention on issues of industrial policy and needs for the promotion of small- and medium-scale manufacturing in particular. The establishment of an institutional support structure for SME development and first steps towards a reform of industrial incentives were initiated in 1987 in conjunction with the IDA-supported Private Enterprise Development Project. The current Investment Code and the associated Charter of Togolese Enterprises have been in force since 1985. This Code was a considerable improvement over that previously in effect in that it incorporated nonrenewable benefits which are limited and decline in time. However, the need to accelerate employment creation, SME development and deepening of the industrial structure requires as part of the new incentive framework: (a) a high threshold for tax benefits, (b) import duty exemptions on capital goods and for eligible enterprises as defined in the Code, (c) elimination of the practice of granting special, nonspecified privileges to large investments, and (d) benefits which are partly based on performance. The revised Investment Code will be enacted by end-April 1989, it will make application procedures and eligibility criteria simpler and more automatic, abolish import duty exemptions on intermediate products and materials, and partly base the benefits accorded under the Code on enterprise performance. As a further measure designed to promote small- and medium-scale enterprises, the authorities intend to establish a mutual insurance fund for SME's by the end of 1989.

61. The authorities are examining further measures to promote exports of locally manufactured products, in particular the establishment of a free trade zone and broadened institutional support for exporters. Finally, beginning April 1990, the authorities will formally review the competitiveness of Togo's exports in light of exchange rate movements and experience under the provisions of the 1989 tariff reform and Investment Code.

62. A major element in the future export competitiveness of Togolese industrial production will be the cost of public services (water, power, telecommunications, transport, labor, and petroleum

products). The utilities companies will maintain their minimum objective of full cost recovery and, indeed, a surplus to finance an appropriate share of priority investment. Water and electricity rates have been raised substantially in recent years to ensure resources to finance the Nangbéto hydroelectric dam and water supply projects. Rates applied over the next three years will conform to the same objective of full recovery of operating and investment costs.

3. Environment

63. The Government's main concerns in this area are, first, to protect the forests and, second, to weaken the negative effects of the erosion of the coastline. With respect to the forests, the most important problem in the medium-term is that of firewood reserves. It is estimated that Togo's firewood resources can cover national demand up to the mid-1990s only, and they are more and more remote from the most populated centers. In response to the crisis of declining reserves, the Government has designated 400,000 hectares in various areas as national protected reserves, and is initiating a certain number of small reforestation projects with foreign assistance. As regards the coastline erosion, there is considerable risk that the operations for Togo's phosphate exports and the road transport services could be interrupted and, consequently, the Government aims at checking the erosion by initiating a program for coastline protection in the framework of the transport sector rehabilitation project with assistance from abroad.

4. Population policy and human resource development

64. The authorities are committed to elaborating a national population policy which takes full account of the implications of demographic variables for the country's socioeconomic development. To this end, a population study and planning unit will be established within the Ministry of Planning.

65. In the education and health sectors, the authorities are launching initiatives to improve the delivery of services through efficiency gains in the administration of these services as well as through reallocation of expenditure, particularly in favor of supplies and equipment. The importance of the latter has been accentuated by recent investment in new physical infrastructure in these sectors which is now being complemented by augmented provisions for recurrent costs of specialized staff and supporting material.

66. In education, the authorities' priorities for the 1989-91 period are to better align technical education with manpower requirements and to effect qualitative improvements in basic education. In particular, the authorities will strengthen the planning capacity of the Ministry of Technical Education and expand the scope of its informal training system by allocating to this system a proportionately rising share of the overall education sector budget. With respect to basic education, the authorities' priority is to adequately staff newly built

teacher-training schools and to fund associated recurrent costs. Though budgetary allocations for the education sector as a whole are adequate at this time, increases will be needed commensurate with population growth. In health and social services, the authorities intend, first, to strengthen the administration of the Ministry of Health and Social Affairs in the context of a project currently in preparation with the World Bank; and second, to reallocate both personnel and nonpersonnel resources in favor of services delivery outside the capital to optimize utilization of the relatively well-developed public health system throughout outlying districts. Adequate funding for the sector will require a sizable increase by 1990 in the present budgetary allocations for the Ministry of Health and Social Affairs, as well as a progressive increase in the share of resources budgeted for supplies and equipment in the sector by 1991.

VI. Social Dimensions of Adjustment

67. The Togolese Government is closely monitoring the social dimensions of the structural adjustment policy, particularly the negative effects of adjustment on the economically least-favored social groups. The adjustment strategy, aimed at restoring economic growth and a better distribution of the fruits of economic growth, has certainly improved government finance and improved external accounts. In addition, the decisions taken on producer prices for the three cash crops have increased the real incomes of rural producers, whose numbers include the poorest segment of the population.

68. However, the measures taken for the rehabilitation of government finance (national solidarity tax, freezing of wages and promotions, new tax measures, restrictions on current expenditure, and higher public service rates) and for reorganization, mainly of the parastatal sector, have resulted in reduced purchasing power for wage earners, the emergence of unemployment, growing employment difficulties for young graduates, early retirement (age 50), and handicapped health and education services in the proper performance of their tasks. As indicated earlier, overall growth of the economy is projected to rise by over 4 percent per annum through 1991, which would permit a rise in per capita incomes by 1 percent per annum. As part of the policy reforms being undertaken by the Government, adjustments will be made in budget allocations to strengthen human and other resources in the education and health sectors, and to support the services required to raise productivity and output. However, it is clear that these measures must be supplemented by other provisions.

69. The Togolese Government has thus decided to undertake a number of actions specifically aimed at reducing the negative social effects of structural adjustment while laying the bases for alleviating such effects in the future. The reorientation in recent years of export incentives and the compression of public expenditure have had a social impact. For instance, although the above-mentioned service cutbacks largely resulted from natural attrition, the problem of young graduates

is real. The recently privatized enterprises have been unable to offer jobs to many of the unemployed. As a result, the Government has decided to introduce additional measures to mitigate the effects of adjustment. The terms of reference have been prepared for a study designed to identify and measure tangibly these negative social effects, determine the most severely affected social groups, and propose a corrective national program. However, without waiting for the results of the study, the Government has already taken other steps to strengthen basic development projects for the least-favored social groups through an enhanced Program for Local and Participatory Development and a support program for regional actions to be implemented with assistance from nongovernmental organizations active or potentially active in Togo. The Togolese Government intends to strengthen existing relations between public agencies and the NGOs, and to support the latter in their community-level development activities.

70. Actions already begun in this area relate to: (a) the agreement negotiated with the World Bank for the implementation of the Project Supporting Initiatives in community-level development; (b) the agreement signed with the UNDP on the Grassroots Initiative Fund (FAIB II); (c) the finalization of a support program for regional actions; and (d) the strengthening of budget funding granted by the Program for Local and Participatory Development. Overall, the authorities expect that the social costs of adjustment will be more effectively offset than in the past by the positive effects of adjustment in the form of growth, higher efficiency through an appropriate increase in current and capital expenditure, economic diversification, and the active promotion of small and medium-scale enterprises in commerce and light industry.

VII. External Outlook and Financing

71. Current projections indicate that the world prices for Togo's major exports are unlikely to improve significantly over the next few years, although the slight recovery that occurred in 1988 is expected to continue through 1991. However, the volume of agricultural exports is projected to increase noticeably due to current efforts to raise productivity and improve marketing efficiency in that sector (see Section V.1). Coffee and cocoa export volumes are projected to increase by an average of almost 6 percent through 1991, while the volume of cotton exports should rise by more than 23 percent on average over the same period, as the recently signed cotton sector project and the expansion of ginning capacity supported by IDA and the CCCE take effect. The overall value of the three major agricultural exports may be expected to rise by an average of over 18 percent between 1988 and 1991. In contrast, the value of phosphate exports is projected to increase steadily, due to the effects of constant export volumes and a forecast rise in world prices. Togo's importance as a regional transit trade center is reflected in a steady growth of the value of re-exports, and the effects of the liberalization and privatization policies will lead to a significant increase in the value of nontraditional exports by 1991. Consumer

imports will rise steadily at about 6 percent per year, while the value of capital goods imports is expected to rise steadily as a consequence of the expected expansion in investment activity. Overall, the trade balance is expected to improve the deficit declining from CFAF 7 billion in 1988 to about CFAF 5 billion by 1991. With only moderate increases in net transfers, the current account deficit is expected to contract by over 12 percent during the period of the program. Significant capital inflows are projected to finance the investment expenditures of the Government and of public enterprises, and an increase in private long-term capital is expected in response to an improved investment climate.

72. On the basis of present information and expected external financing commitments, the balance of payments will show overall deficits of roughly CFAF 5 billion, CFAF 10 billion, and CFAF 7 billion in 1989-91. On the assumption that international reserves, in terms of months of imports, are maintained at their present level, there would be residual financing gaps (after use of Fund resources under the proposed ESAF arrangement) of approximately CFAF 7 billion in 1989, CFAF 15 billion in 1990, and CFAF 9 billion in 1991. In order to close these gaps, the authorities intend to request additional financial assistance from major donor countries and from various multilateral institutions, including the World Bank, the AfDB, and the EC, as well as further reschedulings of the external debt from Paris Club creditors.

73. The structure of Togo's external debt has changed noticeably since 1984 as a consequence of debt-management policies directed at reducing the proportion of nonconcessional debt. The percentage of debt outstanding at highly concessional interest rates and long maturities has virtually doubled between 1984 and 1988, and the average interest rate on newly contracted debt has dropped from 5.1 percent in 1984 to 2.4 percent in 1988. Average maturities have lengthened by 4 years to 28.3 years over the same period. Furthermore, the most recent Paris and London Club reschedulings have provided significant debt relief over the medium term. However, despite the projected decline of scheduled debt service payments from CFAF 45 billion in 1989 to CFAF 37 billion in 1991, the burden of debt service remains heavy and rises again after 1993, when amortization payments on some of the debts rescheduled in 1988, in particular debt owed to commercial banks, begin to fall due.

74. The Togolese Government will continue to further improve the overall management of the external debt. The authorities have already undertaken not to contract or guarantee new nonconcessional external loans with maturities between 1 and 12 years or short-term foreign borrowing except for normal trade finance. In addition, the authorities will seek to increase the share of grants in the external financing of the medium-term public investment program. The program itself will be monitored, inter alia, by coordinating the foreseen financing requirements of individual projects with their expected dates of realization and examining ex ante the imports, the requirements of external technical assistance, and the additional debt service generated by externally financed investment projects.

Table 1. Togo: External Financing Requirements and Resources, 1987-91

(In billions of CFA francs)

	1987 Actual	1988 Est.	1989 Projections	1990 Projections	1991 Projections
Requirements	60.7	105.9	69.4	66.2	61.2
Current account deficit, excluding official transfers	54.1	38.7	40.6	39.1	38.4
Medium- and long-term public debt amortization	30.2	27.5	21.6	22.5	20.5
IMF repurchases	4.2	6.9	6.6	4.4	2.3
Trust Fund repayments	1.1	1.0	0.7	0.2	--
Reduction in arrears (increase -)	-28.9	31.8	--	--	--
Resources	61.4	57.2	58.2	52.0	52.4
Official transfers 1/	20.7	20.8	21.3	21.2	22.7
Medium- and long-term public loan disbursement	19.1	26.9	28.4	19.3	19.2
Private capital flows (net) 2/	23.4	10.3	8.5	11.5	10.5
Revaluation changes	-1.8	-0.8	--	--	--
Change in reserves, excluding IMF (increase -)	-0.7	-3.5	-3.2	-7.2	-6.6
Financing gap	--	52.2	14.4	21.4	15.4
Use of IMF resources	--	7.0	7.0	6.0	6.0
Of which: SAF or ESAF	(--)	(3.0)	(6.0)	(6.0)	(6.0)
Rescheduling	--	44.6	--	--	--
Debt cancellation	--	0.6	--	--	--
Residual financing gap	--	--	7.3	15.3	9.4

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

1/ Does not include grants to public enterprises.
2/ Includes loans to public enterprises.

Table 2. Togo: Selected Economic and Financial Indicators, 1984-92

	1984	1985	1986	1987	1988		1989	1990	1991	1992
					Prog.	Est.	Prog.	Projections		
					(Annual percent changes)					
National income										
GDP at constant prices	1.1	3.1	3.5	1.6	3.9	4.1	4.0	4.2	4.3	4.5
GDP deflator	2.7	5.8	5.7	0.8	3.1	4.0	3.0	3.0	3.0	3.0
Consumer price index	-3.7	-1.9	4.1	1.6	...	1.0	2.0	2.0	2.0	2.0
External sector (on the basis of CFAF)										
Exports, f.o.b.	22.0	-0.3	-26.3	-4.8	3.5	12.5	4.1	10.8	8.0	6.8
Excluding re-exports	37.2	-5.7	-35.7	-7.7	3.7	16.4	4.5	13.6	9.7	8.0
Imports, f.o.b.	4.2	16.0	-8.3	-14.4	-0.8	-0.2	3.9	8.5	7.2	7.2
Export volume										
Including re-exports	5.8	-3.9	-10.3	4.3	6.8	7.9	2.0	6.9	3.9	3.1
Excluding re-exports	6.1	-0.3	-14.0	9.8	5.0	8.9	3.4	8.8	3.7	3.2
Import volume	-6.5	13.6	5.5	-13.2	4.9	-2.9	0.7	5.3	4.1	4.1
Terms of trade (deterioration -)	3.6	1.6	-5.4	-7.5	2.6	1.4	-1.0	0.6	0.9	0.6
Nominal effective exchange rate (depreciation -)	1.3	5.4	9.6	5.5	...	2.9	...	...	...	...
Real effective exchange rate (depreciation -) 1/	-10.8	-4.3	8.0	-0.6	...	-7.1	...	...	...	...
Consolidated government operations										
Revenue and grants	20.0	10.7	5.1	-19.2	7.9	8.1	6.1	4.8	6.9	7.7
Total expenditure	10.5	9.3	13.8	-10.0	-5.3	-3.3	5.5	4.1	4.6	4.6
			(Annual changes in percent of broad money at beginning of period)							
Money and credit										
Net domestic assets 2/ 3/	7.1	5.1	22.5	-3.8	1.6	-3.5	5.6	4.4	6.0	7.7
Of which: Government	(-2.0)	(0.8)	(9.4)	(0.1)	(-0.4)	(-3.2)	(-1.7)	(-1.6)	(-1.5)	(-0.7)
private sector	(-0.2)	(4.9)	(12.1)	(3.7)	(4.6)	(1.6)	(7.8)	(5.9)	(7.5)	(8.4)
Money and quasi-money (M2)	19.2	9.0	13.2	4.1	7.6	-7.8 4/	7.2	7.3	7.4	7.6
Velocity (GDP relative to M2)	2.0	2.0	1.9	2.0	2.0	2.3	2.3	2.3	2.3	2.3
Interest rates 5/	8.5	8.5	6.5	6.5	...	7.0	7.0	...	...	...
					(In percent of GDP)					
Consolidated government deficit (-) 6/										
Including grants	-2.1	-1.6	-4.5	-6.9	-2.8	-3.4	-3.2	-2.9	-2.3	-1.5
Excluding grants	-7.0	-6.3	-8.7	-9.1	-4.3	-5.4	-5.1	-4.7	-4.2	-3.6
Foreign financing (net)	3.7	1.5	1.2	3.3	6.0	4.9	5.5	3.7	2.9	1.8
External payments arrears (end of period)	0.8	—	0.8	8.6	—	—	—	—	—	—
Current account balance										
Including all transfers	3.0	-3.8	-10.7	-9.0	-6.4	-4.4	-4.5	-3.9	-3.2	-2.6
Excluding official transfers	-7.7	-13.2	-18.1	-14.6	-11.9	-9.6	-9.4	-8.4	-7.7	-7.2
Gross domestic investment	18.7	27.4	27.1	23.2	20.7	20.8	21.5	22.0	22.6	22.6
Gross domestic savings	16.8	18.1	13.1	12.6	12.6	14.0	15.1	16.2	17.2	17.3
External debt 7/	98.3	96.0	89.6	88.0	85.6	82.1	80.7	79.1	76.9	72.3
Debt service ratio 8/										
Accrual basis	35.7	35.9	39.8	40.4	39.2	36.7	30.8	26.1	21.5	19.8
Cash basis 9/	27.6	29.1	35.6	17.9	29.5	27.7	30.7	26.1	21.5	19.8
Interest due (in percent of exports of goods and nonfactor services)	12.7	13.7	13.8	12.7	13.0	11.6	11.2	9.3	8.3	7.4
				(In millions of SDRs, unless otherwise specified)						
Overall balance of payments (deficit -)	-18.7	-10.6	-50.4	-57.2	-5.9	-23.5	-11.6	-25.1	-16.8	-2.3
Gross reserves (in months of imports, c.i.f.; end of period)	8.6	8.6	8.8	9.0	9.9	7.8 4/	7.8	7.8	7.8	7.1
External payments arrears (end of period)	5.1	—	7.4	84.0	—	—	—	—	—	—
Exchange rate: CFAF per U.S. dollar, period average	436.9	449.3	346.3	300.5	275.0	300.0	300.0	300.0	300.0	300.0
GDP (nominal, in billions of CFAF)	304.8	332.5	363.6	371.9	402.9	402.6	431.4	463.0	497.4	535.4

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

1/ Estimated on the basis of consumer price data.
2/ Domestic credit and other items (net), excluding net long-term external liabilities.
3/ Deposits of OPAT (CFAF 9.0 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 Government after these dates.
4/ 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.
5/ Annual rate on savings deposits.
6/ On payment order basis.
7/ Including 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 Paris and London Club reschedulings.

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Economic policy measures and their objectives	Planned measures	Dates
1. Public resources and expenditure		
Reduce the overall budget deficit on a payment order basis, excluding grants		1989-91
a. Revenues		
Increase elasticity of tax revenue with respect to GDP	(i) Adopt new measures to mobilize domestic financial resources;	1989-91
	(ii) Improve tax administration by: (a) eliminating exemptions; (b) strengthening domestic and external evaluation and control procedures; (c) allocating staff and equipment in sufficient quantities; and (d) staff training;	1989-91
	(iii) Measures relating to indirect taxation:	
Promote the industrial and commercial sectors while safeguarding tax revenue (see 4. below)	Enactment of the tariff and tax reform;	April 1989
	implementation;	July 1989
	- harmonize taxation of imports and local production; reduce exemptions;	
	- minimum import tax rate of at least 3 percent (TS);	
	*- merge the tax on transactions (TT) and general business tax (TGA) into a general sales tax, and progress gradually toward a value-added tax (VAT);	
	*(iv) Measures relating to direct taxation aimed at broadening the tax base:	1990 Budget Law
	- carry out the recommendations of the two tax committees set up in November 1987, incorporating the comments of the Fund technical assistance mission of July 1988;	

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Economic policy measures and their objectives		Planned measures	Dates
	(v)	- apply the normal business profit tax regime to all public enterprises.	January 1990
b. Expenditures			
Reduce nonessential public expenditures and reallocate resources	(i)	Adoption of spending norms and operating budget allocations for infrastructure maintenance, agricultural support services, transportation, health, and education;	1989-91
	*(ii)	Administrative, procedural and data processing steps by the Ministry of Finance to strengthen expenditure control;	1989-91
	*(iii)	Limitation of annual increases in the government wage bill to 3 percent per year	1989-91
		Establishment of a computerized civil service roster;	Sept. 1989
		Adoption of a strategy for government employment and strengthening of the civil service in the medium term.	1990
c. Domestic arrears		Prevent accumulation of new arrears.	1989-91
2. Public investments			
Consolidate the rolling three-year public investment programming and budgeting system	(a)	Annual review with IDA of the rolling three-year PIP for all investment expenditure, including phosphate countertrade, and expenditure related to grants in kind;	Jan. 1989-91
	(b)	Quarterly review with IDA of the content and progress of the PIP;	1989-91
	*(c)	Regular review with IDA of PIP recurrent charges and inclusion of the necessary items in the budget.	Nov. 1989-91 Budget Laws

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Economic policy measures and their objectives		Planned measures	Dates
Prepare and implement the priority projects of the 1989-91 PIP	(a)	Significant increase in investment expenditure on the basis of a stepped-up execution rate of priority projects with assured rate of return and concessional external financing;	1989-91
	(b)	Strengthening the ability of MINPLAN and the other technical ministries to improve project preparation and better appreciate their macroeconomic impact, with the support of IDA's technical assistance credit;	1989-91
	(c)	Establishment of the Fonds national de pré-investissement public.	June 1989
Acceleration of project execution	(a)	Simplification of procurement and contract award procedures in anticipation of the adoption of the Procurement Code;	April 1989
	(b)	Adoption of the Procurement Code.	Dec. 1989
3. Public enterprise reform			
Rationalize and reduce state intervention in commercial and industrial activities	(a)	Adopt and implement a new strategy for privatization or liquidation of enterprises;	April 1989
	(b)	Preparation of an institutional and legal framework for enterprises and their relations with the State, in order to accord greater operating autonomy;	March-Oct. 1989
	*(c)	Adoption and promulgation of new legislation for state and mixed enterprises;	January 1990
Specific measures to improve the efficiency of public enterprises	(a)	Implementation of operational and financial audits for all public enterprises and of recommendations for improved management;	1989-91

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Economic policy measures and their objectives	Planned measures	Dates
	(b) Application of the management information system (SIG) for all public enterprises;	1989
	*(c) OPAT (see 6.c. below);	
	(d) Railways Finalization of the plan of action for the CFT as part of the transport rehabilitation project financed by IDA and other donors;	June 1989
	(e) Transportation, water, electricity, and telecommunications. Implementation of full cost recovery measures in keeping with IDA-supported projects, in particular completion of the diagnostic study for CEET.	1989-91 Feb. 1989
4. Commercial and pricing policies		
Accelerate the growth of the manufacturing and trade sectors, eliminate tax discrimination between imports and domestic production, and reduce the dispersion of effective rates of protection	Liberalization of imports and domestic trade by:	
	(a) Simplifying and standardizing the customs tariff and the domestic indirect tax system; effective elimination of all SONACOM monopolies;	1989-91 1989
	(b) Abolishing import licenses and quotas, except for specifically regulated imports such as cement and reinforcing bars;	April 1989
	(c) Continually updating standard price quotations to better reflect current values;	Feb. 1989-91
	(d) Enactment and implementation of the tariff reform with preferential treatment for capital and intermediate goods and heavier taxation of nonessential consumer goods;	April-Dec. 1989
	(e) Implementation of the value-added tax (VAT).	July 1989

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Economic policy measures and their objectives		Planned measures	Dates
Prevent distortions in the price structure and achieve financial balance of enterprises			
a. Public utility rates		Regular review of the rates and adjustment to reflect complete cost recovery and achieve financial surpluses to help finance the investments of public utility companies.	1989-91
b. Petroleum products		Regular review of domestic prices and transfer of all Stabilization Fund surpluses to the budget.	1989-91
c. Manufactured products		Abolition of fixed profit margins and price controls, except for specially regulated products;	March 1989
5. Monetary, credit, and interest rate policies			
Ensure adequate credit expansion to the private sector to encourage the growth of efficient enterprises	(a)	Encourage banks to participate in the financing of SMEs within the framework of the private enterprise development project supported by IDA;	1989-91
	*(b)	Maintenance of import credits (intermediate, capital, and consumption goods) at the highest levels consistent with the overall objective for credit to the economy.	1989-91
Encourage domestic saving and more efficient use of bank credit	*	Pursue a flexible policy of positive real interest rates and ensure retention of private foreign capital in Togo.	1989-91
Institutional framework of banking	*(a)	Accelerate the restructuring of the BTD; initiate the liquidation of the CNCA and its replacement by a new rural credit network;	1989-91
	*(b)	Establishment of a system of quarterly supervision of credit to public enterprises;	1989-91

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Economic policy measures and their objectives	Planned measures	Dates
	(c) Strengthening of the Central Bank's supervision capacity to ensure application of its recommendations to deposit banks.	1989-91
Credit to the Government	Reduction of government debt to the domestic banking system.	1989-91
6. Agricultural policies		
Increase and diversify domestic output and exports		
a. Cash crops Maintenance of adequate income for cash crop producers	(i) Maintain system of flexible price-setting consistent with world market conditions and processing and marketing costs;	1989-91
	annual review of pricing formulas;	May 1989-91
	(ii) Publication of floor prices paid to producers for three respective crops in each crop year;	September 1989-91
	*(iii) Evaluation, with IDA, of new methods for cocoa plantations and disease control.	Nov. 1989
b. Agricultural services Direct agricultural services to individual farmers	(i) Improve the efficiency of agricultural extension services; expand services to national level;	1989-91
	(ii) Adopt program of improved agronomic research, seed production and input supply in accordance with the IDA-supported project undertakings.	1989-91
c. OPAT Increase efficiency	(i) Undertake second phase of cuts in overall costs of OPAT, including overhead costs and subsidies on fertilizers and pesticides;	April 1989
	(ii) Adoption of OPAT's annual budget before end-September;	Sept. 1989

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Economic policy measures and their objectives	Planned measures	Dates
	(iii) Establishment of a timetable to eliminate all remaining subsidies on fertilizers and reduce subsidies on pesticides in accordance with the IDA-supported projects.	
	Cotton	January 1989
	Coffee	July 1989
	Cocoa	Dec. 1989
d. Cereals marketing Promote the development of marketable surpluses	(i) Granting export licenses to private entrepreneurs in times of surplus and active promotion of grain exports, in accordance with the plan of action, agreed with IDA in the context of SAL III;	1989-91 April 1989
	(ii) Limiting the role of TOGOGRAIN to managing the food security stocks; adoption of cost reduction measures;	Dec. 1989 1990-91
	*(iii) Establishing an early warning system and improving statistical data on production and consumption;	Dec. 1989
	(iv) Adopt a program of village marketing organizations and increase their own storage capacity.	Dec. 1989
7. Industrial policies		
Encourage investment and production, diversify production and exports, promote SMEs	(a) Rationalize system of protection (see 4.a. commercial and pricing policies);	1989
	(b) Enactment and implementation of the new Investment Code;	April 1989
	(c) Acceleration of the establishment of a support system for promotion of SMEs within the framework of the private enterprise development project financed by IDA;	1989-91

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Economic policy measures and their objectives		Planned measures	Dates
	(d)	Abolition of the system of periodically renewing establishment licenses for private enterprises;	March 1989
	(e)	Creation of a mutual insurance fund for SMEs;	Dec. 1989
	(f)	Review of the competitiveness of local manufactures, taking account of exchange rate movements and other factors, based on experience with the tariff reform and the new Investment Code;	April 1990
	(g)	Strengthening the tourism promotion plan.	1989-91
8. Social policies			
Develop population and human resources policy	*(a)	Promulgate a health and population policy statement;	Sept. 1989
	*(b)	Increase the share of general education in total recurrent expenditures;	1990-92 Budget Law
	*(c)	Include appropriate provision for recurrent costs and unfunded positions for teacher-training schools in the budget;	1990-92 Budget Law
	*(d)	Within the global wage bill selectively recruit new teacher trainers and include the costs in the budget, with a view to maintaining minimum staffing ratios;	1990-92 Budget Law
	(e)	Strengthen the analytical and strategic planning capacity of the METFP, expand the informal training system and its share in the education budget.	1990-92 Budget Law
Ensure a minimum level of health and social services	*(a)	Increase the share of the Ministry of Health and Social Affairs (MSAS) in total recurrent government expenditures;	1990-92 Budget Law
	(b)	Improve management ability in the MSAS in cooperation with IDA;	

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Economic policy measures and their objectives		Planned measures	Dates
	*(c)	Within the global wage bill selectively recruit new health sector workers and include the costs in the budget, in order to maintain minimum staffing ratios;	1990-92 Budget Law
	*(d)	Reallocate the recurrent expenditure of the MSAS to material and equipment and promote services in rural areas;	1990-92 Budget Law
	*(e)	Institute cost recovery measures and enlist community participation in health services delivery.	1989-91
9. External financing			
Improve the structure of the debt and reduce medium-term external debt service obligations	(a)	The Government will not contract or guarantee new non-concessional loans with repayment periods from 1 to 12 years, nor will it contract short-term loans (less than 1 year) except for normal import operations;	1989-91
	(b)	Prevent the accumulation of new external payments arrears;	1989-91
	(c)	Increase the interest rate to promote the retention and inflows of private capital to the Togolese banking system.	

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