



TOGO

POVERTY REDUCTION STRATEGY PAPER—JOINT STAFF ADVISORY NOTE

July 2014

The attached Joint Staff Advisory Note on the Poverty Reduction Strategy Paper for Togo, prepared by the staffs of the World Bank and the IMF, was distributed with the member country's Poverty Reduction Strategy Paper (PRSP) to the Executive Boards of the two institutions. The objective of the JSAN is to provide focused, frank, and constructive feedback to the country on progress in implementing its Poverty Reduction Strategy (PRS).

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International Monetary Fund
Washington, D.C.



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STRATEGY FOR BOOSTING GROWTH AND PROMOTING EMPLOYMENT (SCAPE) 2013–2014— JOINT STAFF ADVISORY NOTE

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OVERVIEW

1.

3. The SCAPE builds on its predecessors, the I-PRSP (2008) and the full PRSP (2009–2012). These were prepared shortly after Togo's prolonged socio-economic crisis and focused on rehabilitating the economy, improving the rule of law, and reaching the HIPC completion point. In formulating the desire to become a middle income country in the foreseeable future, the SCAPE is more ambitious than its predecessors.

households were overrepresented. Enrollment in secondary schools went up, though at 50 percent, secondary school enrollment remained on the low side.

8. Access to water improved. In 2011 56 percent of households had access to safe drinking water, against 51 percent in 2006. Progress was markedly unequal. Most progress was made in Lomé (an increase from 69 percent to 83 percent) and virtually no progress in rural areas. Moreover, in both rural and urban areas the poorest forty percent saw their access decline, while access increased for households in the top two wealth quintiles.

9. Access to health services deteriorated, particularly for the poorest households. Households in the bottom forty percent became considerably less likely to visit a hospital when ill (hospital visits in urban areas dropped from 37 percent to 23 percent; in rural areas they dropped from 16 percent to 12 percent) while doctor visits increased marginally.

10. Access to electricity improved substantially, particularly in urban areas. Access in Lomé increased to 84 percent in 2011 (from 73 percent in 2006). Despite a doubling of access in rural areas the contrast remains stark: only 10 percent of rural households could access to electricity in 2011.

11. The marked differences in access to services between regions are a concern. In general, the further one travels from the coast, the worse access to services. This is illustrated in Figure 1 for net attendance at primary schools.

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15. **The staffs observe how the economically underdeveloped northern regions lag behind other regions in human development indicators such as the provision and quality of education and health, making it harder for individuals from these areas to benefit from growth that is generated in the south.** Policies that improve human development services for the non-coastal regions and which would allow individuals from these areas to migrate to the economic growth centers, are a matter of priority. Staffs suggest to formulate and put in place programs which would guarantee equal access to social services in health, education and water, irrespective of where one lives in the country.

16. **The staffs note how consumption growth in the non-coastal regions has lagged behind and suggest prioritizing the development of Togo's agricultural potential.** This should go beyond the promotion of traditional cash crops (cotton and cocoa), and should involve the development of marketable food crops like

builds on the average 4.1 percent growth between 2009 and 2011 and assumes an acceleration of economic growth to an average 5.9 percent per year between 2013 and 2017. This rate is broadly aligned with the economic and financial program as presented in the Fund's report on the 2013 Article IV consultation. Under the baseline scenario it is envisaged that poverty declines by about 11 percentage points, to 47.3 percent in 2017, and under-employment by 3.5 percentage points, to 22.8 percent, which appears ambitious considering the 2006–2011 track record.

19. The second scenario is much more ambitious. This accelerated growth scenario aims at reaching a growth rate of 7.1 percent per year between 2013 and 2017. It is supported by ambitious policies of agricultural modernization and the development of the country's mining potential. Under this scenario, a broadened tax base would increase government revenue from 19.3 percent of GDP in 2013 to 25.3 percent by 2017. Poverty would decline to 43.5 percent in 2017 (down 15 percentage point). This rate could go down further to 39.2 percent if effective redistributive policies were put in place. The accelerated growth scenario is the one the Togolese authorities desire.

20. Both scenarios require strong and sustained actions to alleviate the most pressing constraints to growth, including prioritized and robust implementation of public investments, a more effective and efficient public sector, and structural reforms in key areas, such as transport, electricity, telecommunication, and the business environment. So far there have been continued delays to adopt a robust macroeconomic framework, threatening the prospects to achieve the proposed results. The authorities should ensure that financing amounts are contracted in concessional terms, including by holding a donors roundtable meeting, and that they are consistent with macroeconomic stability and debt sustainability. The authorities should avoid relying on expensive commercial financing and aim to ensure that the level and concessionality of new external financing is consistent with avoiding any deterioration of the risk rating, which is already at moderate level.

21. Staffs

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presently being prepared under the guidance of th

effective means of electricity generation is critical. In this context, the economic justification for some of the proposed projects, including the 5 MW solar plant and the 12 MW wind power plant, should be studied carefully.

33. Commitments to unleash the growth potential of the telecommunications sector are commendable. The rapid growth in mobile phone connections is a clear indication of the sector's growth potential. The new telecommunications act of 2013 has the potential to open access to networks for enhanced competition and lower user costs. It is important that the policy intentions are effectuated with concrete actions. Additional licenses for mobile operators should be issued, data capacity increased, competition in the internet sector enhanced, and equal access to certain infrastructures guaranteed.

C. Developing human capital

34. Over the past seven years reforms in the education sector have had a significant positive impact. Budget allocations for education outgrew nominal GDP, to represent 4.6 percent of GDP in 2011, up from 3.5 percent of GDP in 2007. The adoption of the Educational Sector Plan (ESP) in March 2010 and the abolition of primary school tuition (2008) facilitated access to education. However, not all income categories and not all regions benefitted evenly from improved opportunities.

35. The SCAPE's objective is to offer universal access to primary education by 2020 and to boost resources for non-primary training. The dual objective of raising primary enrollment and completion rates is welcome, and an emphasis on specific measures to reduce school dropout rates would be necessary. Universal primary education would eliminate persistent disparities among socio-economic groups and gender. The SCAPE recognizes the need to improve the quality of education through improved teacher training, upgraded curricula, and adequate

large economic inequalities, which are likely to persist into the future, school feeding programs and (conditional) cash transfer schemes have proved

was an opening of civic and economic life; and donor relations were reactivated, making new funding available, including through the enhanced HIPC initiative.

47. Poor governance was a leading cause of the decline in the country. The Ex-Post Assessment of the IMF's Longer Term Program Engagement, prepared in 2006, provides an in-depth analysis of the events that led to donor disengagement. The study: stresses the importance of improving economic governance and transparency and the need to reduce extra-budgetary spending; suggests focusing on strengthening fiscal management (including through strengthened oversight and external controls), enhancing the autonomy of public enterprises (including through privatization), and reforming the financial sector through bank restructuring, privatization and improved supervision; and points to the need to address capacity constraints, particularly to support budget preparation and expenditure management; tax and customs administration; banking supervision, in an efforts to improve the soundness of the financial sector; and statistical agencies, notably those in charge of national accounts and the debt department.

48. Staffs welcome the authorities' commitment to governance reforms but are concerned by repeated delays to implement critical reforms, poor budget planning and the persistence of capacity constraints. These create high costs to the country. Togo could not finalize a program with the Fund since August 2011, and the World Bank has not disbursed budget support since August 2012. This has limited access to funding, including from other partners, and impeded holding a donor roundtable meeting, and it did not help to improve Togo's international image as a place to invest and do business. Staffs urge the authorities to improve budget planning, address the most important capacity constraints, and revert without further delay to the momentum of governance reforms that was present in the run-up to the HIPC completion point.

E. Promoting participative, balanced and sustainable development

49. The SCAPE views participative, balanced, and sustainable development as an important means to reduce regional disparities and support local dynamism. The SCAPE aims at (i) strengthening grassroots development for effective participation by community organizations in the growth process and poverty reduction; (ii) developing regional and local potential to promote local development, thus avoiding a deterioration of inter- and intra-regional imbalances; and (iii) emphasizing the environment as part of the planned integrated development process to protect and develop local natural wealth and effectively combat climate change.

50. Staffs welcome the attention given to addressing regional disparities but question the need for creating regional development hubs. The World Development Report 2009 demonstrates that unequal growth is a result of economic agents' choices to do business where returns are highest. Markets, not governments, decide which locations are best; the government's role is to accommodate emerging locations of high productivity and to ensure, through social policies and investments in infrastructure, that the benefits of growth can spread and places of high productivity can be accessed.

51. **Staffs would instead suggest policies that are supportive of enhanced rural growth and internal labor migration.** Rural-urban migration deserves to be considered as a means to enhance productivity and to access to wealth, particularly as the return on labor in cities is typically much higher than elsewhere. The challenge for development planners is to ensure that the labor force has adequate human capital and to plan urban centers such that they become effective drivers of growth. In the absence of greater policy effort (and programs) focused on the non-coastal areas, the desire to achieve middle income status runs the serious risk of achieving such status with an accompanying high level of poverty and growing inequality.

MONITORING AND EVALUATING

52. **The Government has established institutional arrangements for coordinating, monitoring, and evaluating its development policies.** These arrangements will also serve to

data collection and consistency of data series over time are expected to remain a challenge to evaluate the implementation of the SCAPE.

CONCLUSIONS

56. The SCAPE presents a comprehensive and ambitious medium-term development strategy, which was developed in a participatory and inclusive manner. An extensive diagnostic identified four critical challenges that the new strategy addresses, namely, how to: (i) accelerate economic growth and employment creation; (ii) improve governance; (iii) deal with demographic challenges, high population growth in particular; and (iv) enhance urban development while improving land use and environmental protection. The SCAPE's response to these challenges is a program comprising five pillars: (i) developing sectors with high growth potential; (ii) strengthening economic infrastructure; (iii) developing human capital, social protection and employment; (iv) strengthening governance; and (v) promoting participation and a balanced and sustainable development pattern.

57. Being comprehensive, the SCAPE offers less in terms of prioritization. In light of persistent capacity constraints and limited financing, it would have been advantageous if the SCAPE had presented a clearer perspective on the Government's role in the development process, if a more focused growth and social development strategy had been articulated, and if SCAPE's implementation mechanisms had been closer aligned with existing decision-making mechanisms.

58. Staffs appreciate the value of the SCAPE as a consensus-building instrument and the potential of its monitoring mechanisms to collect feedback on ongoing reforms. However, lacking clear priorities and actionable strategies, it will be difficult to use the SCAPE as the guide for Togo's development process. The disconnect between the SCAPE and the Government's priorities, its budgeting process, and the financial means available is already evident, partly as a result also of a growth trajectory that is lower than presented in the base scenario.

59. Staffs suggest that the SCAPE's analysis could be supplemented with additional analyses on the impact of SCAPE policies on poverty, inequality (of service delivery) and (rural) employment. This could help devise more inclusive policies and ascertain that more, if not all, Togolese benefit from economic growth and have better access to social services. Staffs strongly encourage the authorities to improve the quality of learning and to make school feeding and cash transfer programs an integral part of Togo's poverty reduction strategy.

60. The SCAPE is a living document, which should be fitted it into the long-term growth strategy currently under preparation. Growth and development prospects would have to take better into account existing capacity and financing constraints to build on Togo's comparative advantages to make progress toward its development goals. Differing requirements for productive, infrastructure, and social investments

61. Staffs note that implementation of critical accompanying structural and governance reforms has to be accelerated to realize the SCAPE growth scenarios. This includes restructuring of the banking and microfinance sectors, making the telecommunications sector more competitive, stabilizing the electricity sector, opening up mining to private investment, and improving the business environment. Staffs note a disconnect between the assumptions made in the growth scenarios and public finance practices during the last few years and urge the authorities to pay more attention to fiscal sustainability, to planning and prioritizing expenditures and to improving execution management.