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Program Information Document (PID)

Appraisal Stage | Date Prepared/Updated: 30-Oct-2024 | Report No: PIDDA00116

BASIC INFORMATION

A. Basic Project Data

Project Beneficiary(ies)	Operation ID	Operation Name	
Togo	P181238	Togo's Second Sustainable and Inclusive Development Policy Financing	
Region	Estimated Approval Date	Practice Area (Lead)	Financing Instrument
WESTERN AND CENTRAL AFRICA	10-Dec-2024	Macroeconomics, Trade and Investment	Development Policy Financing (DPF)
Borrower(s)	Implementing Agency		
Ministry of Economy and Finance	Republic of Togo		

Proposed Development Objective(s)

Support green, inclusive and resilient development in Togo by (i) promoting sustainable agriculture, rural electrification and climate action; (ii) boosting human capital and the resilience of vulnerable populations, and (iii) rebuilding fiscal space for priority interventions.

Financing (US$, Millions)

Maximizing Finance for Development

Is this an MFD-Enabling Project (MFD-EP)? Yes

Is this project Private Capital Enabling (PCE)? Yes

SUMMARY

Total Financing	**200.00**

DETAILS

Total World Bank Group Financing	**200.00**
World Bank Lending	200.00

Decision

The review did authorize the preparation to continue

Explanation

B. Introduction and Context

Country Context

Economic activity has been resilient in Togo over the last few years but efforts to reduce poverty, particularly in rural areas has been slow. Growth has averaged 5 percent since the COVID-19 pandemic hit in 2020, largely supported by a significant increase in public spending and robust private investment but poverty incidence remains elevated with large disparities between rural and urban areas, as 58.2 percent of the rural population was poor in 2021, compared to 20.1 percent in Lome and 32.3 percent in other urban areas. The Savanes region recorded the highest poverty rate at 64 percent in 2021 with a 2 percentage points increase since 2018. At present Togo's growth potential and capacity to accelerate structural transformation is constrained by the predominance of low yielding agricultural practices; large disparities in economic opportunities and access to basic services between rural and urban areas; and still limited strides in industrialization despite the expansion of port activities and the development of agro-processing and other industrial zones. This operation will contribute to addressing these constraints by helping to support investments in sustainable agriculture, accelerate rural electrification, improve learning outcomes in rural areas, boost the resilience of vulnerable populations, and rebuild fiscal space for priority interventions.

Togo's macroeconomic policy framework continues to be adequate. Supported by an ambitious public investment program and reforms stimulating private investment, growth in Togo has been resilient in recent years but fiscal space has been depleted and significant disparities in economic opportunities and access to basic services between rural and urban areas continued to hamper progress in reducing poverty and inequality. The government has reaffirmed its commitment to bringing the budget deficit back to 3 percent of GDP in 2025, from a peak of 8.3 percent in 2022, through a combination of revenue mobilization efforts and spending restraints. A Debt Sustainability Analysis (DSA) published in July 2024 confirmed that external debt remains in the moderate risk category, while overall debt risks are high, with the present value of the public debt-to-GDP ratio projected to remain above the 55 percent threshold until 2026. The appointment of a new government in August 2024 and commitments under the Extended Credit Facility (ECF) program of the IMF approved in March 2024 should help anchor those consolidation efforts while minimizing disruptions to priority investments and public services. This operation is contributing to fiscal sustainability through reforms boosting revenue mobilization, better management of contingent liability risks, reducing financial and operational losses at the CEET, and promoting greater public spending efficiency in education and social protection.

Relationship to CPF

The reform program supported by this operation is fully aligned with the objectives of the new CPF for FY25-29. In particular, the CPF prioritizes enhancing agricultural productivity to accelerate poverty reduction, access to electricity to support structural transformation, and tackle multifaceted barriers to female participation in the agriculture sector, including access to land, finance, education and productive infrastructure. Given Togo's fragility risks, the CPF also makes a strong case for improved service delivery focusing on vulnerable populations, including through social protection programs and education sector reforms, highlight the urgency for climate action and macroeconomic stability as a foundation for all WBG interventions. This fully aligns with the DPF program supporting investments in sustainable agriculture, improving access to electricity, enhancing inclusive public service delivery by boosting access to education, strengthening social protection, and increasing fiscal space for priority interventions. Ongoing and planned IPF, P4R and TA programs will accompany the implementation of the DPF reforms.

C. Proposed Development Objective(s)

Support green, inclusive and resilient development in Togo by (i) promoting sustainable agriculture, rural electrification and climate action; (ii) boosting human capital and the resilience of vulnerable populations, and (iii) rebuilding fiscal space for priority interventions.

Key Results

As part of the first PDO (pillar 1), reforms supported by this operation are expected to help increase crop yields in planned agriculture development zones, deliver the first Livrets Fonciers to reinforce land tenure security for smallholder farmers, improve access to electricity for rural populations, increase the share of renewable energy in electricity generation, and attract investment in climate adaption and mitigation projects. As part of the second PDO (pillar 2), reforms are expected to contribute to a better distribution of teachers across the territory, improved literacy for students in underserved areas, increased coverage of social protection programs, and better support for victims of gender-based violence. As part of the third PDO (pillar 3), reforms are supporting revenue mobilization through the rationalization of tax exemptions and will ensure systematic evaluation of credit risks from public guarantees and on-lending to SOEs.

D. Project Description

The reform program supported by the second operation addresses some of the key constraints to more equitable and sustainable growth identified in recent World Bank diagnostics. Reforms are organized around three pillars, focusing on areas that are mutually reinforcing, benefit from strong ownership by the government, and build on sustained engagements by the World Bank and other development partners.

- Under the first PDO (Pillar 1), this operation supports land tenure reforms that should bolster investment in more productive and sustainable agriculture practices, accelerate energy sector reforms, including the operationalization of a new tariff structure for electricity and support for renewable energy generation, and creates the regulatory framework for carbon credit markets to mobilize additional financing for climate adaption and mitigation.
- Under the second PDO (Pillar 2), reforms seek to ensure more effective social protection and disaster response programs with the operationalization of a national social registry, broaden access to school textbooks and improve teachers’ performance, and implement multisectoral protocol to support victims of gender-based violence.
- Under the third PDO (Pillar 3), reforms seek to increase revenues through the rationalization of tax exemptions and reduce fiscal risks by improving the management of contingent liabilities associated with SOEs and improve transparency and accountability regarding SOE’s financial health and performance.

This operation is fully aligned with Paris Agreement commitments, supporting mitigation and adaption efforts, reducing the risk of exposure to climate hazards, and avoiding risks of locking in carbon-intensive patterns.

E. Implementation

Institutional and Implementation Arrangements

The Ministry of Economy and Finance is responsible for the overall implementation of the program of reforms aimed at sustainable and inclusive development, strengthening human capital and resilience to shocks, and creating a fiscal space. Day-to-day monitoring and evaluation of the program are the responsibility of the Permanent Secretariat for Monitoring Reform Policies and Financial Programs (SP-PRPF). This structure coordinates the implementation of the Government's reform policies and programs. The Government will provide quarterly reports to the World Bank on progress in implementing the program in relation to agreed timetables and performance indicators.

F. Poverty and Social Impacts, and Environmental, Forests, and Other Natural Resource Aspects

Poverty and Social Impacts

Overall, the policy and institutional reforms supported under the proposed DPF are expected to support a resilient economy and have positive social impacts. The policy actions in Pillar 1 aimed at promoting sustainable agriculture and rural electrification and climate mitigation are expected to increase welfare. Policy reforms under Pillar 2 aimed at boosting human capital and resilience to shocks are expected to increase coping strategies amongst vulnerable populations, improve access to basic services, increase social inclusion, and reduce gender inequality. The policy actions under Pillar 3 aimed at rebuilding the fiscal space by improving the management of tax exemptions and reducing fiscal risks associated with contingent liabilities from SOEs is not expected to have short-term poverty and social impacts but could have medium to long-term impacts by opening fiscal space for pro-poor spending.

Environmental, Forests, and Other Natural Resource Aspects

Reforms are expected to support the country’s environment, forests, or other natural resources, particularly under Pillar 1. PA#1 is expected to promote land tenure security which should incentivize farmers and landowners to invest in sustainable land management practices. When farmers have secure rights, they are more likely to invest in soil conservation, agroforestry, and other measures to protect the environment and maintain long-term productivity. Secure land tenure can also encourage investments in renewable energy and other environmentally friendly practices. PA#2 will promote renewable energy sources and help support rural electrification efforts, which should reduce the need for alternative lighting means such as kerosene lamps, which harm the environment and contribute to respiratory diseases. PA#3 aims to support investment projects eligible for carbon credits, hence contributing directly to GHG emissions and supporting adaptation efforts. Prior actions under the second and third pillars are expected to have limited impacts on the country’s environment and natural resources, but PA#4 supporting more effective targeting of social protection and disaster response programs could potentially have some positive impact by limiting the risk of environmental degradation by destitute populations following severe shocks.

G. Risks and Mitigation

The overall level of risk to the development objectives of the proposed operation is assessed as substantial. Uncertainty regarding the regional and global environment, rising insecurity in the North, and lingering governance challenges could adversely impact the development objectives of this operation.

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APPROVAL

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Note to Task Team: This is the end of document. No further content should be added. ***Delete this note when finalizing the document.***