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MEMORANDUM AND RECOMMENDATION

OF THE

PRESIDENT OF THE

INTERNATIONAL DEVELOPMENT ASSOCIATION

TO THE

EXECUTIVE DIRECTORS

ON ASSISTANCE TO

THE REPUBLIC OF TOGO

UNDER THE ENHANCED HEAVILY INDEBTED POOR COUNTRIES INITIATIVE

AND THE MULTILATERAL DEBT RELIEF INITIATIVE

November 19, 2010

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CURRENCY EQUIVALENTS

(Exchange rate effective as of October 31, 2010)

Currency Unit	=	CFA Franc (pegged to EUR at 655.957)
US\$1.00	=	472.0

WEIGHTS AND MEASURES

Metric System

FISCAL YEAR

January 1 – December 31

ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
APR	Annual Progress Report
DRA	Debt Relief Analysis
ECF	Enhanced Credit Facility
HIPC	Heavily Indebted Poor Countries
IDA	International Development Association
IMF	International Monetary Fund
JSAN	Joint Staff Advisory Note
MDRI	Multilateral Debt Relief Initiative
PRSP	Poverty Reduction Strategy Paper
PV	Present Value

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OF THE PRESIDENT OF THE INTERNATIONAL DEVELOPMENT ASSOCIATION
TO THE EXECUTIVE DIRECTORS ON ASSISTANCE TO
THE REPUBLIC OF TOGO
UNDER THE ENHANCED HEAVILY INDEBTED POOR COUNTRIES (HIPC) INITIATIVE
AND THE MULTILATERAL DEBT RELIEF INITIATIVE (MDRI)

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1. I submit for your approval the following Memorandum and Recommendation on the assistance to be provided to the Republic of Togo (Togo) under the Enhanced Heavily Indebted Poor Countries (HIPC) Initiative with respect to the debt owed by this country to the International Development Association (IDA). This report and its recommendation address the criteria for reaching the completion point under the Enhanced HIPC Initiative as agreed by the Executive Directors of IDA and the International Monetary Fund (IMF) in November 2008, and for the debt relief to be provided irrevocably with respect to the debt owed to IDA. Upon reaching the completion point, Togo will become eligible for debt relief under the Multilateral Debt Relief Initiative (MDRI) from IDA.

2. This document complements the joint IDA-IMF paper entitled “Republic of Togo: Enhanced Heavily Indebted Poor Countries (HIPC) Initiative completion point and Multilateral Debt Relief Initiative (MDRI) Document”, concurrently submitted with this document. The completion point document presents: (i) Togo’s progress in fulfilling the triggers of the completion point under the Enhanced HIPC Initiative; (ii) an update of Togo’s reconciled public external debt and the debt relief committed at the decision point under the Enhanced HIPC Initiative; (iii) the status of creditor participation since decision point; (iv) the provision of MDRI relief; and (v) prospects for the country’s long term debt sustainability.

I. BACKGROUND

3. Togo reached the decision point under the Enhanced HIPC Initiative in November 2008. Based on the Debt Relief Analysis (DRA) presented in the decision point document, debt relief under the Enhanced HIPC Initiative amounted to US\$270 million in present value (PV) terms as of December 31, 2007 under the HIPC Initiative’s fiscal window.¹ This would have reduced Togo's PV of debt after full application of traditional

¹ In April 1997, the fiscal revenues/openness criterion was established to allow for the possibility that, for countries with a high export base, reaching the debt-to-export criteria targets may still leave the country with a large external debt burden relative to fiscal revenues. In order to qualify for debt relief under the revenue window, a country must have its PV/revenue ratio above 250 percent. In addition, to be eligible to access under this window, the country must have an export-to-GDP ratio of at least 30 percent, and a fiscal revenue-to-GDP ratio of at least 15 percent, using an average of the last three years of actual data (see “Modifications to the Heavily Indebted Poor Countries (HIPC) Initiative”, July 23, 1999 IDA/SecM99-475 and EBS/99/138).

Based on data as of the decision point, Togo’s PV of debt-to-exports ratio at end-2007 was 149 percent, lower than the 150 percent threshold under the export window of the HIPC Initiative. However, the PV of debt-to-revenue ratio was 309 percent, Togo’s average export-to-GDP ratio was 33 percent and its average revenue to GDP ratio was 17 percent, which meant that Togo would qualify under the fiscal window.

debt relief from US\$1,411 million to US\$1,141 million. Such debt relief would have corresponded to a common reduction factor of 19 percent of the PV of debt outstanding as of December 31, 2007 for all creditors. Debt relief attributed to multilateral creditors in the decision point document amounted to US\$150 million (55.6 percent of total HIPC Initiative relief) in PV terms.

4. At the decision point, eligible debt from IDA amounted to US\$511.7 million in December 31, 2007 PV terms. Total assistance from IDA under the Enhanced HIPC Initiative agreed at the decision point was approved in the amount of US\$98 million in PV terms. The Executive Directors approved the provision of the full amount of debt relief through a Development Policy Grant operation approved by the Board on May 29, 2008, which was used to repay a bridge loan from a bilateral partner to clear Togo's arrears to IDA (amounting to US\$156 million in nominal terms through end-2008).

II. FULFILLMENT OF COMPLETION POINT CONDITIONS

5. In accordance with the decision of the Executive Directors of IDA and the IMF at the decision point, the conditions for reaching the completion point require that Togo has: (i) prepared a full Poverty Reduction Strategy Paper (PRSP) through a participatory process and satisfactorily implemented it for at least one year as evidenced by an Annual Progress Report (APR); (ii) ensured macroeconomic stability as evidenced by satisfactory performance under an ECF program;² (iii) improved monitoring of poverty related expenditures, (iv) enhanced external controls; (v) strengthened government procurement; (vi) reconciled revenues and payments from the phosphate industry; (vii) enhanced debt management; (viii) reported debt data; (ix) adopted a medium term National Health Development Plan and a Health Sector Human Resources Development Plan; and (x) started the implementation of the National Education sector (see Table 1 of the completion point document).

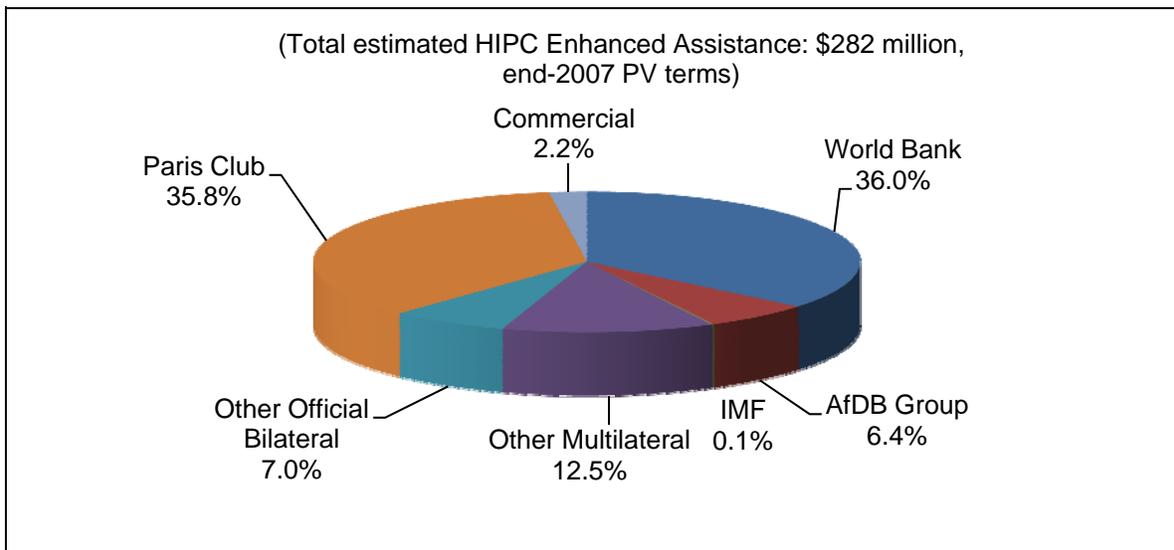
6. The staffs of IDA and the IMF are of the view that Togo reached the completion point by implementing all ten floating completion point triggers. The first full PRSP was adopted by the government on July 6, 2009 and presented to the IMF and IDA Boards in November and December 2009, respectively. In September 2010 the government completed an APR covering the first year of implementation of the PRSP. The APR and JSAN are distributed to the Board together with the HIPC completion point document. Performance under the ECF arrangement has been broadly satisfactory and the first review document is being submitted to the IMF Board at the same time as the HIPC completion point document. All completion point triggers have been fulfilled based on the evidence presented by the authorities and reviewed by the Staffs of IDA and the IMF (Table 1 of the completion point document). Staffs are, therefore, of the view that Togo has met the requirements for the floating completion point set out at the decision point.

² The ECF is the successor to the PRGF lending window (<http://www.imf.org/external/np/exr/facts/prgf.htm>).

III. COMPLETION POINT CONSIDERATIONS

7. Based on additional information received from creditors and obtained through the debt reconciliation exercise, the updated DRA has resulted in an increase of the nominal stock of debt at end-December 2007 by US\$9.3 million to US\$2,218 million and the PV of debt after traditional debt relief has been revised upward by US\$12.0 million to US\$1,423 million.³ As a result, the common reduction factor increases from 19 percent to 20 percent and total HIPC assistance to Togo increases from US\$270 million to US\$282 million in end-2007 PV terms (Figure 1).⁴ In light of these revisions, it is proposed that the Executive Directors approve an upward revision of IDA's assistance in PV terms from US\$98 million to US\$102 million.

Figure 1. Togo: Potential costs of the HIPC Initiative by Creditor Group



Source: IMF and World Bank Staff Estimates.

8. Staff is of the view that Togo does not meet the requirements for exceptional topping-up under the Enhanced HIPC Initiative. The PV of debt-to-revenue ratio as of end-December 2009 is 229.2 percent after full HIPC relief and 158.5 percent after full HIPC relief and additional debt relief beyond HIPC by bilateral creditors, which is well below the 250 percent threshold for consideration of topping-up assistance defined under the enhanced HIPC Initiative.

³ Equal to about 1 percent of the post-HIPC debt target of US\$1,141 in PV terms.

⁴ In accordance with the “Information Reporting in the Context of HIPC Initiative Assistance”, approved by the members of the Executive Board of the IMF (EBS/02/36 and BUFF/02/50) and IDA (IDA/SecM2002-0131), March 4, 2002, the assistance for Togo will be revised upward based on the new common reduction factor of 20 percent.

IV. IDA'S DELIVERY OF ASSISTANCE UNDER THE ENHANCED HIPC INITIATIVE

9. If Executive Directors approve the upward revision to the total amount of debt relief in PV terms to be provided to Togo then IDA's debt relief would be revised upward in PV terms from US\$98 million to US\$102 million.

10. IDA has already provided debt relief above its estimated share of HIPC debt relief through the arrears clearance operation that amounted to US\$146 million in nominal terms.

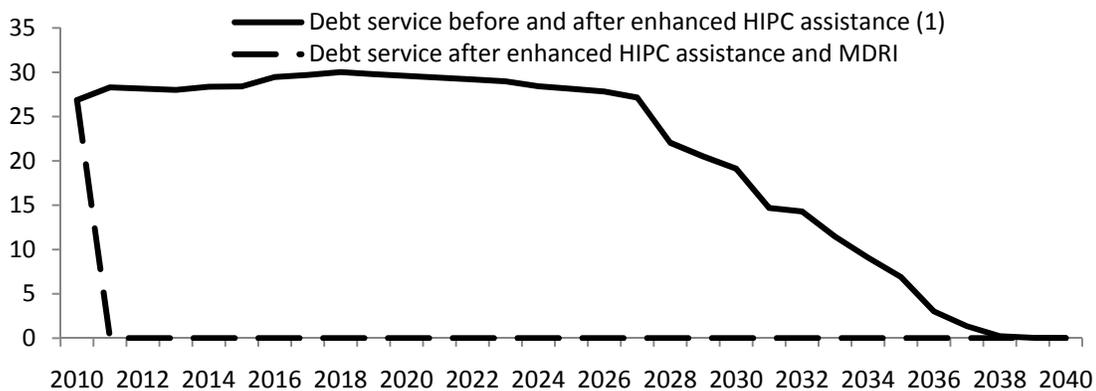
11. No additional debt relief would be provided at completion point under the HIPC Initiative.

V. IDA'S DELIVERY OF ASSISTANCE UNDER MDRI

12. Upon approval of the completion point under the Enhanced HIPC Initiative, Togo will qualify for additional debt relief from IDA under the MDRI. IDA will provide MDRI debt forgiveness by irrevocably canceling the borrower's payment obligations under eligible IDA credits. Debt service savings under the MDRI would cover all remaining IDA credit balances through maturity on all loan balances disbursed as of December 31, 2003 and still outstanding as of December 31, 2010, to Togo.⁵

13. As no credits have been disbursed after end-2003, MDRI debt relief to Togo would result in full cancellation of all remaining IDA credits. This will imply a stock of debt reduction of US\$564 million in nominal terms (US\$407 million in end-2009 PV terms) at completion point. Figure 2 illustrates the impact of MDRI on projected debt service due to IDA as of January 2010.

Figure 2. Togo: Debt Service to IDA after HIPC Relief and MDRI
(In millions of US dollars)



(1) As the arrears clearance has fully delivered HIPC relief, the debt service payments before and after HIPC assistance are identical.

Source: World Bank Staff Estimates.

⁵ See International Development Association, "The Multilateral Debt Relief Initiative: Implementation Modalities for IDA", November 18, 2005.

**VI. PROSPECTS FOR LONG-TERM DEBT SUSTAINABILITY AFTER DEBT RELIEF
UNDER THE ENHANCED HIPC INITIATIVE AND MDRI**

14. Full delivery of HIPC debt relief, MDRI and additional multilateral and bilateral assistance beyond HIPC at the completion point will reduce Togo's external debt burden significantly. The PV of debt-to-revenue ratio would fall from 272.0 percent at end-2009 to 77.2 percent at end-2010 thanks to the delivery of MDRI and beyond HIPC assistance; thereafter it is projected to increase gradually due to new borrowing. The debt service-to-revenue ratio is projected to fall from 11.9 percent in 2010 to an average of 7.0 percent in 2010-19 and 5.0 percent in 2020-29. However, the future evolution of these indicators is highly uncertain and will depend on several factors, particularly economic growth and the terms of new external financing.

VII. SATISFACTORY FINANCING ASSURANCES FROM TOGO'S CREDITORS

15. Financing assurances for the provision of debt relief to Togo under the Enhanced HIPC Initiative have been obtained from creditors representing 98 percent of total HIPC debt relief in end-2007 PV terms, as revised at the completion point. Togo's authorities will continue their efforts toward securing the participation of all remaining creditors.

VIII. RECOMMENDATION

16. In view of the above, I recommend that the Executive Directors endorse the staffs' assessment contained in the completion point document concerning Togo's fulfillment of the requirements for reaching the completion point under the Enhanced HIPC Initiative.

17. I further recommend that Executive Directors agree with staffs' recommendation that the proposed revision of the stock of debt in PV terms as of the decision point warrants a revision of the amount of HIPC Initiative assistance.

Robert B. Zoellick
President

by Ngozi N. Okonjo-Iweala
Managing Director

by Mahmoud Mohieldin
Managing Director