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Debt Management Performance Assessment (DeMPA)

Togo

June 2008

The DeMPA is a methodology for assessing public debt management performance through a comprehensive set of indicators spanning the full range of government debt management functions. It is adapted from the Public Expenditure and Financial Accountability (PEFA) framework. The DeMPA tool presents the 15 debt performance indicators along with a scoring methodology. The DeMPA tool is complemented by guide that provides supplemental information for the use of the indicators.

For additional information on the World Bank's Debt Management Technical Assistance Program, including more on the DeMPA Program, please visit our website at: http://www.worldbank.org/debt

1. Executive Summary

During November 12 through November 24, 2007 a World Bank team traveled to Lomé, Togo, to undertake an assessment of the government's debt management operations using the Debt Management Performance Measurement Assessment tool (DeMPA)[1]. The DeMPA is a methodology for assessing debt management performance through a set of 15 indicators covering the full range of debt management functions. While the DeMPA tool has been tested in five countries, Togo is the first country where the tool has been formally implemented.[2]

Following a long period of political and economic instability, Togo is currently in debt distress, with debt servicing arrears representing 31.8 percent of the total external debt. In addition, 25.8 percent of domestic debt consists of protracted arrears to suppliers and of salary arrears to government employees. Debt to multilateral creditors accounts for 56 percent of external debt, with the lion share falling on the World Bank and, to a lesser extent, the African Development Bank. Bilateral debt is owed mostly to Paris Club creditors. Prolonged political instability has lead to a substantial decline in the engagement of the international community in Togo. As of today, only a handful of creditors are providing loans, for example the Islamic Development Bank. At the same time, domestic revenue mobilization has become constrained by the economic decline. Given these circumstances, Togo has had limited debt servicing capacity and consequently debt management has been largely influenced by arrears management, which itself is based on simple rules of thumb such as paying those creditors who are providing fresh loans. However, the political and economic situation in Togo has improved considerably in recent months, resulting in the reengagement of the European Union and the launching of a broader reengagement process with other major creditors.

This assessment report highlights that the current strengths of debt management operations in Togo lie in the areas of coordination with monetary policy and the staff in the debt office, who have the skills needed for the basic debt

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[1] The Debt Management Performance Assessment Tool as well as the accompanying Guide, which provides supplemental information and detailed descriptions of individual indicators can be downloaded from: http://go.worldbank.org/WU75GZA040.

[2] The mission had meetings with officials from the Togolese Ministry of Finance (MoF) and Ministry of the Economy (MoE) and worked closely with the Debt Department (*Direction de la Dette*). In addition, meetings were held with the regional central bank, two leading commercial banks, the West African Development Bank (BOAD) and with several members of the international donor community (see Annex 1 for a list of individuals and institutions).

management operations they are required to do at the moment. Among the areas for improvement identified, we find that priority should be given to (i) the institutional framework, which is currently overly complex and does not ensure appropriate coordination among all entities that participate in the debt management process; (ii) the debt recording systems, which are not accurate and complete, in part as a consequence of the institutional framework; and (iii) putting in place a debt management strategy, which at this stage would focus on arrears clearance and the terms of re-engagement with the international financial community.

In light of a likely re-engagement with the donor community and possible debt relief under the HIPC and MDRI initiatives, strengthening debt management will need to be a component of an overall public finance reform program to help prevent the re-accumulation of unsustainable debt.

2. BACKGROUND

2.1 COUNTRY BACKGROUND

Togo's ability to service its debt broke down in 2001/ 2002 and the country built up extensive arrears on external as well as domestic debt, including periods during which payments to cotton farmers, government suppliers and salaries to civil servants were suspended. Togo's revenue effort improved over the past months, allowing the country to start clearing arrears to suppliers and employees.

According to the latest World Bank/IMF Debt Sustainability Analysis (DSA)[3], Togo's public sector debt was estimated at US$2.3 billion as of end-2006, corresponding to 103 percent of GDP. External debt amounts to US$ 1.8 billion, or 81 percent of GDP. Domestic debt accounts for less than 20 percent of outstanding debt, the bulk of which is in the form of borrowing from state-owned enterprises and commercial banks. Of these domestic liabilities, 25 percent consist of arrears to suppliers. Although public debt has been declining since 2000 (mostly as a consequence of the appreciation of the CFA Franc), the DSA indicates that Togo is in debt distress and is likely to remain in this situation without debt relief under the HIPC and MDRI initiatives, as well as a pick-up in broad-based economic growth.

At the moment, the IDA has no active portfolio in Togo. As of end 2006, debt to the World Bank amounted to US$ 715.3 million, which includes US$ 104 million in arrears. The African Development Bank is the second major multilateral donor, with claims amounting to US$ 128 million, of which US$ 15.4 million is in arrears. Bilateral debt consists of US$ 687.7 owed to Paris Club creditors and US$ 99.9 million to Non Paris Club creditors.

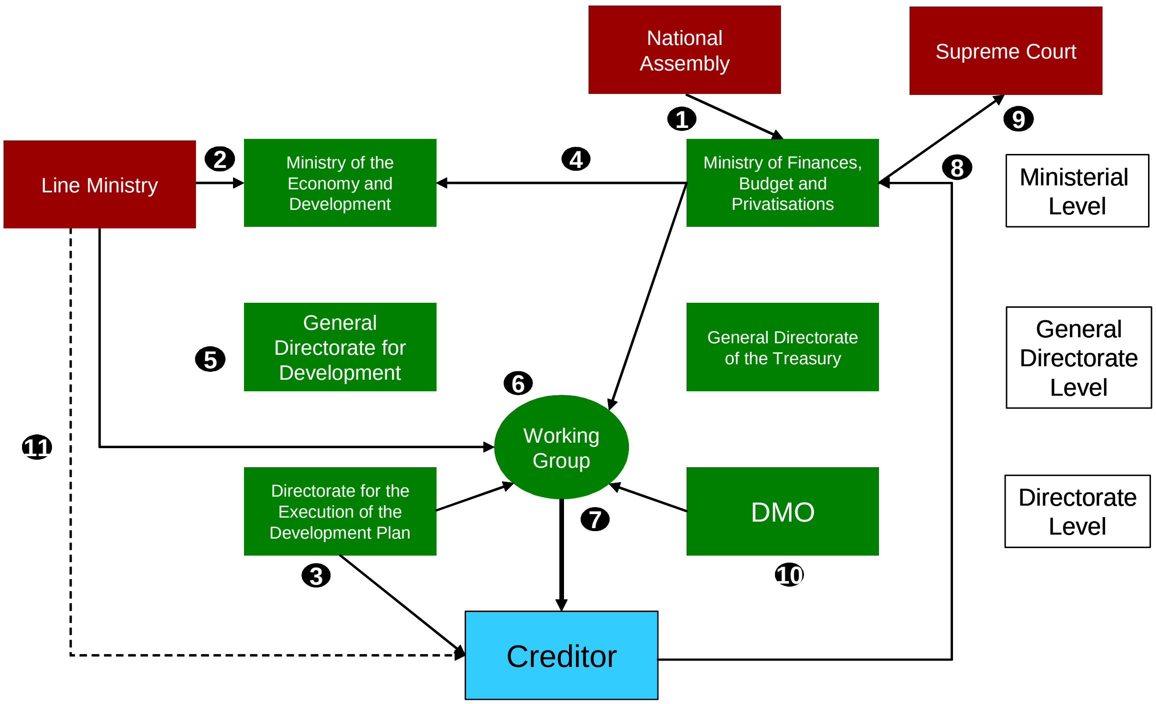
[3] The DSA was prepared in 2007 in the context of the IMF's Article IV consultation.

The *Direction de la Dette (DD)* was created in 2000, when the responsibility for debt management was transferred to the Treasury from the *Societe Nationale d'Investissement* (SNI)[4]. The DD consists of the director plus six staff and reports to the Treasury Department ("*Direction Générale du Trésor*") within the Ministry of Finance. The DD is responsible for external debt service payments, projections and analysis. It keeps information on the domestic debt, but given the nature of the domestic liabilities (largely arrears) its management is presently concentrated in the Treasury. Moreover, although the DD is involved in the contracting and execution of new loans, primary responsibility for those tasks lie with the Economic Development Department under the Ministry of the Economy. Although the ultimate responsibility for developing a debt management strategy is expected to lie with a debt committee, at present the DD is the closest to a principal DeM Entity that Togo has.

Figures 1-3 below depict the organizational structure of Togo's debt management operations in three key steps of the loan life-cycle: negotiation and contracting (Figure 1), execution and disbursements (Figure 2) and debt servicing (Figure 3). These figures illustrate the complex nature of the formal institutional framework for debt management, which likely contributes to bypassing of the formal procedures by more direct, informal channels in practice. Moreover, as illustrated in Figure 2, the DD is not involved in the implementation aspects of loan contracts, which, together with a lack of coordination with the entity that performs that task, leads to a lack of timely and reliable information on amounts outstanding.

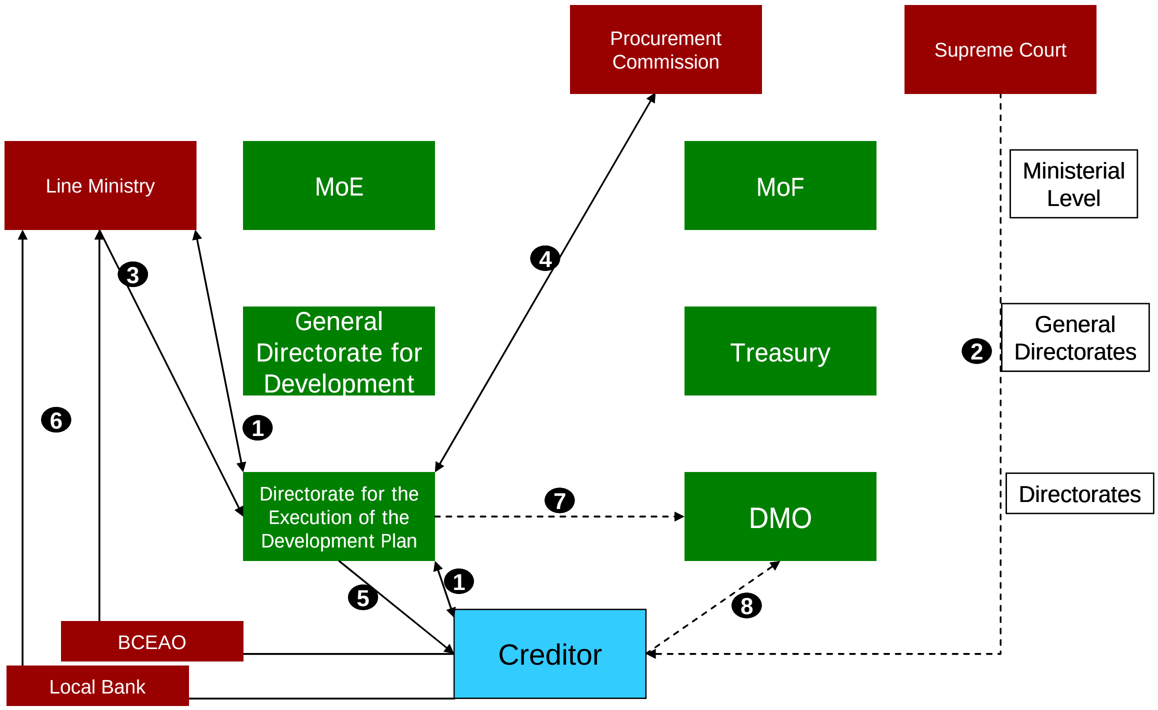
[4] The SNI is an entity analogous to the *Caisses Autonomes d'Amortissement* present in some other francophone African countries.

Figure 1: Negotiation and Contracting



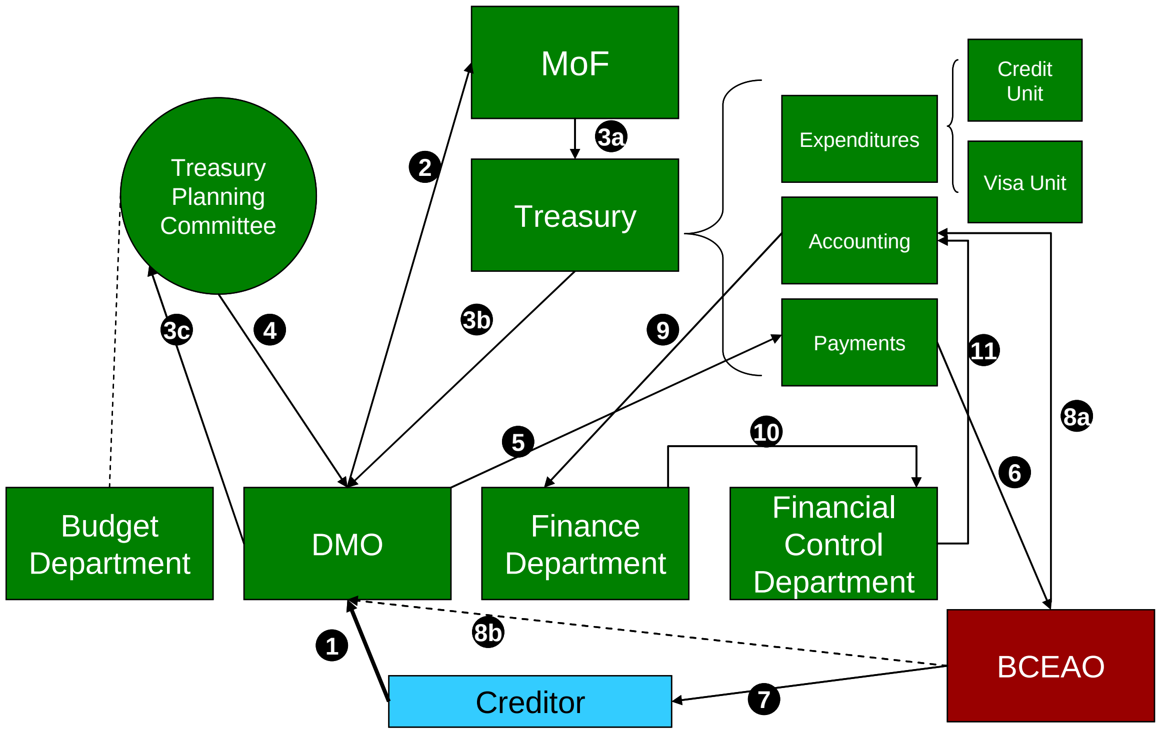
1. Through the Finance Law, the national assembly delegates the responsibility for contracting new debt to the Ministry of Finance (MoF).
2. The line ministry approaches the Ministry of the Economy (MoE) with a request for funds.
3. The MoE, through the Directorate for the Execution of the Development Plan (DEDP), analyzes the request for funds and identifies potential creditors/donors.
4. The MoF formally delegates the borrowing authority to the MoE.
5. The MoE in turn delegates the authority to the General Directorate for Development.
6. A working group is formed including representatives from the line ministry, the DEDP, the DD, as well as lawyers from the MoF.
7. The working group negotiates the terms of the loan with the creditor.
8. The MoF signs the loan in the presence of the MoE.
9. The Supreme Court provides an opinion that the loan was signed in accordance to local laws.
10. The DMO enters the loan into its database.
11. On occasion, the line ministry approaches the creditor directly.

Figure 2: Execution and Disbursements



1. The creditor and the DEDP coordinate the prior actions for the initiation of disbursements under the loan (i.e., the loan's "effectiveness").
2. In some cases, the creditor requires as a prior action that a legal opinion be provided stating that the borrowing process has followed the appropriate procedures as specified in the applicable laws. This is done by the Supreme Court.
3. The line ministry makes a request for disbursement to the DEDP.
4. If the expense related to the requested disbursement exceeds a certain amount, it must be approved by a Procurement Commission, which is attached to the office of the President of the Republic.
5. Once the expense is approved, the DEDP makes the request for disbursement to the creditor.
6. The creditor disburses the funds to the line ministry (or usually directly to the supplier that provided the approved expense) through local banks or through an account with the BCEAO.
7. On occasion, the DEDP communicates disbursements to the DD.
8. More frequently, however, the DD learns from the disbursements from the Creditor, with a substantial lag. Upon learning of the disbursements, the DMO updates its database.

Figure 3: Debt Servicing



1. The creditor sends a bill to the DD.
2. The DD informs the MoF of the coming maturities.
3. The MoF prioritizes the debt service by the creditors that are active with the government. Through the Treasury, the MoF instructs the DD to prepare a payment request for the prioritized payments, to be submitted to the Treasury Planning Committee.
4. The Treasury Planning Committee approves the payment request and instructs the DD to prepare a payment invoice.
5. The payment invoice is sent to the Payments Section of the Treasury.
6. The Payments Section instructs the BCEAO (regional central bank) to make the payment out of a Treasury account.
7. The BCEAO makes the payment.
8. The BCEAO sends two notices of the payment: to the Accounting Section of the Treasury, and, for information only, to the DD, which then updates its database.
9. Because the debt service payment did not go through the regular expenditure chain, the Accounting Section sends a regularization manifest to the Finance Department.
10. The Finance Department approves the manifest and sends it to the Financial Control Department.
11. The approved manifest then returns to the Accounting Division.

2.2 Assessment and Scoring Methodology

The DeMPA comprises a set of 15 debt management performance indicators (DPIs), which aim to encompass the complete spectrum of government debt management (DeM) operations as well as the overall environment in which these operations are conducted. While the DeMPA does not specify recommendations on reforms and/or capacity and institution building needs, the performance indicators do stipulate a minimum level that should be met under all conditions. Consequently, if the assessment shows that the minimum requirements are not met, this will clearly indicate an area requiring reform and/or capacity building.

The scope of the DeMPA is central government debt management activities and closely related functions such as issuance of loan guarantees, on-lending, and cash flow forecasting and cash balance management. Thus, the DeMPA does not assess the ability to manage the wider public debt, including implicit contingent liabilities (such as liabilities of the pension system, losses of state-owned enterprises, etc.), as well as debt of state-owned enterprises if these are not guaranteed by the central government.

The DPIs have one or more dimensions linked to the subject of the DPI. Each of these dimensions are assessed separately. An aggregate score of each indicator is then based on the assessments for the individual dimensions of the indicator. For DPIs that have two or more dimensions, an aggregate score is determined by averaging the scores for individual dimensions of an indicator.

The scoring methodology assesses each dimension and assigns a score of either A, B or C based on the criteria listed. The evaluation starts by checking whether the minimum requirement for that dimension has been met, corresponding to a score of C. A minimum requirement is the necessary condition for effective performance under the particular dimension being measured. If the minimum requirements set out in C are not met, then a D score is assigned. In the cases where a dimension cannot be assessed, a N/R (not rated or assessed) score is assigned. The A score reflects sound practice for that particular dimension of the indicator. The B score is an in-between score lying between the minimum requirements and sound practice.

3. Performance Assessment

Summary of Performance Indicator Assessment

Performance Indicators		Score
Governance and Strategy Development		
DPI-1	Legal framework	D
DPI-2	Managerial structure	D
DPI -3	Debt management strategy	D
DPI -4	Evaluation of debt management operations	D
DPI -5	Audit	D
Coordination with Macroeconomic Policies		
DPI -6	Coordination with fiscal policy	D
DPI -7	Coordination with monetary policy	A
Borrowing and Related Financing Activities		
DPI -8	Domestic Borrowing	D
DPI -9	External Borrowing	D+
DPI -10	Loan guarantees, on-lending and derivatives	N/R
Cash Flow Forecasting and Cash Balance Management		
DPI -11	Cash flow forecasting and cash balance management	D
Operational Risk Management		
DPI -12	Debt administration and data security	D
DPI -13	Segregation of duties, staff capacity and business continuity	D
Debt Records and Reporting		
DPI -14	Debt records	D
DPI -15	Debt reporting	D

3.1 GOVERNANCE AND STRATEGY DEVELOPMENT

DPI-1 Legal Framework

Dimension	Score
1. The existence, coverage, and content of the legal framework	D

Primary and secondary legislation, covering the fundamental aspects of debt management, exist, but the legal framework is not sufficient in two important respects. First, some primary legislation does not have implementing decrees, while some secondary legislation is not fully adhered to in practice[5]. The entities involved in debt management operations do try to follow the procedures as if the legislation or ministerial orders were in place. However, the informal nature of the procedures related to debt management operations means that many times the procedures are ignored.

Second, the explicit delegation of the borrowing authority to the Minister of Finance is part of the Finance Law, which must be renewed each year by the parliament and is not part of a broader framework of laws (this is expected to change with the implementation of the UEMOA regulation, discussed below) More critically, the Finance Law is not always respected – line ministers have in more than one occasion negotiated and signed loans without having obtained formal delegation.

Togo has agreed in July 2007 to implement within one year a UEMOA regulation that contains specific requirements for the legal framework surrounding government debt management. The regulation covers most relevant aspects of debt management, and full implementation would substantially strengthen Togo's legal framework, helping the country fulfill the minimum requirements under this and other DPIs. Adequately implementing the UEMOA regulation would require new legislation that specifies, among others, a clearer mandate to the MoF for undertaking all debt related transactions; improved coordination of all entities involved in debt management operations (DPI-2); the preparation and implementation of a consistent debt strategy (DPI-3); the publication of a yearly report covering DeM activities (DPI-4), independent audits of DeM operations (DPI-5), and the preparation procedure manuals for all DeM operations (DPI-13).

[5] In most cases, this is due to the lack of a ministerial order providing guidance on the implementation of the decrees. Two important decrees that are pending are the 'Décret 2001-149/PR du 9 juillet 2001, portant attributions et organisation du Ministère de Plan, de L-Aménagement du Territoire, de l'Habitat et de l'Urbanisme ; and the 'décret 2001-155/PR du 20 aout 2001, organisation et attributions de la Direction Générale du Trésor et de la Comptabilité Publique'

In conclusion, at the time of the assessment mission the legal framework was inadequate, resulting in unclear and informal processes in contracting debt. A score of “D” is given to this indicator.

DPI-2 Managerial Structure

Dimension	Score
1. The managerial structure for central government borrowings and debt-related transactions	D
2. The managerial structure for preparation and issuance of central government loan guarantees	D
Overall Score	D

The DD (*Direction de la Dette)* is a unit within the Treasury Department (*Direction Générale du Trésor*). The DD’s responsibilities include keeping the external debt database, following overall public debt, forecasting external debt service, and preparing payment invoices for external debt. The DD is also (usually) involved in an advisory capacity in the process of negotiating and contracting loans (see Figure 1).

Following requests from the line ministries, the Ministry of the Economy identifies donors and negotiates loans. Because the Finance Law gives the Minister of Finance the ultimate authority to negotiate and sign all loans, a formal delegation of the authority to negotiate new loans is made to the Ministry of the Economy. This division, while positive in separating the debt contracting and servicing sides of debt management, has created problems due to a lack of coordination between the Ministry of the Economy and the DD: once the loan is signed, the DD only receives information about the loan from the creditor, often with a substantial delay, either in the form of billing statements or through ad hoc notices of disbursements. Information on disbursements is not adequately shared between the Ministry of the Economy or the line ministry and the DD.

Domestic debt, including domestic security issues, domestic arrears and bank loans are managed directly by the Treasury. Togo has undertaken two domestic security issues in recent years, one through the *Société Nationale des Investissements*, a (formerly) state-owned bank that has been recently privatized, and the other – part of a region-wide issue to support investments in electricity – through the Central Bank for the West African States (BCEAO). The BCEAO conducted the auction and serves as registrar for the issue. It appears that the information flow between BCEAO, the treasury and the DD are sufficient, though information on the earlier securities issue was unavailable, pointing to difficulties in integrating all the information pertaining to the domestic debt.

Togo does not issue loan guarantees to private companies and although in the past guarantees were given to state-owned enterprises (SOEs), recent loans to SOEs have not benefited from a state guarantee.[6] However, although loans to SOEs do not carry an explicit guarantee, they often create implicit contingent liabilities, and there was a report of a creditor that demanded payments from the State in a default from an SOEs on a loan that was not formally guaranteed. In addition, there is no single entity charged with collecting, publishing and sharing information on the debt of the public enterprises (see DPI 15) and only recently has the debt office started collecting information on the debt of public enterprises.

Togo is expected to put in place a National Debt Committee that would be in charge of developing a national debt strategy. While the assignment of the responsibility to draft a debt strategy is an important step, it is essential for the committee to reinforce the coordination between debt management entities rather than to add to an already overly-complex institutional framework for debt management.

DPI-3 Debt Management Strategy

Dimension	Score
1. The quality of the debt management strategy document	D
2. The decision-making process, updating, and publication of the debt management strategy	D
Overall Score	D

Togo has never developed a formal Debt Management Strategy (DMS). Instead, the government follows an informal strategy whereby it prioritizes debt service payments to creditors that remain engaged with the country such as the Islamic Development Bank (IsDB), the West African Development Bank (BOAD). As a first step towards the preparation of a debt management strategy, a strategy for the clearance of arrears (including a detailed analysis of the country's medium- and long-term capacity of payment) and re-engagement would be very helpful. Following the normalization of relations with international creditors (and as part of implementing the UEMOA regulations), the authorities expect to develop a strategy to ensure the sustainability of future borrowing.

[6] Indeed, some of Togo's domestic debt includes defaulted loans to SOEs that were covered by government guarantees. The management and information surrounding these called guarantees is weak.

DPI-4 Evaluation of Debt Management Operations

Dimension	Score
1. Level of disclosure—in an annual report or its equivalent—of government DeM activities, central government debt, evaluation of outcomes against stated objectives, and compliance with the government's debt management strategy	D

The DD is not required to produce any annual report and neither the Treasury nor the Finance Ministry report to the National Assembly on debt management activities. However, an annual report on the DD activities is produced for internal purposes. In addition, the DD provides annual reports about outstanding central government debt for different ministries on demand. Once the UEMOA regulation is fully implemented and a debt management strategy is put in place, relatively small improvements to the existing annual report (such as a discussion of debt management activities and an evaluation of outcomes compared to the strategy) could bring it closer to international good practice.

DPI-5 Audit

Dimension	Score
1. Frequency of internal and external audit of central government debt management activities, policies, and operations, as well as publication of external audit reports	D
2. Degree of commitment to address the outcomes from internal and external audits	N/R
Overall Score	D

There has been neither an internal nor an external audit of debt management activities in the past five years. At the time of writing, legislation for creating the position of an auditor general was in place but not yet implemented.

In 2006, KPMG performed an audit of the domestic arrears (Table 1), which are the main component of domestic debt. The motivation to choose an independent, private company for auditing was that the protracted nature of arrears, especially to suppliers, which led to a situation in which the government had little reliable information on whether payments claimed corresponded to goods and services that were actually delivered. Whereas the main objective of the KPMG audit was precisely to assess whether the goods and services for which suppliers were claiming payments had in fact been delivered, the auditors also made some recommendations for improvements in Treasury operations. It is not clear whether KPMG will repeat the audit for the period 2007. Following the audit, the government has retained KPMG to perform periodic audits of the delivery of all services and goods that are purchased by the state.

Table 9. Togo: Domestic Government Debt, 2005–06
(CFAF millions)

Debt category	2005 Total debt	2005 Of which: arrears	2006 Total debt	2006 Of which: arrears
Commercial debt 1/	33,797	33,797	36,497	36,497
of which: subsidies and transfers	12,419	-	12,419	-
Financial debt 2/	173,418	36,253	204,492	37,222
of which: CNSS	82,906	16,149	87,880	17,118
BCEAO	18,090	-	15,390	-
Commercial banks 3/	53,953	1,635	46,753	1,635
of which: NPL to BTCI 4/	23,000		18,800	
NPL to UTB 4/	10,474		8,074	
SOEs	18,469	18,469	18,469	18,469
Government bond			36,000	-
Social debt 5/	5,848	5,848	-	-
Deposits at the Treasury 6/	17,966	-	17,966	-
Total	231,029	75,898	258,955	73,719
Memo items				
Authorities total domestic debt estimates	278,374		311,129	
of which: commercial debt	103,440		99,805	
other commercial debt	16,129		16,130	
financial debt	113,199		163,383	
other liabilities and overdrafts	45,606		31,811	
KPMG audit total debt	318,555			
of which: validated	231,029			
pending	6,520			
non verifiable	14,040			
rejected	66,966			

Sources: Preliminary results of debt KPMG audit (2005 data); Togolese authorities; and Fund staff estimates.

1/ Includes delivery or goods or services rendered by private suppliers, mostly in arrears.
2/ Includes borrowing from commercial banks and state-owned enterprises.
3/ Includes subscription of government bond of CFAF 36 bn in 2006 by domestic and foreign banks.
4/ Includes nonperforming loans to state-owned enterprises taken over by the state.
5/ Includes arrears on wages and social contributions.
6/ Includes deposit accounts of public agencies, local administrations, and private and public companies with the Treasury.

Source: Togo: 2007 Article IV Consultation and First Staff Review of the Staff-Monitored Program - Staff Report; Public Information Notice on the Executive Board Discussion; and Statement by the Executive Director for Togo

3.2 Coordination with macroeconomic policies

DPI-6 Coordination with Fiscal Policy

Dimension	Score
1. Coordination with fiscal policy through the provision of accurate	D

and timely forecasts on total debt and debt service under different scenarios	
2. Availability of key fiscal variables and/or an analysis of debt sustainability, and the frequency with which debt sustainability analysis is undertaken	D
Overall Score	D

The DD provides forecasts of debt service due to the Budget Department, but does not provide the outstanding stock of debt as part of the budget process. While the DD provides forecasts for service of the total outstanding debt, only the loans that are still serviced are included in the budget (approximately one fifth of the total payments due). This has been criticized by the IMF as reducing the transparency of the budget, as the National Assembly is not adequately informed of the scheduled debt service for a given year.

The latest DSA for Togo was done in 2007 as part of the Article IV Consultation and First Staff Review of the Staff-Monitored Program, covering both domestic and external debt. The DD provided data for the analysis, but was not involved in the analysis; nor was another government department.

DPI-7 Coordination with Monetary Policy

1. Coordination with monetary policy implementation through information sharing on debt transactions and the government's current and future cash flows	N/R
2. Extent of a limit to direct access of resources from the Central Bank	A
Overall Score	A

Togo is a member of the *Union Economique et Monetaire Ouest-Africaine* (UEMOA – West African Economic and Monetary Union). In addition to sharing a central bank and currency, the UEMOA provides technical assistance in the areas of capital markets development, debt management and other aspects of monetary and fiscal policy. In the area of public debt management, membership in the UEMOA has proven a sound policy choice, allowing Togo to benefit from a stable monetary policy environment as well as technical assistance from Pôle-Dette.

Information sharing from the DD to the Central Bank on debt service projections and foreign exchange needs takes place on an ad-hoc basis, whereas information sharing from the Central Bank to the DD on debt management issues usually doesn't take place since the Central Bank has only acted as a debt management agent for the government once, on the occasion of the issue of the regional securities. That issue was kept separate from monetary operations, and active participation by the Treasury ensured adequate information flows. Given the lack of adequate information, this dimension is not rated.

UEMOA membership has imposed a degree of discipline to public borrowing by banning access of the government to central bank financing. Since the government has no access to Central Bank advances, Togo receives an 'A' in this dimension. However, it must be noted that the government has replaced the recourse to central bank with the accumulation of arrears and bad loans in state-owned banks (as a result, most domestic liabilities are composed of arrears or new liabilities that were exchanged for arrears). Moreover, although Togo is expected to follow UEMOA convergence criteria, most (6 of 8) criteria were not met in 2006. Togo has committed to improve its public financial management and reduce arrears to ensure consistency of government finances with the UEMOA monetary policy.

3.3 Borrowing and Related Financing Activities

DPI-8 Domestic Borrowing

Dimension	Score
1. The extent to which market-based mechanisms are used to issue debt, the publication of a borrowing plan for T-bills and T-bonds, and the preparation of an annual plan for aggregate amount of local currency borrowing in the domestic market, divided between the wholesale and retail markets	D
2. The availability and quality of documented procedures for local currency borrowing in the domestic market	N/R
Overall Score	D

Most of Togo's domestic debt is comprised of protracted arrears to suppliers and loans from domestic banks arising from the exchange of earlier bad debts. Market-based mechanisms have been used, but in the past five years they were limited to three issues, one short term T-bill, which has already been repaid, and two regional bonds, issued in 2006 and 2007, respectively. The 2006 issue (over CFA 36 billion) was used to primarily to reduce arrears to civil servants and cotton farmers, while the second one (CFA 20 billion) addressed urgent needs of the energy sector. Although the securities could in principle be purchased by investors in any country of the monetary union, it is believed that most of these issues remain with Togolese financial institutions. Commercial banks have been used in the past to get lending at below market rates and banks have accumulated arrears from state owned enterprises that were guaranteed by the government. However, the government no longer undertakes such practices.

Direct borrowing from the central bank is not possible due to UEMOA membership.

Due to its underdeveloped domestic market, domestic borrowing has been on an ad-hoc basis. Accordingly, the government does not publish a borrowing plan. Nevertheless, the two issues were relatively transparent, and the documentation for the 2007 issue was thorough and easily obtained. Prices were determined by Dutch auction, and the government paid a relatively low interest for the securities (6 percent). While the terms and conditions of this instrument are readily available, no formalized borrowing procedures exist beyond the Finance Law, which delegates the borrowing authority to the Finance Minister.

DPI-9 External Borrowing

Dimension	Score
1. Degree of assessment of the most beneficial/cost-effective borrowing terms and conditions (lender or source of funds, currency, interest rate, and maturity)	D
2. Availability and quality of documented procedures for borrowing in foreign markets	D
3. Availability and degree of involvement of legal advisors	C
Overall Score	D+

External borrowing is strongly dependent on the availability of concessional loans from different multilateral and bilateral lenders. Due to Togo's protracted arrears to most external creditors, there has been a lack of significant external borrowing for several years and Togo relies on a limited number of creditors for what little external financing it receives.

The procedures for external borrowing are rather complicated (Figure 1) and are not clearly documented. In addition, different line ministries have been known to directly obtain loans without going through regular processes discussed above and even without the formal sign-off of the Finance Minister, an apparent contradiction to the Finance Law. These weaknesses lead to a situation in which borrowing is done with little coordination, terms and conditions are often not properly assessed, thus hindering the appropriate management of external debt.

As shown in Figure 1, legal advisors from the Ministry of Finance participate in the debt contracting process at the negotiating stage as part of a working group that negotiates the terms and conditions of the loan directly with the creditor. In addition, some creditors (notably BOAD) require a legal opinion from the Supreme Court prior to the effectiveness of the loan. However, Togo receives a score of 'C' in this dimension, because this procedure is not consistently applied.

DPI-10 Loan Guarantees, On-lending and Debt-related Transactions

Dimension	Score
1. Availability and quality of documented policies and procedures for approval and issuance of central government loan guarantees	N/R
2. Availability and quality of documented policies and procedures for on-lending of borrowed funds	N/R
3. Availability of a debt management system with functionalities for handling derivatives, as well as availability and quality of documented procedures for the use of derivatives	N/R
Overall Score	N/R

While loan guarantees have been granted in the past, the government has not used them in an ongoing or to an otherwise meaningful extent in recent years. . In addition, there is no legal framework addressing the issuance of loan guarantees. Moreover, there are no reports of on-lending activities or the use of derivative instruments, which leads this DPI to be not rated

Notwithstanding the lack of explicit guarantees, it may be useful to consider the borrowing of SOEs as implicit contingent liabilities, and therefore meriting attention of debt managers. While an improved legal framework that more strictly separates the state's obligations from those of the SOEs would be helpful, the experience of many countries demonstrates that borrowings by SOEs may become actual liabilities given political pressures to assist these enterprises even when legally creditors have no recourse to the government. At present, no oversight exists on the borrowing of SOEs. In addition, no central recording of SOE obligation exists. The DD has started to collect information on the liabilities of SOEs recently but lacks the authority to enforce communication of loans from the SOEs.

3.4 Cash Flow Forecasting and Cash Balance Management

DPI-11 Cash Flow Forecasting and Cash Balance Management

Dimension	Score
1. Effectiveness of forecasting the aggregate level of cash balances in government bank accounts	D
2. Effectiveness of managing the aggregate cash balance in government bank account(s), including the integration with the domestic debt borrowing program	D
3. Where the Principal DeM Entity (or the DeM entities) operate(s) its (their) own bank accounts, the frequency of reconciliation of these bank accounts	N/R

Overall Score	D

The Treasury has accounts at the Central Bank (BCEAO) that are used for the purpose of debt service payments – both domestic and external. Payments of the 2007 domestic securities issue come from a dedicated account managed by the Central Bank. Payments on external debt also come from Treasury accounts at the BCEAO, but usually the balances in this account are closely tied with payments that have been authorized and no active management is done. When such accounts show a surplus, they receive market interest rates from the Central Bank, but this is not an purposeful policy, therefore earning a ‘D’ in the second dimension of this DPI.

The Treasury is responsible for government cash flow forecasting, but forecasts are not undertaken. Instead, payment orders are accumulated until the end of the month and are then compared to revenues. Only then is it decided which payments are to be made. This system leads to in-month arrears to civil servant wages and suppliers, as well as to longer-standing arrears when revenues are not sufficient to cover all payment orders. Thus, the rating for the first dimension of this DPI is a ‘D’.

This ad-hoc system of cash flow handling was a result of the difficult financial situation of the Treasury. In the current circumstances, cash balance management has no discernible impact on debt management operations because whatever cash shortfalls that exist are simply left in arrears. Alternatively, any monthly cash surpluses are not managed and stay in accounts at the Central Bank earning market interest rates.

3.5 Operational Risk Management

DPI-12 Debt Administration and Data Security

Dimension	Score
1. Availability and quality of documented procedures for the processing of debt service	D
2. Availability and quality of documented procedures for debt data recording and validation, as well as storing of agreements and debt administration records	D
3. Availability and quality of documented procedures for controlling access to the central government debt recording/management system and payment system	D
4. Frequency and off-site, secure storage of debt recording/management system backups	D

Overall Score	D

There are no procedures manuals for any of the tasks described in the various dimensions of this indicator. In addition, the procedures used by the DD are not formalized as required. For example, the processing of debt service payment notifications are mostly based on data obtained from creditors and that are not reconciled. Payment orders go through an extensive and (perhaps overly-) complex process and are subjected to a more than two person authorization. Debt data recording is done relying on different internal and external sources (such as payment advices), but the data is not crosschecked.

All original signed copies of loan agreements and all debt administration records are stored and filed in the DD. Backups of electronic data are conducted on a weekly basis, but the server is located in a nearby room with no fire protection. A fire would lead to a total loss of the digital data as well as the hardcopies of all the documents.

Although access to the debt management software is password-controlled, it appears that password sharing is common. Controlling access to the data system works in an informal way.

DPI-13 Segregation of Duties, Staff Capacity and Business Continuity

Dimension	Score
1. Segregation of duties for some key functions, as well as the presence of a risk-monitoring and compliance function	D
2. Staff capacity and human resource management	D
3. Presence of an operational risk management plan, including business-continuity and disaster-recovery arrangements	D
Overall Score	D

The authority to negotiate and transact lies outside the DD, so there is a clear separation between those with the authority to negotiate and transact and those responsible for arranging payments (the DD). However, to be fully effective, this separation needs to address existing problems in coordinating information flows between the entity that negotiates and executes debt agreements (the Ministry of the Economy) and the DD, which is responsible for arranging payments. On the other hand, there is no separation between those who enter the data and those who check it – indeed, there is no staff assigned to check the accuracy of data entries. Finally, no one is responsible for risk monitoring and compliance.

The DD is comprised of the director, an advisor to the director, one IT professional and four professionals who manage the debt database and prepare payment advices. Of these, one person is responsible for domestic debt, and the other three for external debt. Each staff in the external debt unit is responsible for one specific group of creditors, namely multilateral, bilateral Paris Club and bilateral non-Paris Club creditors. There is no middle office or risk control unit. The person responsible for domestic debt has records and prepares forecasts of payments for the budget, but the management of domestic debt lies with the Treasury Department.

The external debt unit carries out basic duties related to IFI borrowing, i.e. registration of loans and transactions in the debt recording system (DMFAS 5.3), forecasting of debt service for the budget and checking payment advices and preparing payment orders. There is a clear separation between preparation and payment/accounting. Payment orders are done by another staff and the actual payments are done by another part of the Treasury (the Payments Division).

Turnover in the DD is low and the current staff is experienced and has in-depth knowledge of the basic tasks they are required to do *at the moment*. However, DD staff is generally not adequately trained in the analytic requirements of more advanced debt management operations, with the analytical unit staffed only with the advisor to the director. More and better trained staff are needed to enable the DD to improve their analytical capacity, for instance in the preparation of a debt management strategy.

There are no formal job descriptions and no individual training and development plans. Staff has undergone training offered by organizations like AFRITAC or Pôle-Dette. Performance assessments, code-of conduct and conflict-of-interest guidelines are absent. Business continuity is at risk given that half of the staff in the DD is expected to retire in the next five years and no plans currently exist to replace them and train new staff.

3.6 DEBT RECORDS AND REPORTING

DPI-14 Debt Records

Dimension	Score
1. Completeness and timeliness of central government debt records	D
2. Complete and up-to-date records of all holders of government securities in a secure registry system	D
Overall Score	D

Debt recording is one of the major weaknesses of the debt management operations in Togo. Lack of coordination and information exchange between the different entities involved in negotiating, contracting and mobilizing funds leads to incomplete debt records for both domestic and external borrowing.

Insufficient coordination between the Ministry of the Economy, which is in charge of mobilizing the disbursements of negotiated loans, and the DD leads to substantial delay in the recording of disbursed amounts, and therefore estimates of outstanding debt in the government's debt database are usually not up-to-date. Moreover, the DD communicates only sporadically with creditors.

In addition to the problems of timely recording of new disbursements and limited reconciliation with creditor information, at the time of the assessment mission, the DD was also experiencing technical problems with the debt management software (DMFAS), which has had problems generating correct outputs since the version was upgraded. On the positive side, DD staff is generally competent in the basic usage of the debt management software and data entries seem accurate.

A final concern with debt recording concerns SOE debt – as mentioned earlier the DD has no information on the debt of these entities, and only recently has requested information in this regard.

The Central Bank keeps a registry of government domestic securities holders. While this registry is complete for the holders of the 2007 issue, it is not clear whether it contains complete records of the holders of the 2006 issue, which was managed by a different institution.

DPI-15 Debt Reporting

Dimension	Score
1. Meeting statutory and contractual reporting requirements of central government debt to all domestic and external entities	D
2. Meeting statutory and contractual reporting requirements for total nonfinancial public sector debt and loan guarantees to all domestic and external entities	D
3. Quality and timeliness of the publication of a debt statistical bulletin (or its equivalent) covering central government debt	D
Overall Score	D

Togo scores a 2+, and improving, in the World Bank's debtor reporting system. This score indicates that Togo reports data with only minor problems but since the focus is on the timeliness and completeness of reporting, it only reflects the quality of the data to a limited extent.

The financial accounts, which are presented to the parliament and other ministries, do not contain debt information. The DD provides the budget ministry with forecasts of total debt service payments due in the budget year. However, the budget only publishes the debt service that they intend to pay. The budget therefore neither contains the total level of debt nor the real level of debt services due.

There is no official debt information provided in a Statistical Bulletin. The level of debt and the arrears that are accumulated are seen as sensitive information and not publicly disclosed.

4. CONCLUSIONS AND NEXT STEPS

Debt management operations in Togo function within an extremely constrained environment. DeM is reactive rather than active and core functions consist of debt data management, which itself is constrained by software and coordination issues. Among the areas for improvement identified, we find that priority should be given to (i) the institutional framework, which is currently overly complex and does not ensure appropriate coordination among all entities that participate in the debt management process; (ii) the debt recording systems, which are not accurate and complete, in part as a consequence of the institutional framework; and (iii) putting in place a debt management strategy, which at this stage would focus on arrears clearance and the terms of re-engagement with the international creditors. All of which must be underpinned by primary and secondary debt management legislation that is actually implemented.

Bank staff in cooperation with the African Development Bank and UNCTAD's DMFAS program are working together to help advance support to the Togolese in the area of debt recording and reporting. In the context of this cooperation, in March 2008 a consultant identified by UNCTAD and financed by the World Bank went on a mission to Togo to assist the DDP in troubleshooting the database, train new staff on using the database and on producing standard reports for reporting to the World Bank's debtor recording system. More substantial follow-up on findings from the DeMPA report are expected in the context of a seminar that the DDP plans to organize, with assistance from the World Bank and participation from donors and technical assistance providers, for the dissemination of the report and launch the development of a reform program for debt management. For these and future efforts at reforming debt management operations in Togo to have a chance at sustained success they should usefully be part of a broader public finance management program once re-engagement with the international community occurs.

APPENDIX I: MEETINGS

Monsieur Lokoh

Chef Division Etudes, Direction de la Dette Publique

(Head Research, Direction of Public Debt)

Madame Rosine Sori-Coulibaly

Représentant Résident PNUD (Residential representative UNDP)

Madame E. Legzim

Directrice du Budget, Ministre des Finances, du Budget et des Privatisations (Director Budget, Ministry of Finance, for the Budget and Privatizations)

Monsieur Mongo Aharh-Kpessou

Directeur de l'Economie (Director, Ministry of Economy)

Monsieur Ihou

Directeur Général, Union Togolaise de Banque (UTB)

(General Director, UTB)

Monsieur Patoki

Trésorier Payeur, Ministère des Finances, du Budget et des Privatisations

(Treasury, Director Budget, Ministry of Finance, for the Budget and Privatizations)

M. Komlan Vincent Adjahoto

Conseiller du Directeur National, BCEAO

(Advisor to the National Director, BCEAO)

Monsieur Francois Dall'Orso

1er Conseiller, Ambassade de France

(1st Advisor, Embassy of France)

S.E.M. David Dunn

Ambassadeur des Etats-Unis d'Amérique

(Ambassador of the United States to Togo)

Monsieur Joao Melo de Sampaio
Chargé d'Affaires, Union Européenne
(Responsible Representative, European Union)
Monsieur Yves Picard
Directeur, Agence Française de Développement (AFD)
(Director, French Development Agency)

S.E. Monsieur Hubert Kolb
Ambassadeur d'Allemagne
(German Ambassador to Togo)

Monsieur Kanekatoua
Directeur Général, Banque Togolaise pour le Commerce et l'Industrie (BTCI)
(General Director, BTCI)

Monsieur Darou
Directeur Général, Banque Togolaise de Développement (BTD)
(General Director, BTD)

S.E.Monsieur Daniel K. Kloutsè
Ministre de l'Economie, des Finances et des privatisations
(Minister of the Economy, the Finances and Privatizations)

Monsieur Negbane
Directeur de la Dette Publique

Monsieur de Souza
Directeur, KPMG
(Director, KPMG)