

PD BB E735

072-0229

AID 1120-1 PAAD	AGENCY FOR INTERNATIONAL DEVELOPMENT PROGRAM ASSISTANCE APPROVAL DOCUMENT	1. PAAD NO. 693-K-601 (7,000,000) 693-K-601A (750,000)
		2. COUNTRY TOGO
		3. CATEGORY Cash Transfer - AEPRP
		4. DATE June 5, 1986
5. TO: Mark L. Edelman, AA/AFR	6. OYS CHANGE NO.	
7. FROM: Myron Golden, AID Representative	8. OYS INCREASE: TO BE TAKEN FROM: \$7.85 million	
9. APPROVAL REQUESTED FOR COMMITMENT OF: \$ 7.85 million		10. APPROPRIATE GESA-86-31693-KG31 (637-61-693-00-50-61) ESF GESA-86-31693-KG39 (637-61-693-00-53-61)
11. TYPE FUNDING <input type="checkbox"/> LOAN <input checked="" type="checkbox"/> GRANT	12. LOCAL CURRENCY ARRANGEMENT <input checked="" type="checkbox"/> INFORMAL <input type="checkbox"/> FORMAL <input type="checkbox"/> NONE	13. ESTIMATED DELIVERY PERIOD 7/86 - 8/87
14. TRANSACTION ELIGIBILITY DATE		15. COMMODITIES FINANCED

16. PERMITTED SOURCE U.S. only: \$850,000 Limited F.W.: Free World: Cash: \$ 7 million	17. ESTIMATED SOURCE U.S.: \$850,000 Industrialized Countries: Local: \$ 7 million Other:
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18. SUMMARY DESCRIPTION
This program will further the structural adjustment and policy reform process agreed by Togo and the IBRD. It will effect the liberalization and privatization of the cereals export trade by removing legal restrictions and reinforcing limitation of the relevant parastatal to management of national food security stocks. This is intended, in time, to increase and stabilize farmgate prices and increase both cereals production and export earnings. Seven million dollars will be disbursed in two tranches (FY86-87), conditioned initially on the GOT's legalization of maize exports, approval of an appropriately timed and broad scheme for issuing export licences to private traders, and creation of rules governing TOGOGRAIN's limited scope for market intervention.

Approximately \$850,000 will finance U.S. technical assistance to enable creation of the licensing mechanism and improve market and crop forecasting analyses. The \$7 million Cash Transfer will ameliorate Togo's balance of payments problem and the local currency equivalent counterpart will be employed by the GOT in managing the essential data analysis operations and relieving constraints to cereals trade: storage and transport. For the latter, about \$4 million equivalent will capitalize an intermediate credit facility available to farmer groups and exporters; and about \$2 million equivalent will support an IBRD roads maintenance project beginning in 1987.

19. CLEARANCES:	20. ACTION
GC/AFR: AVance AFR/CCWA: CSteele PBC/PD: RMaushammer AFR/DP: JPatterson AFR/TR: KPrussner AFR/PD: CPeasley DAA/AFR: LRichards	<input checked="" type="checkbox"/> APPROVED <input type="checkbox"/> DISAPPROVED Mark L. Edelman, Asst. Administrator DATE: June 25, 1986 TITLE
M/FM/PAFD: EOwens	

CLASSIFICATION:
Date 8-22-86

UNITED STATES INTERNATIONAL DEVELOPMENT COOPERATION AGENCY
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON DC 20523

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM : AFR/PD, Laurence Hausman *L. Hausman*
SUBJECT: TOGO: Cereals Trade Liberalization Program (693-0229)
PAAD

I. Problem: Your approval is requested for a grant of \$7.850 million from the Economic Support Fund appropriation account to the Government of Togo (GOT) for cereals trade liberalization. It is planned that the entire amount will be obligated in FY 1986.

II. Discussion: This program furthers the structural adjustment and policy reform processes agreed upon by the GOT and IBRD. It will lead to the liberalization and privatization of cereals export trade by removing legal restrictions (and introducing an export licensing system) and by limiting the role of TOGOGRAIN (a GOT parastatal presently having a legal monopoly on grain exports), to management of national food security stocks. A key consequence will be increased farmgate prices and improved price stability. There will be a clear incentive to increase cereals production and export earnings.

The \$7.0 million cash transfer will be disbursed in two equal tranches (FY86 and 87). It will ameliorate Togo's balance of payments problems. The local currency equivalent will be used for: a) management of essential data analysis (about \$1.0 million) and relief of storage and transport constraints to cereals trade (\$4.0 million), the latter through an intermediate credit facility for farmer groups and cereals exporting merchants; and b) local currency costs for an IBRD road maintenance project to begin in 1987 (\$2.0 million). The initial conditions to the grant are for legalization of maize exports, approval of an appropriately timed and broad scheme for issuing export licenses to private traders and creation of rules for delimiting the scope of TOGOGRAIN's market intervention to regulatory use of security stocks.

\$850,000 will finance U.S. technical assistance to enable creation of the licensing mechanism and improve market and crop forecasting analyses.

An indicative budget of AID program expenditures is given below:

<u>Dollars (AID)</u>	<u>First Year</u>	<u>LOP</u>
Technical Assistance		
Short-Term TA	100	100
Long-Term TA	735	735
Evaluation	---	15
SUB-TOTAL	<u>835</u>	<u>850</u>

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Local Currency (GOT)

Support to Office of Agri. Surveys and Statistics & Office of Development Studies	750	1,000
Agricultural Credit Bank Credit Facility	2,340	4,000
Road Maintenance Co-Financing	<u>---</u>	<u>2,000</u>
TOTAL	3,925	7,850

The ECPR approved this project on June 18, 1986, with some minor corrections to the PAAD.

In addition to the standard conditions precedent (specimen signatures, and designation of authorized representatives), which will apply to the Limited Scope Project Grant Agreement for technical assistance, the following conditions precedent and covenants will in substance be included in the Program Grant Agreement:

1. Conditions Precedent to the First Disbursement

Prior to the disbursement of the first tranche of U.S. dollars under the grant, the Grantee shall show evidence that it has:

- a. formed a Cereals Export Licensing Commission authorized to determine the volume of exports and licenses;
- b. publically announced the change in the legal status of maize exports and the government's commitment to permit exports of cereals subject to preservation of national food security;
- c. approved that cereals export licenses will be issued as early as September and no later than November in a given crop year and will remain valid at least until the following March;
- d. in collaboration with AID, defined responsibilities for management of the Cereals Export Liberalization Program in Togo.

2. Conditions Precedent to the Second Dollar Disbursement

Prior to the disbursement of the second and final tranche of U.S. dollars under the grant, the Grantee shall furnish AID evidence that the Grantee has carried out the following:

- a. furnished cereals export licenses to private sector traders in two crop years beginning as early as September but no later than November in each crop year valid at least until the following March, if crop

estimates so warrant, on the basis of an open and fair licensing system with export volumes determined employing estimates of production, national consumption needs, and security stock requirements;

- b. regularly published and disseminated information on crop production and producer and consumer prices from data gathered by the Office of Agricultural Studies and Statistics;
- c. evidenced satisfactory progress in removing constraints to the grain trade through provision of credit to farmer groups and export traders through CNCA;
- d. prepared a detailed plan for the issuance of export licenses in 1987 based on refinements of the process employed in the first year, as informed by studies by SOTED; and
- e. made an acceptable proposal to AID for the continued use of its counterpart local currency contribution for the second and third years of the Program.

3. Covenants

- a. The Grantee shall covenant not in any way to discontinue, reverse or otherwise impede any action it has taken in satisfaction of any conditions precedent to initial or subsequent disbursements, except as AID agrees in writing;
- b. The Grantee agrees that it will inform A.I.D. in a timely fashion of any facts or circumstances that might materially affect the Program, the Grant or the discharge of responsibilities under the Agreement.
- c. The Agreement and the Grant will be exempt from any taxation, duties or fees imposed under laws in effect in the Republic of Togo;
- d. For purpose of determining the amount of local currency required by the Grantee for the implementation of this Program, the Grantee shall use the highest rate of exchange which, at the time of disbursement under the Grant, is not unlawful in the Republic of Togo;
- e. The grantee shall covenant that it will promulgate a detailed set of intervention rules for TOGOGRAIN which limit its cereals purchases to the level agreed upon in the existing Structural Adjustment Credit of the IBRD/IDA:

- f. The Grantee shall covenant that parameters for the use of local currency under the grant deposited in the CNCA for on-lending will be presented to AID for review and approval before any loans are made.

III. Special Concerns:

IEE: The Initial Environmental Examination approved categorical exclusions for dollar and local currency funds applied to technical assistance, analyses and studies; categorical exclusion for local currency applied to capitalization of an intermediate credit institution, and a deferred decision on local currency co-financing of less than 25% of an IBRD road maintenance project until the total contribution is determined and, if greater than \$1,000,000 equivalent, the environmental procedures of the major donors have been reviewed.

Implementing Agencies: The Government of Togo's Office of Agricultural Surveys and Statistics (DESA), Office of Development Studies (SOTED) and a to-be-formed Cereals Export Licensing Commission are the major implementing agencies involved. A Limited Scope Grant Agreement for short- and long-term technical assistance will be negotiated with the GOT; these funds will allow AID to directly choose a competitively-selected contractor.

Officers responsible for project: Sydney Bliss, USAID/Togo's Rural Development Officer, is responsible for this project in the field. Howard Helman, Chief of AFR/PD/CCWAP, is the responsible officer in AID/W.

Gray Amendment: Gray Amendment entities will be encouraged to participate in this activity either as prime contractors or sub-contractors.

IV. Justification to the Congress: The Congressional Notification was sent forward on July 25, 1986. The 15 day waiting period expired on August 8, 1986.

V. Recommendation: That you sign the attached PAAD authorizing a \$7,850,000 grant for Togo.

VI. Attachments: 1. PAAD

AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D.C. 20523

ACTION MEMORANDUM FOR THE ASSISTANT ADMINISTRATOR FOR AFRICA

FROM : AFR/PD, Carol Peasley *C. Peasley*
SUBJECT : Togo: Cereals Trade Liberalization Program (693-0229),
PAAD Amendment

Problem: Your approval is requested to amend the PAAD for the subject program to permit revision of one Condition Precedent and deletion of one Covenant.

Discussion: The PAAD for the \$7.85 million dollar Togo Cereals Trade Liberalization Program was signed and funds authorized on August 25, 1986. The approved PAAD included two provisions which mistakenly go beyond decisions made at the ECPR and are additional to the proposed conditions and covenants we cabled in July to the field following the ECPR. The mission prepared and negotiated the grant agreement for the program on the basis of our July cable. A signing ceremony is scheduled for August 29, 1986. If the mission has to renegotiate its agreement, the obligation will be delayed until September.

The two provisions in question are as follows:

(1) The PAAD includes as a Condition Precedent to first disbursement a statement that the Government will have: "approved that cereals export licenses will be issued as early as September and no later than November in a given crop year and will remain valid at least until the following March." Our earlier cable did not include the phrase: "and will remain valid at least until the following March." As a result, the mission has negotiated with the Government of Togo a grant agreement which does not include this provision.

The concept of export license validity through March of the following year is considered to be key to the success of the program. However, even if the language is not in the first disbursement CP, the mission assures us that the export licensing system announced by the Government will provide for licenses to be valid through March. The March validity period is stated in the program description of the grant agreement; it is also reaffirmed in the Government's letter of request for the AEPRP. We believe that these are adequate protections and that the intent of the CP, as written in the approved PAAD, will be complied with even if the CP is revised to delete reference to the March date.

(2) The PAAD includes a statement that "the Grantee shall covenant that parameters for the use of local currency under the

grant deposited in the CNCA for on-lending will be presented to AID for review and approval before any loans are made." This covenant was not discussed at the ECPR and seems to have been included to comply with Agency desire to ensure that local currency credit programs comply with AID policy. While the concept is important, it is inappropriate to add as a covenant at the last minute. The covenant should be deleted from the authorization. Instead, we will advise the mission to request in PIL #1 that local currency lending procedures be agreed upon by AID and the Government of Togo before any local currency is disbursed for lending.

In summary, we believe that the two provisions in question can be deleted from the PAAD without jeopardizing the objectives of the program.

Recommendation: That you approve the revised pages 33-35 of the Togo Cereals Trade Liberalization PAAD, thereby deleting "and will remain valid at least until the following March" from Conditions Precedent 1.c and deleting Covenant 3.f in its entirety.

Approved: [Signature]

Disapproved: _____

Date: Aug 28, 1986

Clearances:

GC/AFR:BBryant	_____	Date	_____
AFR/DP:JWolgin	_____	Date	6/28/86
AFR/CCWA:JColes	_____	Date	_____
DAA/AFR/WCA:LRichards	_____	Date	_____

Drafted by:AFR/PD:CPeasley:8/27/86:pmd:#1732H

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EXECUTIVE SUMMARY

The goal of the Cereals Trade Liberalization Program in Togo (CTLTP) is to further structural adjustment currently being undertaken by the government (GOT) in collaboration with the World Bank (IBRD/IDA). Successful structural adjustment will continue the progress towards real economic growth achieved in the past few years. An important element is strengthening incentives to producers of export and food crops. The purpose of the AEPRP/ CTLTP is to effect the liberalization and privatization of the cereals export trade by establishing an export licensing mechanism and reenforcing limitation of the relevant parastatal to management of national food security stocks.

Togo, with the assistance of the World Bank and International Monetary Fund (IMF), has been successfully restructuring its economy. Deterioration in the macro accounts lessened sharply in 1982, with some degree of recovery recorded in 1984 which continued in 1985. In this period, the origin of Gross Domestic Product (GDP) has shifted significantly towards primary agricultural products and away from construction and mining. Long-term growth and development depends on continued progress in the agricultural sector, especially in the production of food.

Although the agronomic potential for increasing productivity and production of maize, the major food crop, appears to be substantial, inter- and intra-seasonal price variation adversely affects producer incentives and farmers' willingness to invest in productivity-increasing technical packages. Large cereal surpluses in good years are met with insufficient domestic demand and depressed prices. Policies limiting cereals exports to the parastatal TOGOGPAIN have exacerbated the problem by restraining involvement of the private sector in cereals trade -- thus further reducing demand and creating uncertainty and risk for private traders interested in meeting external demand for Togolese maize.

The CTLTP program has the following basic components: (a) a \$7,000,000 program grant to be disbursed in two annual tranches conditioned on the GOT's opening the export market for maize to the private sector through a licensing system and limitation of

TOGOGRAIN's market intervention; (b) a technical assistance grant of \$850,000 for improvement of the crop forecasting and agricultural market information services, design of the export licensing system, and regulation of the food security stocks' management so that significant private domestic and export cereals trade is workable and (c) the local currency equivalent of the dollar transfer to be used by the GOT to relieve priority constraints on post-harvest cereals trade experienced by farmer groups and traders (storage, transport, management, etc.) through a loan facility, financing of a roads maintenance project with the IBRD/IDA, and support of the essential information services.

Opening the cereals export market to the private sector will have significant positive effects on producers, consumers, the private sector and the GOT's budget. Togolese farmers will benefit from higher and more stable prices as a result of the increased demand represented by the export market and because of their enhanced ability to store cereals well into the marketing year to take advantage of higher prices. Consumers will benefit from more stable prices. The private sector's capacity to perform marketing services, both domestic and for export, will be enhanced. Government outlays to cover the financial losses of TOGOGRAIN will decline as the parastatal refrains from significant intervention in domestic and foreign cereals marketing and the private sector assumes the predominant role.

I. SETTING

A. THE MACROECONOMIC FRAMEWORK

Background

During the past decade Togo has experienced great turbulence in its economic affairs. In 1975 the country's export enclave industry (phosphate mining) met a fourfold increase in the international price for its product (just as a large-capacity expansion program was completed at the mine) and Togo embarked on a very ambitious phase of state investment. However, the price of phosphate rather rapidly declined from the mid-decade peak, so that as early as 1978 external payments arrears were being accumulated. Many of the state investments of this time showed negligible positive (or even negative) cash flow. Cash cropping of cotton, coffee and cocoa was milked to provide government revenues. Togo turned to the IMF (June 1979) for assistance. Deterioration in the macro accounts lessened sharply in 1982, with some degree of recovery recorded in 1984 which continued in 1985. Attention has shifted to managerial and investment policies and resources required to sustain a precarious recovery, as the country remains highly vulnerable to shifts in commodity prices and weather and must service a debt which absorbs at least one-third of export earnings.

Togo is not more than 120 kilometers wide but is about 520 kilometers north-south, with a well-developed port and a good north-south road. Located between the revolutionary regimes of Ghana and Benin and bordered to the north by Burkina Faso - but itself politically stable since 1967 - Togo has become an important regional re-exporter. Togo is in the upper ranks of low-income sub-Saharan countries with regard to most indicators of general economic status, but is below average on most health indicators and in adult literacy. It is a comparatively open economy, with some 35 percent of the GDP of \$673 million (1984) being exported. Not surprisingly, the 11 percent of the labor force in the trade sectors (commerce and transport, industry) contributed 50 percent of value added in 1984, but the 77 percent of the labor force working in agriculture accounted for only 32 percent. Under IMF guidance, the GOT's budget deficit has been reduced from 17 percent of GDP in 1979 to less than seven percent in 1985. Domestic consumer prices have been nearly stable over the past two years. As exports have recovered somewhat in the past two years and external payments arrears have nearly been eliminated, imports of maintenance/rehabilitation goods have recorded some increase.

Recent Growth Performance

Togo's GDP is estimated to have increased by seven percent in 1985 (3.4 percent in constant prices). As population increases by some 2.6 - 3.3 percent annually, real per capita growth was

somewhat below one percent, nevertheless the best performance of the last decade. In 1985 real GDP was about one percent below the 1980 level. Aggregate consumption has remained stagnant, implying substantial real per capita declines in the quality of life. (Real per capita income has dropped roughly one-fourth since 1980.) Throughout the stabilization period the origin of GDP has shifted significantly towards primary agricultural products (led by foodcropping) and away from construction and mining. In spite of large public investments in hotels and in commercial infrastructure, commerce, tourism, transport and communications have just barely held their decade-opening shares in Togo's stagnant economy.

What has constrained Togo's growth? The major constraints have been: inappropriate economic policies and management, scarcity of financial resources, and neglect of agriculture. In 1982-83 the Government of Togo (GOT) began to change a number of policies and management practices, redress the neglect of agriculture, and negotiate increases in concessional assistance while continuing to renegotiate the external debt. Annual changes in some major indicators, 1979-85, are presented in Table One. A discussion of each constraint follows.

Government Role in the Economy

Over one-third of Togo's GDP is accounted for in GOT expenditures. As indicated in Table One, the GOT budget deficit amounts to around seven percent of GDP. Furthermore, "The public enterprise sector plays a decisive role in Togo's economic activity, investments and public finance." (IBRD, May 1985). Public sector investment programming is summarized in a three year rolling plan (within a six year indicative plan), first initiated in 1984. The World Bank plays an important part in investment planning. Currently and in the medium term, the limited resources available for public investment are planned to be used principally for rehabilitation and maintenance of infrastructure, and secondarily for new core investments in agriculture, transport and hydroelectricity.

TABLE ONE: Togo: Balance of Payments, 1980-85
(In billions of CFA francs)

	1980	1981	1982 Prov.	1983 Prov.	1984 Estimate	1985 Revised Estimate
A. Current Account	-20.1	-25.8	-31.6	-29.7	-10.5	-30.1
Trade balance	-10.2	-10.2	-12.3	- 7.2	3.8	-12.3
Exports, f.o.b.	100.5	91.4	99.4	88.0	104.6	109.4
Coffee	5.0	5.4	6.2	4.9	3.0	9.7
Cocoa	8.2	8.2	5.6	5.5	21.0	9.8
Cotton	1.9	4.4	4.9	6.6	7.4	14.3
Phosphate	28.7	30.1	29.0	29.0	40.0	42.2
Clinker	1.9	5.5	12.7	13.5	2.6	--
Other	25.5	7.9	6.6	6.1	6.1	6.4
Re-exports	29.3	29.9	34.4	22.4	24.5	27.0
Imports, f.o.b.	-110.7	-101.6	-111.7	-95.2	-100.8	-121.7
Consumer goods <u>a/</u>)		-57.6	-66.1	-55.0	-58.0	-59.3
Capital plus inter- mediate goods)	-84.2	-35.7	-33.5	-31.7	-32.2	-51.2
Petroleum products	-26.5	-8.3	-12.1	-8.6	-10.6	-11.2
Services (net)	-28.1	-31.6	-35.3	-38.6	-39.0	-44.1
Freight & Insurance (net)	-18.5	-16.2	-17.0	-15.0	-14.9	-18.1
Interest on debt due	-11.8	-13.4	-16.3	-21.6	-21.2	-22.5
Other	2.2	-2.0	-2.0	-2.0	-2.9	-3.5
Unrequited transfers (net)	18.2	16.0	16.0	16.1	24.7	26.3
Private	1.7	1.0	2.5	1.4	1.5	1.5
Official	16.5	15.0	13.5	14.7	23.2	24.8
B. Capital Account	13.7	38.3	7.1	48.4	29.7	24.0
Nonmonetary capital (net)	5.0	41.9	10.1	48.2	26.6	24.0
External borrowing	24.6	20.0	25.5	28.0	29.2	35.5
Debt amortization due	-34.3	-33.0	-33.3	-29.7	-34.9	-36.2
Debt rescheduling	18.0	24.9	2.1	33.7	23.4	14.8
Short-term private capital <u>b/</u>	-3.3	30.0	15.8	16.2	8.9	10.0
Monetary capital (net)	8.7	-3.6	-3.0	0.2	3.1	--
C. Overall balance (A+B)	-6.4	12.5	-24.5	18.7	19.2	-6.1
D. Allocation of SDRs	0.5	1.0	--	--	--	--
E. Payments arrears (decrease <u>c/</u>)	8.7	10.8	36.2	-13.0	1.5 <u>d/</u>	-2.0
F. Net reserves (increase -)	-2.8	-24.3	-11.7	-5.7	-20.7	8.1
Of which: net use of Fund resources	2.9	(2.9)	(--)	(8.8)	(5.8)	(3.2)

Sources: BCEAO; SNI; OPAT; OTP; Direction Generale du Plan; and IMF estimates

a/ Includes imports for re-export; b/ Includes errors and omissions;

c/ Reduction through cash payments;

d/ Of which CFAF 2.0 billion accumulation of CIMA0 arrears attributed to Togo.

Governmental influence upon the private sector has been immense, but is declining somewhat, particularly in the industrial sector. Price controls are limited to efforts to fix profit margins for a number of basic products, to setting utility rates and to fixing freight and passenger tariffs. A renewed effort is under way to attract private investment to Togo. A Ministry of State Enterprises was created in September 1984 to improve management of state enterprises (there were about 30), either preparatory to closure or privatization (of some 20 concerns) or rationalization of accounts. Also in 1984, a new tax system was implemented and the investment code was revised. A customs reform is pending as is a careful statement of long-term industrial policy.

Agriculture continues to be heavily influenced by public policy. Producer prices of major cash crops (coffee, cocoa and cotton) are set by the Export Crop Marketing Board (OPAT). Price levels typically have been set so as to impose a heavy export tax upon producers, a situation which is being ameliorated with guidance from the IMF and IBRD. About ten percent of government revenues come from taxation of crop exports and from export crop trading. Exports of foodcrops were banned by the government in 1960 and have only recently been permitted through sales by TOGOGRAIN, a grain marketing board. TOGOGRAIN attempted until 1985 to stabilize grain prices, but now should be limited to maintaining a security stock of some 10,000 tons. Fertilizers and pesticides are imported only on public account. Until very recently, the GOT attempted to assist the small farmer only through geographically-defined development schemes: the exception, a centralized credit program, was a failure. The GOT is now on record as favoring improvements in the market as a means of increasing small farmer incomes and productivity. (See Annexes G and H.)

External Transactions

The most recently available (8/85) balance of payments accounts for Togo (1980-85) are reproduced from the IMF in Table One. Trade flows in 1980 were the highest recorded to that date, as was external debt outstanding. Although imports for re-export (primarily to Burkina and Niger) are included, significant unrecorded trade (largely imports from Ghana and re-exports to Nigeria) is not estimated in the official data. The over-all balance has been positive in the period. There has been a net increase in reserves, now amounting to about eight months of normal imports. Given the decline in export receipts, this has been accomplished by suppression of import demand, particularly for consumer goods, an action accomplished largely through IMF-guided fiscal measures without extensive resort to licensing. Noteworthy among commodity trends are: in exports, cessation of clinker exports, the recovery in phosphate receipts and the high variation in receipts from major cash crops; in

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imports, the sharp increase for capital/intermediate goods estimated in 1985. Net food imports (including 16,000 metric tons of food aid in 1984 and about 10,000 in 1985) have been as follows (USAID):

1980/81	63,000 mt
1981/82	83,000 mt
1982/83	90,000 mt
1983/84	67,000 mt
1984/85	55,000 mt

About 50 percent of imports are of wheat, and 45 percent rice. Data on exports (or re-exports) of foodgrains are not available; although official shipments included 54,000 tons of maize re-exported to Niger in 1984 (EEC financed) and 4,700 tons of maize to Cape Verde in 1985 (West German financed). It is believed that significant unrecorded exports of maize to Burkina and Niger take place, of which some proportion represents re-exports of Ghanaian maize.

Agriculture Sector

There are about 270,000 farms in Togo cultivating some 560,000 hectares annually. Average farm size is 2.1 ha (3.3 in the north, 1.4 nearer the sea). Nationally, about 16 percent of the land is cultivated. About 40 percent of the country's soils are considered to be "poor" with an equal proportion called "relatively rich" and the remainder "naturally rich" (Agricultural Credit Bank (CNCA), 3/86). In 1984 some 15,500 tons of fertilizer were applied on 82,000 hectares, of which 40 percent was for foodcrops (CNCA).

Some 430,000 hectares are planted annually in major crops, with area and value added in 1985 distributed as follows:

	('000 hectares)	(Value added %)
Maize	180	27.9
Mil/Sorgho	100	30.7
Coffee/Cocoa*	80	23.3
Cotton (1985)*	70	16.1

* Export crops

The government faced declines in marketed volumes of its major export crops in the late 1970's resulting in reduced incomes and terms of trade for the rural sector. The food-crop sub-sector was characterized by only marginal increases in levels of production and stagnant or declining rates of productivity growth. Moreover the high interannual variability in production

was accompanied by high intraseasonal variability in prices which provided negative price signals to farmers. This limited incentives to invest and plant larger areas to food crops, compounding the negative effects of climatic factors.

TABLE TWO:

Production of Major Foodcrops, Three-Year Averages
(1973/74-1975/76, 1977/78-1979/80 and 1982/83-1984/85)
('000 Metric Tons)

Crop	Period		
	<u>73/74-75/76</u>	<u>77/78-79/80</u>	<u>82/83-84/85</u>
Maize	126	140	153
Mil/Sorgho	110	119	136
Yams	403	457	461
Manioc	441	378	366
Rice	21	15	14
Beans	14	13	25
Peanuts	18	19	18

Note: The latter two three-year periods each includes one exceptionally good climatic year (1979/80 and 1984/85)

Source: Direction des Enquetes et Statistiques Agricoles

The government perceives that the low levels of productivity are a serious constraint to increased levels of food security. Additionally, the entire food-crop system is particularly vulnerable to weather variability. With a population growth rate of nearly three percent, growth in food production is well behind that rate. The government, in its first Structural Adjustment Program in 1980, reversed its historical emphasis on export crops and began reassessment of the constraints to increasing levels of food security. Analyses of the food crop systems done in the early eighties indicated that the major problems lay in the level of performance of the major agricultural institutions and the weaknesses of producer incentives.¹

¹ World Bank. "Proposed Development Credit For A Second Structural Adjustment Credit", Mai, 1985; and FAO. "Rapport: Mission de Securite Alimentaire et d'Identification des Projets", Togo, September, 1983

The agronomic potential for increasing productivity in food crops appears to be substantial, while the level of domestic demand in Togo for maize, in particular, is small compared to the production potential. The SOTED study (1981), using historic rates of maize production and consumption, projected the surplus of production over consumption as increasing from 8,000 metric tons in 1980 to 19,100 in 1985 (confirmed by production figures) to 34,000 metric tons in 1990 and 57,000 in 1995.¹ Application of technical packages of inputs and cultivation practices for maize (as distinct from experience with other crops) has succeeded in increasing yields from 0.8 to 2.8 mt/ha, indicating the technical production potential. Production increases will depend on productivity increases, of course, as labor constraints and environmental factors in Togo largely prevent extension of surface area.

There are serious constraints to realizing these potential increases in productivity, however. The amount of technical assistance and improved outputs reaching the farmer is limited by the low level of performance of the agricultural extension system, the existing credit program and agricultural research efforts. Technical packages are not being developed or, where they exist, are not effectively disseminated by the agricultural services. Improved seeds and inputs for food crops are not as available as they are for the traditional export crops, and the credit programs in place have been largely restricted to coffee, cocoa and cotton producers. Together these constraints constitute serious obstacles to improvement in productivity.

An equally serious constraint is the lack of incentives to the farmer to increase production and invest in improving levels of productivity. Producer prices are highly unstable. High prices in a poor crop year lead to increases in the area planted for maize in the next cropping season, and with good weather, result in larger surpluses of maize and a depressed market. In 1984-85, a large surplus of maize, up to 20,000 mt, according to the GOT, resulted in severely depressed farmgate prices.

Export demand does not act to remove this excess supply from Togolese markets, although an extensive informal foreign trade in grains is alleged to exist with maize imports from Ghana and exports to Burkina Faso and Niger. The unofficial

¹ Societe togolaise d'Etudes de Developpement, "Diagnostic du Marche des Produits Vivriers et Facteurs Explicatifs du Mouvement des Prix au Togo", Juin, 1981.

GOT policy has apparently been to acquiesce to this informal trade while the official policy has been, until recently, categorically to prohibit exports. TOGOGRAIN was the only legal exporter of cereals until 1985, when exports by private traders were permitted on a very limited basis. The government's policy was to protect domestic availabilities against regional demand, particularly from Nigeria. One consequence has been that the private sector has not developed the capacity to play anything more than a minor informal role in the export market.

Another constraint on providing strong price incentives to farmers lies in the inefficiency of the marketing system itself. High consumer prices do not uniformly translate into increases in farmgate prices. Typically the small farmer has substantial needs for cash at the end of the soudure, the lean period with lowered food stocks immediately preceding the harvest in July. Cash is needed for paying off loans and for consumption expenses. Often, debts to merchants are paid in kind at harvest. Studies indicate that farmers, after taking what they need for their own stock, sell or otherwise transfer some 65 percent of their available marketable stock in the period immediately after the harvest. This is the period in which prices are at their seasonal low. Thus the farmer does not benefit from higher prices later in the marketing year. The major constraints are the farmer's need for seasonally available cash and the lack of a capacity to store significant volumes of grain for sale later in the season at higher prices.

The fragmented marketing system which transfers grain from the production areas to the major urban consumption areas is such that transaction costs serve to limit farmgate prices to some extent. Market prices in Lome reflect transport costs, storage and a number of small intermediate margins for each transaction. These charges, while not in themselves excessive given the conditions of roads and storage, necessarily limit the producer's share of the final consumer price. The major study done on the marketing system to date indicated that the farmer does not perceive the possibility of entering directly into the marketing system at any other than the primary sales level. They typically sell in small lots and do not seek price advantages by transporting produce to other markets or negotiating with merchants beyond the immediate harvest period.¹

¹ World Bank, "Examen de l'Intervention Gouvernementale dans la Commercialisation des Produits Vivriers au Togo", January 1984.

B. POLICY FRAMEWORK

Beginning in 1979 the Government of Togo undertook a Structural Adjustment Program financed by the IBRD/IDA as well as a series of Stand-by Arrangements with the IMF. The first Structural Adjustment Credit (SAC) assisted in the development of a new rural development strategy and a medium-term producer price policy for the major export crops of coffee, cotton and cocoa. The major objective of the SAC has been to restructure incentives and institutions within the economy, particularly within the agricultural sector.

The agricultural policy component of the first SAC centered on price incentives to the private sector and consisted of policy changes to increase real producer incomes for export crops. The key point of the new strategy was to alter the terms of exchange between the rural and urban sectors in favor of the rural producers. Improved incentives were seen as necessary to smooth out production variations and to get farmers to invest in improved levels of productivity. Thus adjustments to the price systems for food-crops were to be accompanied by a series of programs to make productivity enhancing packages available to farmers.

In the food crop subsector the government moved very slowly to reform the price policy affecting farmer incentives. However, it did acknowledge the need to move toward a more liberalized cereals marketing policy. It lifted restrictions on commercial purchase of domestic cereals in 1982. Prior to that the government had attempted to control both consumer and producer prices by using its food marketing parastatal, TOGOGRAIN, as a price-setting mechanism in rural markets.

The intent was to restrict increases in consumer prices through sales on the open domestic market and to restrain "excessive" growth in both producer prices and commercial margins. The Bank convinced the government that this policy was counterproductive and fiscally unsustainable. The government responded by agreeing to limit TOGOGRAIN's role to that of maintaining a security stock of 10,000 tons of grain, a major change in the government's approach to the foodcrop subsector. Thus at the end of the first SAC the government had made significant moves to restrict its role in the foodcrop subsector and anticipated a more comprehensive policy change to liberalize the cereals export market.

The Government of Togo negotiated a second Structural Adjustment Credit with the IBRD/IDA in May 1985 to expand on the progress made in the first program, particularly in the implementation of the rural development strategy developed during the first SAC. (See Annex H.) There are three

components of the SAC II, two focussing on price policy constraints and one major component centered on reform of rural agricultural institutions. These are:

- the development of a price mechanism that would adjust producer prices to world market levels and increase production incentives;
- the phased liberalization of the export market for food crops; and
- institutional reform to improve the delivery of extension services, input supply and rural credit.

For the major export crops of coffee, cocoa and cotton the government has already instituted price changes and price adjustment mechanisms that are more representative of world market prices and provide stronger farm-level incomes. It has also moved to increase private sector supply responses by agreeing in principle to liberalize the food crop export process which had heretofore been a government monopoly. (See Annex G.)

The objective of export market liberalization is to expand the overall level of demand for foodcrops, especially cereals, and increase farmer revenues by opening up surpluses to export. The Government of Togo now sees the private sector as the main channel through which to export foods. Further, the private sector is the preferred alternative to using a state marketing board such as TOGOGRAIN to support prices. In practice, this reform, along with investments in infrastructure and market information systems, should translate into higher producer prices and farmer revenues, the prerequisite to greater investments in improved technology.

As noted above, Togo can, in most years, produce more maize than its domestic market can absorb. Thus the most appropriate response is to export quantities of maize to neighboring countries that have structural food deficits. The logic of the approach is that a liberalized export market would act to drive up producer prices to regional parity levels. Improved price incentives for producers would thus encourage the productivity investments that the government feels are necessary to meet future domestic food needs. (See Annex F.)

For the export liberalization program to have the desired effect, however, the government's program of institutional reform and investment in infrastructure becomes critical. In the Structural Adjustment Program for the agricultural sector, the government has begun to carry out a major institutional

restructuring accompanied by an enlarged investment program in the sector, primarily financed by IDA, as follows:

- restructuring the extension services of SOTOCO (the cotton agency) and SRCC (the coffee and cocoa agency) under the Ministry of Rural Development and strengthening of the Regional Rural Development Offices (DRDRs) to decentralize the extension system;
- improving the supply of inputs through the DRDRs and the development of agricultural credit services by the Agricultural Credit Bank (CNCA) to serve better the food crop sub-sector;
- increased investment, through credit and direct investment, in improved storage facilities at the farm level, and transport and marketing infrastructure;
- improved farmer access to credit by extending the CNCA's services in local savings mobilization, expanded coverage and, over the longer term, implementing a credit system based on crop collateral; and
- improved seed production, agricultural research and farming techniques.

Following failure to adhere to the performance criteria under a stand-by arrangement (SBA) with the IMF negotiated for 1981-83, Togo successfully complied with three SBAs (March 1983-May 1986). A subsequent SBA covers the period May 1986 - May 1987. Financial performance criteria have aimed at restricting the budget deficit and the rate of expansion in domestic credit, freezing public sector short-term external borrowing, and reducing domestic arrears of the government. Furthermore, the IMF has consulted closely with the World Bank in conditioning SBAs on structural reforms in domestic pricing policies and on privatization of state enterprises. Successful performance under the SBAs has been a virtual precondition for debt rescheduling under the Paris Club, concluded most recently in June 1985.

To date, the government has moved to implement many of the reforms set out in the SAC, including the limitation of TOGOGRAIN's role in cereals marketing and the improvement of farmer access to credit to improve input supply. AID, early in 1986, began to work with the government on the cereals export liberalization process through discussions and negotiations which have culminated in the present African Economic Policy Reform Program PAAD for Togo. The Cereals Trade Liberalization Program (CTLP) will carry the reforms agreed between the IBRD/IDA and GOT several steps further along the mutually desired and necessary course.

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II. PROGRAM DESCRIPTION

A. RATIONALE AND PURPOSE

Togo confronts a situation where significant cereals production potential is constrained by insufficient price incentives for producers. The danger Togo faces is that periodic cereals deficits will increase in frequency and severity as production incentives are eroded by low prices in good production years. If Togo fails to find a way to exploit its cereals production potential, then periodic shortfalls in rain will lead to larger and larger deficits in those years. The rationale for the export policy reform rests on a demand driven marketing system as the means of providing the critical producer incentives to Togo's cereals farmers. By creating additional demand through the export market, producers will, at the minimum, be assured that their marketable surplus will be cleared. In the long run they will receive higher farmgate prices.

The AEPRP/CTLP will assist the GOT to implement its program of cereals export marketing liberalization. This policy reform will be facilitated through technical assistance in crop and price monitoring and forecasting and the GOT's use of counterpart local currency to finance storage and transport system improvements. Two necessities have to be faced by the program:

1. The immediate export program must be established so as to induce the private sector -- farmers and traders -- to make the necessary investments in stock, capital equipment and marketing efforts that will enable them to play a truly significant role in exporting cereals.
2. Mechanisms must be established that will assure the government that exports will not contribute to food shortages and cause consumer prices to reach unacceptable levels.

The government and its primary collaborators in the donor community have agreed that initially an export liberalization program, based on issuance of export licenses, needs to be put in place. Such a system would provide significant safeguards of Togo's food security, a major worry of the Togolese government, while still providing the private sector with incentives to export. Analysis by AID shows this to be feasible.

The purpose of the AEPRP/CTLP program, therefore, is to support and concretize a significant portion of the structural adjustment and policy reform process agreed by Togo and the IBRD/IDA, taking it further: specifically to effect the liberalization and privatization of the cereals export trade by

removing legal restrictions and reenforcing limitation of the parastatal TOGOGRAIN to management of national food security stocks. This is intended, in time, to increase and stabilize farmgate prices and increase both cereals production and export earnings. And it is highly desirable that GOT resources as counterpart to the AID cash transfer be applied to removal of key constraints to export trade in cereals, especially storage and transport.

B. ELEMENTS AND PROCESS

The AEPRP/CELT will be grant funded and trached over two years (FY 86 and FY 87). First disbursement (for other than technical assistance) will be conditioned on the GOT's legislation of maize exports, approval of an appropriately timed and broad scheme for issuing export licenses to private traders, and creation of rules governing TOGOGRAIN's limited scope for market intervention. The program will have three primary elements: (1) an export licensing system supported by a process which forecasts exportable surplus and sets license quantities so that food security is assured; (2) improved data collection and analytical systems which inform the above process; and (3) application by the GOT of its local currencies (i) to capitalize an intermediate credit facility available to farmer groups and exporters to relieve grain storage and other immediate constraints to export marketing, and (ii) for investment in an expected IDA roads maintenance project.

The licensing system will be implemented over a two year period with the establishment of an interim licensing system in year one. In year two and for the subsequent years, a fully developed licensing system will be in place.

Year One Activities

- In year one of the program the Togolese government will make a public announcement concerning the legalization and opening of the cereals export market under a licensing system and will also publicize the licensing procedures.
- The government will establish the institutional mechanisms for making decisions on the volume of exports to be allowed and an administrative system for the issuance of licenses. AID will provide technical assistance to the government in setting up the administrative licensing system to assure the widest and most flexible access by the private sector.
- The export volume for the first year will be based on estimates of production, national consumption needs and security stock requirements. AID will provide technical assistance in the preparation of the production forecasts for determining the exportable volume; and the GOT will provide operations support for this.

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- The GOT will begin issuing licenses as early as September but no later than November of 1986, provided that production forecasts indicate adequate supplies. The licenses will remain valid from the date of issue at least until the period of March/April. And, as supply availability and price conditions warrant, their validity may be extended.
- After the initial maize harvest period, the AEPRP/CTLP will begin two long-term technical assistance activities, which the GOT will support, to improve existing crop forecasting and price monitoring capacity and to develop information about the marketing system. The relevant government agencies will begin to disseminate current market information through the broadcast and print media. Regional market price information will also be made available to potential exporters.
- The government will put in place an investment program using the local currency counterpart to improve the efficiency of the export marketing system. This will include loans to producer groups and traders for storage and marketing facilities, and the planning of other investments, primarily in road improvement, that will permit wider private sector participation in the export marketing process.
- TOGOGRAIN will purchase cereals at prices reflecting prevailing market prices in order to maintain its security stocks at the limits agreed upon with the IBRD/IDA under the existing Structural Adjustment Credit. TOGOGRAIN may sell maize on the export market only as part of its stock management program when it is clear that no shortfall of cereals will take place.

Year Two Activities

The program activities for the second year are largely centered around the further liberalization of the export market to permit a larger role for market forces in the determination of export volumes. The system would still provide significant safeguards against food shortages. In addition to production forecasts, information on price levels will be used to determine export volumes.

- The government and AID will review the administrative system for issuing licenses and make alternations as necessary.

- The results of the periodic cereals marketing system studies will be used to identify ways in which the marketing system can be made more efficient. This will serve as the basis for further refinements in the government's program to support the private sector's role in the export marketing system.
- Investment and loan programs using counterpart local currency will continue. AID, with the government, will review the effectiveness of the programs and make appropriate recommendations.

The Export Licensing System

As noted above, licenses issued in the September-November period will remain valid from the date of issue at least until the period of March/April, and may be extended. This aspect of the program is critical to the liberalization process because it will allow exporters a wider opportunity to take advantage of regional export market price signals. Shortened periods of license validity can create risks to exporters that would constitute barriers to entry into the export marketing process. Similarly, permitting licenses to be issued at the earliest possible time after the production forecasts have been made will give exporters greater opportunity to buy on the domestic market at advantageous prices in anticipation of export opportunities later in the year.

Precise procedures for licensing will be developed by the GOT, assisted by short-term U.S. technical assistance, in the program's first two months. The export volume formula for the first year of the program will be developed in July. Thus licenses will be put out to buyers before the harvest season begins and granted for specified volume units of cereals, perhaps in 250 sack units, each sack consisting of 100 kgs. A buyer will be able to purchase as many licenses in units of 250 sacks as he wishes. Licenses would no longer be issued when the government's volume limits were reached. Merchants will then have the right to export while the licenses are valid.

Determination of the Export Volume

In year one, as noted, AID will provide short-term technical assistance to accelerate the provision of production forecasts for the major maize production zones in Togo's Maritime, Plateaux and Centrale regions. The crop production forecasts, plus information on consumption trends and food security stocks will be used by an interministerial commission in deciding on its recommendation of the volume of maize exports that will be available for export under license in the

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first year. The formula for year one compares forecasts of production with estimates of national consumption and stock building needs. The formula will specify a volume of maize exports that does not negatively affect food security.

The Maritime, Plateaux and Centrale regions are the major maize producers and their first harvest period falls between July and September. Together, their production, in the first harvest alone accounts for nearly 80 percent of the total annual production of maize in the country. A second harvest in Maritime and Plateaux regions and the primary harvest of sorghum/millet in the Kara and Savane regions during November and December make up the remaining 20 percent of the maize supply, and all of the sorghum/millet supply. Nearly 65 percent of the country's entire cereals production comes from the first harvest in the Maritime, Plateaux and Centrale regions in the period July through September.

Total annual maize consumption needs are calculated on the basis of per capita consumption of maize in rural and urban areas, seed requirements, a spoilage and weight loss allowance, and security stocks required by TOGOGRAIN. Forecasts of production in the first harvest, net of estimated consumption needs, will indicate either the shortfall that will have to be made up by importing food or the surplus over normal requirements. The results of the estimation procedure will permit the government to make decisions concerning the issuance of export licenses. For example:

- If the first harvest yielded a volume that is clearly in excess of annual national maize needs, then the government will grant export licenses in line with the general purpose of strengthening producer prices.
- If the first season indicates that the volume harvested is insufficient for national requirements and cannot be made up by the second harvest in December, then the government will not issue export licenses.
- If there are indications that the harvest is only slightly below total annual maize needs, then the government can permit some level of maize exports, with the expectation that the second harvest can more than satisfy the remaining cereals needs, create a surplus and permit further cereals exports. In this instance, the government may prefer to wait until the results of the second maize harvest and the sorghum/millet harvest are known in December before making a decision.

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At the end of the first year of the program the GOT will establish an export volume formula relying less on forecasts of production surpluses to determine surpluses and more on price data. Producer and consumer prices would thus act to trigger the licensing process.

Improving Forecasts of Crop Production and Prices

Immediately after the Program Agreement is signed, crop production forecasts will have to begin. They are the responsibility of the Office of Agricultural Surveys and Statistics (DESA) of the Ministry of Rural Development. That institution will be given short-term (two months) immediate U.S. technical assistance so that forecasts can be completed by September and decisions made on licensing volume for the first year. Longer-term U.S. technical assistance will be provided to strengthen the capacities and operations of DESA beginning the following winter and extending through two harvest periods. (See II-D below, and Annex E).

Counterpart local currency under the program will finance the intensified operations of DESA in systematically collecting and analyzing data on crop production and prices, as improved by long-term U.S. technical assistance. The data that are generated will be disseminated to producers and traders as part of the overall program to improve the price formation process in the cereals market.

Improving Understanding of the Maize Marketing System

It will be necessary, concurrently, to test the assumptions underlying the Cereals Export Liberalization program to assist adjustment. That is, the organization, operation and performance of the cereals market will need to be monitored in order to determine what further technical and financial interventions the GOT should make to improve its efficiency. This will be the responsibility of the Office of Development Studies (SOTED), to which technical assistance and local currency resources under the program will be applied as above.

Investment in Storage and Transport Improvements

To expand the capacity of the private sector to export cereals, counterpart local currency under the program will be applied by the GOT to overcome certain important constraints. Local currency will be employed to capitalize the Caisse Nationale de Credit Agricole (CNCA), an intermediate credit institution, which will on-lend to farmer groups and exporters for investment in grain storage, transportation and management facilities and the like. The parameters for such use will be agreed to by AID in advance of the opening of this lending window in the CNCA; but AID will not reserve the right to review and approve individual loans.

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Local currency is also expected to be applied by the GOT to improving market access for cereals exports trade through support of an intended IDA roads maintenance project. This will be appraised in 1986 and, if found germane, would be an important step to relieving this major constraint.

C. IMPLEMENTATION

1. Dollars

The PAIP for a Togo AEPRP (October, 1985) proposed \$10 million in funding for three components: a Commodity Import Program (CIP) for trucks and agricultural inputs, a CIP and farmer credit program to address input, market and on-farm storage constraints to food production, and technical assistance to reenforce implementation of policy reform. Given AID/W guidance concerning likely funding levels, preferred program content and the necessity for fast disbursement, the strategy was revised. The program level was reduced to include only two dollar components: (a) a \$7.0 million cash transfer to further policy reforms already agreed to in principle with the IBRD/IDA (SAC II), and (b) a \$850,000 technical assistance package to support and help implement reforms that will privatize the export trade in cereals and limit the parastatal TOGOGRAIN to maintenance of a reserve food crop. (See Annex A for cable exchanges.)

Alternative mechanisms of non-project assistance were rejected either because, as in the case of agricultural sector support, the linkages to the chosen policy reform were too indirect and lagged in time; or, as in the case of a CIP, the burden on Mission management would be disproportionately large. In addition, discussions with other donors and private entrepreneurs revealed that a CIP for trucks could not be justified, and a CIP for production inputs was inopportune given the projected activities of other donors.

Following normal cash transfer procedures, the use of dollars by the GOT is not specified in this AEPRP/CTLP program. The uses of dollar finance for technical assistance are set forth in section C-3 below. Technical assistance will be applied over approximately a three year period beginning in July, 1986.

2. Local Currency

Given the criteria of fast disbursement and concentration on policy reforms, the dollar cash transfer will not generate, in the strict sense, local currency. The GOT, however, will set aside the FCFA equivalent amounts of each dollar tranche, with conversion made at the highest legal exchange rate. This will be used by the GOT for two purposes: (a) to finance local costs of technical operations essential to management of the licensing system (crop forecasts, market studies, rules-formulation for TOGOGRAIN), and (b) relief of constraints to cereals export marketing in the country (grain storage at source, transport, management, etc.).

For the latter, two implementing mechanisms are envisaged. First, a Cereals Commercialization Credit Facility at the CNCA will be established, and this capitalization will be available for on-lending to farmer groups and traders engaging in cereals production and distribution aimed at exportation. Loans will be for post-harvest activities and facilities. The largest and most important use is expected to be finance of grain storage and transport to export points. This credit scheme should absorb about \$4.0 million in local currency equivalent and evolve into a revolving fund limited to uses consistent with the purposes of the program.

Up to \$3.25 million FCFA equivalent is expected to be on-lent at existing medium-term rates to farmer groups for grain storage investments in particular -- especially to those groups already receiving GOT, NGO or donor production and expansion assistance. The Ministry of Rural Development's Division of Cooperation will assist the CNCA to develop a priority list of borrowers and provide the necessary extension services. Although both organizations have been plagued by failures to achieve outreach and service delivery (CNCA's repayment rates have historically been very low), recent efforts to rejuvenate the two unique national organizations offer increased confidence.

The second mechanism for disbursing counterpart local currency to relieve marketing constraints is envisaged to be local cost financing (up to \$2.0 million equivalent) of a portion of the new IDA roads maintenance project and those elements of it which treat to some degree actual market access problems of cereals producers. The IBRD/IDA is expected to appraise this project in the summer of 1986, and financing arrangements should be concluded in 1987. If this is delayed beyond the point at which the second tranche of the AEPRP/CTLP dollar cash transfer is to be delivered, then alternative uses will be decided between AID and the GOT.

3. Technical Operations

Technical operations of the program supported by both dollar and local currency resources will assure that the policy reforms undertaken by the GOT have the best chance of working, in the short- and longer-runs. The distribution of resources among operations is indicated in section II-D, below. Operations will be of three types: (a) formulation of the cereals export licensing procedures and of the rules of TOGOGRAIN's disengagement from the export market (except for emergency stock management), (b) crop production and price forecasting and monitoring, and (c) rapid reconnaissance of the maize marketing system.

Technical operations will be set forth and agreed to in a Limited Scope Grant Agreement (LSGA), separate from the Program Grant Agreement, having a Project Assistance Completion Date (PACD) of September 30, 1989. For the purposes described below and partially to fund a final evaluation, \$850,000 will be granted to the GOT. And the local currency equivalent of \$1,000,000 will be the contribution of the host government. (See II.D., below.) The A.I.D. grant will be used entirely for provision of technical assistance and associated needs procured from U.S. institutions following appropriate competitive procedures. Goods will have their source/origin in Togo or in countries included in A.I.D. Geographic Code 941.

a. Licensing Procedures and Rules

The cereals export licensing system to be established under the AEPRP/CELT must have clear procedures in place before it is decided what the level of exports can be and licenses are offered for sale. Conditions Precedent to disbursement of the first dollar tranche of the program grant will require, inter alia, the formation of a Cereals Export Licensing Commission and definition of its responsibilities. The GOT will also covenant that it will promulgate a set of detailed rules governing the intervention by TOGOGRAIN in the cereals market, limiting those to management of the strategic grain reserve. These actions are essential to the policy reform that is the objective of the cash transfer. It is anticipated that USAID/Togo and the GOT will need a brief technical assistance effort (July-August, 1986) to assist achievement of and agreement on these innovations. (See Annex E., Scopes of Work.)

b. Crop Production and Price Monitoring System

Ensuring national food security is the Government of Togo's principal concern regarding the liberalization of the cereals export market. The export licensing system described in the previous section addresses this concern by providing the government a means for controlling export levels. An effective export licensing system, in turn, depends upon a reliable and accurate cereals production and market information system to (1) determine the volume of exportable surplus, and (2) signal when to stop issuing licenses before national food security is endangered. The government lacks confidence in their present means of forecasting cereals production and their system for monitoring rural and urban market prices. Inadequate institutional capacity to accomplish these tasks is a major constraint to a viable cereals export liberalization program.

Responsibilities for the collection of agricultural production and price statistics rests primarily with the Office of Agricultural Surveys and Statistics (DESA). DESA collects the following information:

- postharvest production estimates;
- monthly rural market foodcrop prices;
- estimations of crop yields;
- surveys on crop production costs; and
- an agricultural census once every 10 years (1982 latest).

The Office of General Statistics (DSG) is responsible for collecting foodcrop prices at the retail level in Lome. A third institution, the Office of Development Studies (SOTED), has produced an analytical study on foodcrop marketing (1981), but it does not regularly collect agricultural information. The Agricultural Price Analysis Unit within the parastatal charged with marketing cash crops (OPAT) sets producer prices for coffee, cocoa and cotton. It does not collect or analyze any data on foodcrops.

There is no evidence of collaboration or coordination among DESA, SOTED and DSG. For example, DESA does not have copies of the urban retail price statistics collected by DSG. This absence of institutional links is a handicap to the production of useful information on the current agricultural situation. A mechanism for systematizing the exchange of agricultural information should be one of AEPRP/CTLP's outputs.

DESA's capacity to carry out its responsibilities is circumscribed by the lack of trained analysts and statisticians, the absence of a full-time cadre of enumerators trained in survey techniques, and inadequate physical and logistical resources. Behind all these constraints lies a lack of adequate fiscal resources. The effect is evident in DESA's handling of crop production and price monitoring activities up to now.

Currently, crop production (annual yields) is estimated by using FAO methodology, sampling fields on 624 farms in 210 villages. Area cultivated is estimated, providing production estimates which are then adjusted by census results. Production figures from this approach are available only after the harvest. Crop production estimates are issued monthly, but the figures appear arbitrary and sometimes vary considerably from month to month.

The estimation of foodcrop prices reveals a lack of analytical expertise in DESA. Rural market prices for maize on a monthly basis are available for at least the past five years. Though the methods used to collect these prices have not been reviewed, the prices appear to be consistent with expectations for this time frame. However, no analysis of these data has been undertaken by DESA. Data are presented in tabular form disaggregated across regions and towns. Even basic data aggregation and trend analysis have not been performed.

These two cases underline the fact that DESA suffers from a severe lack of trained staff. Currently there are only two individuals trained in statistics, one of whom is the director whose time is devoted to administration and management. Regional supervisors and survey controllers have general agronomic degrees and represent the only other full-time professional staff. Enumerators, who carry out the annual crop production survey, are part-time employees with no job security. They are recruited individually for each survey and the turnover rate is high. This means high training costs and little long-term experience. DESA has no one trained in the use of microcomputers and no computer hardware. Its capacity to analyze data is minimal because there is no one on the staff trained in economics or agricultural economics.

DESA and its associated institutions will have to furnish two specific types of information and analysis for the implementation of the export licensing system: crop forecasts for maize and producer and consumer maize prices.

- (1) Crop Forecasts - Provision of reliable forecasts of maize production will allow the government (through the Ministry of Commerce) to determine a safe (non-threatening to food

security) volume eligible for export. The export licensing system requires the issuance of licenses based on forecasts rather than on after-harvest figures for the following reasons.

- (a) Allowing exports only after both maize harvests are complete (December - January) would effectively eliminate the producer from benefitting from the increased demand and prices generated by exports. Since approximately 65 percent of producers' marketable surplus is traditionally sold at the first harvest in July-August, knowledge then of a volume eligible for export and of current prices, would enable farmers to make better selling and storage decisions.
- (b) Allowing exports only after January, when prices begin to rise rapidly, would make purchase for export less attractive to traders due to higher purchase costs.
- (c) Past GOT policies on cereals exports (e.g. ad hoc after-harvest licensing) has discouraged private sector investment in establishing export markets and developing the capacity to meet regional demand. For private traders, knowledge of an impending surplus and of the opportunity to obtain an export license would provide them with the time to develop their domestic and external market arrangements.

In addition to maize forecasts, crop production estimates for sorghum/millet and close attention to the condition of cassava and yams will be required since the state of these crops (accounting for 47 percent of the Togolese diet) has a preponderant bearing on the level of food security in Togo. An exportable surplus of maize will be, to some extent, defined by the state of food crop production as a whole.

- (2) Producer and Consumer Prices - Accurate monitoring of maize price variations at the rural and urban market level will provide the government with a relative measure of its scarcity. In the second year, when the system is operational, an analysis of monthly estimates and price variations will be used in conjunction with production estimates to determine when or if the issuance of export licenses should be suspended. Combining the price indicators of relative supply with production estimates should provide a more precise understanding of the state of availability of maize and food generally in Togo.

DESA will require immediate short-term technical assistance. The purpose of this assistance will be to prepare crop forecasts for the current harvest (July-September) and to refine and apply a formula for determining the existence of an exportable surplus. Secondly, DESA requires extensive technical assistance to overcome its institutional weaknesses. The placement of at least one long-term (12-24 months) advisor, complemented by specific short-term teams is essential. The purpose of this assistance will be to strengthen the institutional capacity of DESA systematically to collect and analyze data on cereals production and marketing as the basis for decision-making on the issuance of export licenses. The technical assistance will be reinforced by FCFA counterpart support provided by the GOT. Local currency will be used to ensure that DESA has the necessary personnel and resources to implement the production and price information system. Scope of work for the short- and long-term technical assistance are provided in Annex E.

c. Rapid Reconnaissance of the Maize Marketing System

The objective of periodic rapid reconnaissance surveys of the maize marketing system is to assess the organization, operation and performance of the cereals marketing system in order to identify what further technical and financial interventions the government should make to improve the efficiency of the system. The surveys will identify problems, opportunities and constraints for producers and traders and will assist the government to increase direct producer participation in the marketing system. The surveys will also provide baseline information on the state of the maize marketing system during Year One of the program. In this manner, the surveys will serve as an evaluation tool for monitoring the impact of the export liberalization on the marketing system.

Although the decisions regarding the extent and conditions of cereals export liberalization are founded on broad economic and policy analysis at the national level, the implementation and success of the program will be determined, to a great degree, at the local level. Beyond a World Bank funded study of TOGOGRAIN in 1984 and a broadscale study of foodcrop marketing by the Office of Development Studies (SOTED) in 1981, little is known about the manner in which maize moves from the farmgate to the consumer in Togo. Little is known for sure about the effects that a program of maize exports will have on the present system. The liberalization program is based on a number of hypotheses about how farmers and traders will react to the opening of the maize export market. Since the surveys

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discussed here will be focused at the farm and rural market level, they will provide a very timely means of testing these assumptions and adjusting the program when necessary. Some of the principal hypotheses are:

- farmgate prices for maize will increase due to increased demand generated by the export market;
- farmers will increase maize production in response to increased prices;
- farmers will increase investment in storage, through participation in groupements (farmer groups), to increase their market power;
- farmers will gain access to more buyers as competition for limited supply brings in more buyers;
- traders will seek greater supplies of maize once they are assured of an export opportunity and a stable government policy with respect to commercial exports of maize;
- farmers will form groupements as a means of gaining access to credit for inputs to increase productivity and to obtain storage and marketing facilities to increase their influence in the market;
- current storage technology will be affordable, adaptable and appropriate for groupement-level needs;
- credit will be available to groupements for inputs, storage and postharvest cash needs;
- groupements will establish marketing relationships with wholesalers, thus shortening the marketing chain and cutting transaction costs; groupement farmers will receive a greater percentage of the consumer or export price than they do at present;
- traders will increase their investment in storage and transport facilities; and
- traders will establish links to producers (e.g. groupements) and buyers in external markets to ensure a supply and a market for maize exports.

Rapid reconnaissance surveys will be conducted three times during year one: postharvest in September, mid-year in January or February and immediately before the next harvest, in May or

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June. To understand how the marketing system's participants act throughout the crop year, each survey will examine the following key facets of the maize marketing system:

- technical characteristics - examine how technical characteristics of maize affect physical marketing practices such as harvesting, storage, and processing;
- marketing system participants and organization - identify marketing channels and participants, including types and numbers of firms and their geographical distribution; identify key assembly, redistribution and terminal markets;
- marketing infrastructure - assess physical infrastructure for marketing, including adequacy of storage, transportation and markets, and evaluate the degree to which these constrain market access and incentives to produce for the market;
- marketing system operation - examine exchange processes, risk-sharing mechanisms and information dissemination and any evidence of unusual market power; and
- marketing strategies of farmers - examine sales practices including timing and volume of sales, terms of transactions and storage practices.

Researchers at SOTED conducting the surveys will also work closely with their counterparts in DESA to ensure that information collected through DESA's system is available to and used in the marketing studies. Three subjects in particular will present valuable opportunities for collaboration:

- consumption patterns - analysis of seasonal and secular consumption patterns by regional and socio-economic groups affect marketing decisions;
- supply situation - estimations of supply availability and determination of the direction and magnitude of commodity flows, mapping of surplus and deficit areas; and
- price trends and seasonality - analysis of seasonal and secular trends in wholesale and retail prices and examination of the effect of price variations on wholesaler behavior.

These periodic rapid reconnaissance surveys will be conducted by Togolese professionals from SOTED and DESA. Technical assistance will be required to instruct the Togolese in the use of the rapid reconnaissance methodology. An advisor will accompany each team of Togolese researchers during the fieldwork. Two teams with two Togolese and one advisor can adequately cover the study areas of the Maritime, Plateaux and Centrale regions. Upon completion of the fieldwork, assistance will be provided in the analysis of the information collected and in identifying targets for utilization of GOT program funds. The long-term goal is to develop a Togolese institutional capacity to conduct marketing research as a means of informing policy reform decision-making.

4. Mission Management

As the AEPRP/CTLP consists essentially of cash transfers conditioned on reforms, technical assistance enabling the implementation of those reforms, and use by the GOT of counterpart local currency for general purposes supportive of the reforms' objectives, management of the program by USAID/Togo is expected to be feasible with its current staff. Management will comprise four elements:

- negotiation of the Program Grant Agreement (\$7.0 million) and a Limited Scope Grant Agreement (\$850,000), the latter obligating funds exclusively for the finance of technical assistance activities; oversight and decision on the meeting by the GOT of Conditions Precedent and adherence to Covenants;
- acquisition and supervision of the technical assistance, i.e. implementation of the LSGA;
- monitoring and reporting on progress with the export licensing system and resulting export trade; cooperation on the GOT's planning for and use of counterpart local currency for program purposes; and
- execution of the program's final evaluation.

These will be the responsibilities, on a day-to-day basis, of the project officer, an experienced direct-hire Rural Development Officer. The AID Representative will have overall responsibility for execution of the AEPRP/CTLP USAID/Togo can, as usual, draw upon the legal, contract, agricultural economic, project development and other professional staff of REDSO/WCA for regular assistance. The first twelve months of the program will, of course, be the most management intensive: meeting conditionality, adapting to actual production levels, regulating technical assistance, and determining advisability of the second tranche. The schedule of necessary activities in that first year is provided at the end of II-D, below.

The duration of the grant for technical assistance will be three years, including start-up short-term efforts, two years of long-term technical assistance to institutions (also supported by local currency disbursements), and a final evaluation after three harvest/ export seasons. The GOT's planned use of local currencies has no deadline. But an important commitment by USAID/Togo to monitor execution over the first three years must be recognized. The program is innovative and daring; and vicissitudes, even reverses may occur.

The Mission's ability to manage the program over its term, even given REDSO/WCA's assistance, will depend on on-going efforts to streamline and consolidate the rest of its project assistance portfolio.

5. Monitoring and Evaluation

The AEPRP/CELT is, for A.I.D., a policy reform initiative in which the GOT receives dollar cash transfers in return for specific policy changes going beyond those agreed to in principle with the World Bank. For the GOT, which also receives grant/U.S. technical assistance, it is a program moreover, which accompanies those policy changes with a set of local currency investments -- in data collection and analysis, a credit facility and transportation improvements. The primary purpose of monitoring and evaluation by A.I.D. will be verification of the achievement of terms of conditionality and indicators of policy reform implementation. Secondly, and jointly with the GOT, A.I.D. will interest itself in the effectiveness of use of the GOT counterpart local currency in underpinning the reforms.

Therefore, USAID/Togo will document, on a quarterly basis, the continued policy dialogue and reform implementation process, as well as progress in donor coordination on general structural adjustment and policy reform. Performance monitoring will chart progress on at least these seven benchmarks starting at ground zero in July, 1986: number of maize export licenses, number of exporters licensed, MT maize exported under license, monthly reports on crop estimates and prices disseminated by DESA, plans for future year export licensing system formulated, advance yearly crop forecasts produced by DESA, and adherence to TOGOGRAIN's market intervention rules and limitations on participation in the export market. Thus a record of achievement will be built up that will inform, first, decisions on disbursement of the second tranche, second, further steps in the policy dialogue and consideration of subsequent assistance, and third, the parameters of the final program evaluation.

During the program's first year, the information system established to support the export licensing program should achieve the following:

- a. crop forecasts for the 1986 maize crop which are accurate enough to be used to determine the volume of exports;
- b. a refined formula for using crop production and price information to regulate export licensing in 1987;
- c. training programs (via technical assistance) in conducting production and price surveys and microcomputer applications for policy analysis;
- d. formal links established among the principal institutions in the information system, i.e. DESA, SOTED, Office of General Statistics and the Ministry of Commerce;
- e. monthly publication of crop forecasts and producer and consumer prices in newspapers and on radio and television.

With this foundation, by the end of the second year of the program, the Government of Togo should have a system which provides crop production and price information which is timely and accurate enough to (i) assess the status of national food security on a monthly basis, (ii) regulate the issuance and termination of export licenses for cereals, and (iii) inform producers, traders and consumers of market conditions so they can make better decisions about sales and purchases.

On the GOT's part, use of counterpart local currency is expected to have its greatest early effect (apart from supporting the above data operation) in the finance of grain storage. In the first year: at least one fully designed and costed technical package (construction/fumigation/operation) should be available; a priority list of farmer groups should be established for prospective loans; and operating procedures for the credit program of CNCA should have been developed.

During the second year, the following quantitative targets should be achieved: within six months, 50 storage units should be built and another 100 scheduled for completion within the next six months; and within the year these 150 units should be completed and another 150 scheduled for completion within the next eight months. By the end of the second year of the program, a storage capacity of 5,000 tons should have been built and be operational.

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The nature and importance of the AEPRP/CTLP call for a final evaluation which records progress, draws lessons, and informs future programs. As noted above, while the dollar cash transfer will be disbursed in two tranches if conditions are met, the program so far as AID is concerned will last from July 1986 through September 1989. That will comprise three licensing and exporting seasons, three years of lending by CNCA, two years of technical assistance to crop forecasting and market analysis institutions, and what should be the initiation of the IBRD/IDA roads maintenance project. Dollar funded technical assistance (one expert) will join USAID/Togo and REDSO/WCA specialists in a joint AID/GOT evaluation of the program around May, 1989. The terms of reference for that evaluation will be determined three months or so beforehand, taking into consideration the policy environment, quality and accessibility of monitoring information, and the inclination of the donor community for further assistance along these or other lines at that time.

D. DISBURSEMENTS, CONDITIONALITY AND SCHEDULE

The program's grant of ESF \$7,850,000 will be obligated in June, 1986. Of the total, \$850,000 will be used for U.S. technical assistance as described above, and deployed by AID direct contract. The remaining \$7,000,000 will be a cash transfer disbursed in two tranches in FY 1986 and FY 1987; and its equivalent in local currency (FCFA) will be employed by the GOT as counterpart to support data analyses efforts to which the technical assistance is also applied, and to relieve constraints on the cereals export trade in Togo. An indicative budget of AID-GOT program expenditures is given below.

Expenditures
(\$000's or FCFA Equivalent)

<u>Dollars (A.I.D.)</u>	<u>1986-87</u>	<u>1987-89</u>	<u>Total</u>
Short-term TA: Licensing System and TOGOGRAIN Rules	25	-	25
Short-term TA: Crop Forecasting - DESA	75	-	75
Long-term TA: DESA	405	-	405
Long-term TA: SOTED	330	-	330
Final Evaluation		15	15
Sub-Total	835	15	850
<u>Local Currency (GOT)</u>			
DESA & SOTED Support	750	250	1,000
CNCA Credit Facility	2,340	1,660	4,000
Road Maintenance Co-Financing	-	2,000	2,000
Sub-Total	3,090	3,910	7,000
TOTAL	3,925	3,925	7,850

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Conditions and Covenants
(in substance)

To the Limited Scope Project Grant Agreement

a. Condition Precedent to Disbursement. Prior to the first disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D. a statement of the name of the person holding or acting in the Office of the Grantee and of any additional representatives together with a specimen signature of each person specified in such statement.

b. Covenant. The Grantee agrees that it will provide all goods and services needed to support the technical assistance provided under this Grant, and that it will provide not less than the FCFA equivalent of \$1,000,000 in such support and to enhance the operations of DESA and SOTED as set out in this Agreement and subsequent Project Implementation Letters.

To the Program Grant Agreement

a. Conditions Precedent to First Disbursement: Prior to the first disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, furnish to A.I.D. in form and substance satisfactory to A.I.D.:

(1) a statement representing and warranting that the named person or persons have the authority to act as the representative(s) of the Grantee together with a specimen signature of each person;

(2) the name, address and account number of the United States Bank into which the Dollars under this Grant will be deposited; and

(3) evidence that the Grantee has carried out the following:

(a) formed a Cereals Export Licensing Commission authorized to determine the volume of exports and licenses;

(b) publically announced the legal status of maize exports and the government's commitment to permit exports of cereals subject to preservation of national food security;

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benefits from a major north-south artery which has been somewhat maintained. However, farm to market roads throughout the country are even more poorly maintained and the only access to markets from many producing areas is by track or path. The SOTED study states: "...the absence of secondary roads in surplus and deficit areas renders the movement of products almost impossible. The road problem compromises rapid marketing

- (c) approved that cereals export licenses will be issued as early as September and no later than November in a given crop year.
- (d) in collaboration with A.I.D. defined responsibilities for management of the Cereals Trade Liberalization Program in Togo.

b. Conditions Precedent to Second Disbursement: Prior to the second disbursement under the Grant, or to the issuance by A.I.D. of documentation pursuant to which disbursement will be made, the Grantee will, except as the Parties may otherwise agree in writing, provide evidence to A.I.D., in form and substance satisfactory to A.I.D., that Grantee has:

- (1) furnished cereals export licenses to private sector traders in two crop years beginning as early as September but no later than November in each crop year valid at least until the following March, if crop estimates so warrant, on the basis of an open and fair licensing system with export volumes determined employing estimates of production, national consumption needs, and security stock requirements;
- (2) regularly published and disseminated information on crop production and producer and consumer prices from data gathered by the Office of Agricultural Studies and Statistics;
- (3) evidenced satisfactory progress in removing constraints to the grain trade through provision of credit to farmer groups and export traders through CNCA;
- (4) prepared a detailed plan for the issuance of export licenses in 1987 based on refinements of the process employed in the first year, as informed by studies by SOTED; and
- (5) made an acceptable proposal to A.I.D. for the continued use of its counterpart local currency contribution for the second and third years of the Program.

c. Covenants

- 1. The Grantee shall covenant not in any way to discontinue, reverse or otherwise impede any action it has taken in satisfaction of any conditions precedent to initial or subsequent disbursements, except as AID agrees in writing;

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2. The Grantee agrees that it will inform A.I.D. in a timely fashion of any facts or circumstances that might materially affect the Program, or that it is reasonable to believe might affect the Program, the Grant or the discharge of responsibilities under the Agreement.
3. The Agreement and the Grant will be exempt from any taxation, duties or fees imposed under laws in effect in the Republic of Togo;
4. For purpose of determining the amount of local currency required by the Grantee for the implementation of this Program, the Grantee shall use the highest rate of exchange which, at the time of disbursement under the Grant, is not unlawful in the Republic of Togo;
5. The Grantee shall covenant that it will promulgate a detailed set of intervention rules for TOGOGRAIN which limit its cereals purchases to the level agreed upon in the existing Structural Adjustment Credit of the
TRRD/TDA:

Timing of Program Activities

The expected sequence of program reforms and associated activities is presented in the following charts.

SCHEDULE
JULY 1986 - JUNE 1987

PROGRAM ELEMENTS	JULY 1986	AUGUST 1986
I. EXPORT LICENSING SYSTEM A. GOT MEASURES	1. GOT publicizes the creation of a cereals export licensing system. Details are provided on the principal components.	1. Export licensing commission finalizes details on 1986 licensing system. Ministry of Commerce publicizes system.
	2. Establishment of a cereals export licensing commission. Refines procedures for issuing and obtaining licenses.	2. DESA presents first estimates of maize production and publicizes it.
	3. Resources provided to DESA to conduct an intensive maize production forecast.	
B. AEPRP TECHNICAL ASSISTANCE	1. Technical assistance team begins work with DESA to produce the 1986 maize production forecast.	1. DESA technical assistance team produces report on estimated maize production and makes export volume recommendation.
	2. TA team assists in the refinement of the formula for determining volume of exportable surplus.	
	3. TA team assists creation of pricing procedures and TOGOGRAIN intervention rules.	
II. PRIVATE SECTOR MARKETING IMPROVEMENTS A. GOT MEASURES	1. GOT provides local currency funds to CNCA to begin credit program for farmer groups and traders.	1. CNCA continues development of credit program.
	2. CNCA begins developing terms for credit program	
B. AEPRP TECHNICAL ASSISTANCE		

PROGRAM ELEMENTS	SEPTEMBER 1986	OCTOBER 1986
I. EXPORT LICENSING SYSTEM A. GOT MEASURES	1. Export licenses available from Ministry of Commerce if estimates warrant.	1. Licenses available if estimates warrant.
	2. DESA presents monthly report on crop production.	2. Monthly production and price information disseminated by DESA.
B. AEPRP TECHNICAL ASSISTANCE	1. Short-term DESA TA team leaves; make recommendations for long-term TA.	
II. PRIVATE SECTOR MARKETING IMPROVEMENTS A. GOT MEASURES	1. CNCA begins to make loans to qualified farmer organizations.	
	2. Other GOT departments begin to mobilize resources to assist groupement in storage construction.	2. CNCA loan program operational.
	3. Road maintenance project planning underway.	3. TOCOGRAIN respects maize purchase limits.
B. AEPRP TECHNICAL ASSISTANCE		1. Long-term advisor on marketing systems arrives. Conducts first rapid reconnaissance with SOTED.

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PROGRAM ELEMENTS

NOVEMBER 1986 - MARCH 1987

APRIL 1987 - JUNE 1987

I. EXPORT LICENSING SYSTEM
A. GOT MEASURES

1. Export licenses continue to be issued until DESA information indicates surplus has been cleared.
2. DESA conducting monthly price survey and prepares for 87 crop estimation work.

1. Validity of export licenses terminates. Renewal decisions to be made by export licensing commission. Unused licenses renewed automatically if conditions warrant.
2. DESA begins intensive crop production forecasting for 87 crop.

B. AEPRP TECHNICAL ASSISTANCE

1. DESA training provided to staff and crop estimation methodology refined.
2. DESA long-term advisor arrives for two-year tour.

1. Possible short-term assistance to supplement DESA staff as 87 forecast work begins.

II. PRIVATE SECTOR
MARKETING IMPROVEMENTS
GOT MEASURES

1. CNCA program fully operational, construction of storage facilities for 1987 harvest in progress.
2. First and second Rapid Reconnaissance of marketing system completed by SOTED. Study information used to monitor progress of local currency use.

1. CNCA credit for storage program continues.

B. AEPRP TECHNICAL ASSISTANCE

1. Marketing advisor conducts first and second Rapid Reconnaissance with SOTED.
2. Possible short regional cereals market study.

1. Possible provision of marketing advice to groupements.

III. ANALYSES

INSTITUTIONS

DESA (Direction des Enquetes et des Statistiques Agricoles)

Responsibility for the collection of agricultural production and price statistics rests primarily with the Office of Agricultural Surveys and Statistics (DESA). DESA collects the following information:

- postharvest production estimates;
- monthly rural market foodcrop prices;
- estimations of crop yields;
- surveys on crop production costs; and
- an agricultural census once every 10 years (1982 latest).

The Office of General Statistics (DSG) is responsible for collecting foodcrop prices at the retail level in Lome and rural towns. A third institution, the Office of Development Studies (SOTED), has produced an analytical study on foodcrop marketing (1981); but it does not regularly collect agricultural information. The Agricultural Price Analysis Unit within the parastatal charged with marketing cash crops (OPAT) sets producer prices for coffee, cocoa and cotton. It does not collect or analyze any data on foodcrops.

DESA's capacity to carry out its responsibilities is circumscribed by a lack of trained analysts and statisticians, the absence of a full-time cadre of enumerators trained in survey techniques and inadequate physical and logistical resources. Behind all these constraints lies a lack of adequate fiscal resources. The effect of these constraints is evident in DESA's handling of crop production and price monitoring activities.

Despite these institutional constraints, DESA has a foundation of enumerators and supervisors upon which to build a more timely and reliable crop production and price monitoring system. In recognition of DESA's needs, a significant technical assistance component, described above, has been designed as part of the program. For its part, the Government of Togo will provide significant resources to DESA for technical operations on crop forecasting and price monitoring system, specifically to address the physical and logistical requirements of its expanded responsibilities. It is estimated that in order to conduct at least three field surveys of crop production

per year and monthly price surveys in rural markets, DESA will require the following types of services, equipment and facilities:

- vehicles, including mofylettes, bicycles and an all terrain vehicle;
- field equipment including measuring tapes, scales, etc;
- office equipment including micro-computers, typewriters and photocopiers;
- gas and travel expenses of field staff; and
- maintenance of equipment.

Counterpart local currency will also be used by the GOT to house DESA in a rehabilitated building adjacent to the Office of General Statistics (DSG). DESA's present location is inadequate in size, with personnel using corridors for office space and a bathroom as a storage room. During the first two years of the program, the costs of two critical personnel positions, a computer programmer/analyst and a statistician, will be defrayed by the A.I.D. grant.

The technical assistance and FCFA counterpart are mutually reinforcing. Technical assistance will ensure that the new equipment and facilities are properly employed. In turn, the provision of these resources will ensure that DESA personnel and the technical assistance team have the means to produce crop forecasts and monitor prices in support of the export licensing system.

CNCA (Caisse Nationale de Credit Agricole)

In the agricultural sector the CNCA is the dominant financial institution. Created in 1967 as a state-owned enterprise, the bank is currently a mixed enterprise with commercial, regional and international banks holding shares, in addition to the Government of Togo. CNCA operates a national network of agencies for the distribution of agricultural credit and the maintenance of savings accounts. The network is now extensive and relatively decentralized with nine regional offices and eight local offices. CNCA also operates 21 mobile "periodic" offices which travel throughout the countryside to provide banking services in more remote areas. CNCA provides loans for agricultural production activities, animal traction and rural and agricultural equipment.

CNCA presents several advantages as the means of channelling funds to producers (e.g. for storage construction) and export traders. Among these are:

- its current uniqueness in the rural areas where it is often the only banking system available to producers and producer groups;
- its well-developed ties with technical and other development agencies, agricultural development projects and international donors; and
- its access to government authorities to facilitate banking activities in agricultural finance.

In the past, CNCA has conducted agricultural credit programs which suffered due to a lack of management capacity. CNCA is in the midst of a program to improve the delivery of its services through better trained staff. It is the only financial institution in Togo operating in the agricultural sector which has the means and experience to manage an agricultural credit program for the construction of local cereals storage and like investments.

SOTED (Societe Togolaise d'Etudes de Developpement)

The SOTED is a think tank formed by the Togolese government to conduct research and publish reports on critical development problems facing the nation. This Office of Development Studies treats a broad range of topics from health to rural development to specific agricultural issues. In 1981 SOTED completed the above cited detailed study: "Diagnostic of Foodcrop Markets and Factors Influencing Price Movements". This demonstrates a capacity to conduct a large technical research effort and to produce an informative product. Although SOTED does not concentrate its resources on agricultural development, or agricultural marketing in particular, its staff is aware of current issues and problems in the agricultural sector. Given its experience in foodcrop marketing research and its overall analytical capacity, SOTED is the most appropriate institution to conduct the Rapid Reconnaissance studies of the cereals market required under the AEPRP/CFLP program, in cooperation with DESA. Technical assistance in the use of study methodology and analysis of the results will be needed to supplement SOTED's capabilities. Details of the technical assistance are provided in section II.C.3, above, and Annex E.

B. IMPACT

The liberalization of the grain export market, together with the anticipated improvements in storage and transportation infrastructure, will have significant impacts on the incomes of smallholders, stability of consumer prices, government revenues and the growth of the private sector.

Smallholders

The policy change that the Togolese government is undertaking will increase the demand for smallholder maize and enable peasant farmers to participate more effectively in the commercial market for cereals. The increase in demand for exports of maize will exert upward pressure on prices at the farmgate; but since the initial volume of exports in year one of the policy reform is likely to be small, the price and income effects should not be exaggerated. Furthermore, farmers who will likely benefit initially from the expansion of cereal exports are those who have already organized groupements, or pre-cooperatives and who have their own storage facilities. They will be in a position to respond to opportunities to sell to private merchants. Available data indicate that in 1985 there were around 100 agricultural groupements with a total membership of 10,500¹.

Expanded credit through the CNCA for the construction of storage facilities and like investments will enable larger numbers of groupements and farmers to benefit from the liberalization of grain exports; so will improvements in road maintenance and market areas. Realization of these benefits will depend on the pace at which financing is made available.

Monetary benefits from expanded cereals export could be substantial. A recent French CCCE report on the cereals market in Togo estimated that in the aggregate, after accounting for marketing and transportation costs, 15,000 metric tons of maize exports to Niger and Burkina Faso would net the Togolese economy approximately \$1.2 million annually. While farmers would not receive all these benefits, their share could be expected to increase as their capacity to store and bargain more effectively with traders grows as a result of the CTLP program.

¹ "Guide pour la Gestion Appropree des Cooperatives et Groupements a Vocation Cooperative de Petits Exploitants Agricoles au Togo", MRD, 1985.

Long-run benefits to smallholders from the liberalization of grain exports can be more important than the short-run effects on producer prices and incomes. The long-run growth of the Togolese economy depends to a large extent on agriculture and increased food production. Because of the small size of the Togolese economy, a necessary condition for further growth is participation in the wider West African food market. (See Annex F.)

Consumers

In the near term, increased cereal exports may lead to higher prices for consumers but the policy change will over time lead to increased availability of cereals at more stable prices. Grain prices in Togo are subject to considerable intraseasonal variation. Both producer and consumer prices can rise by 300 percent or more between the harvest time and the hungry season (the soudure). While in the near term improvements in farmers' storage capacity and transportation infrastructure will enable farmers to take advantage of higher prices as the marketing year progresses, such improvements will also contribute to smoothing out the fluctuations in grain prices for consumers.

The technical assistance provided for DESA will permit the Togolese government to monitor the near term effects of the reform of the grain marketing system on price movements in both rural and urban markets. Over the long term, more rational and stable grain pricing and marketing policies will have positive effects on technology and production. Technologies with the potential of substantially increasing maize production are already under development in Togo. For example, an AID project managed by Partnership for Productivity in Togo has demonstrated that under certain conditions and with improved inputs, information and cultural practices, Togolese farmers can increase maize yields from 0.8 to 2.8 metric tons per hectare. Stable prices and market outlets beyond Togo will provide the conditions that should facilitate the adoption of such technologies leading to increased food supplies.

Government Budget

A major justifying purpose of greater reliance on the private sector for both domestic and export marketing of cereals is to reduce the role of public enterprise in the agricultural sector and pressures on the government's budget. While it is not known how much the government has spent in subsidizing TOGOGRAIN, it is known that TOGOGRAIN's losses are substantial. For example, the World Bank in 1984 estimated losses in 1982/83 of more than \$500,000 per year and actual losses were probably much higher.

Although it is not possible to estimate what TOGOGRAIN's expenditures would be in the absence of a program that relies on the private sector to build and maintain storage to undergird the commercial market for cereals, it is likely that the costs of building and maintaining farmer or groupement storage facilities that way will be far less than if TOGOGRAIN undertook to build and maintain such facilities. TOGOGRAIN's annual outlays will be much less as it restricts its role to that of maintaining food security rather than attempting to support producer prices, stabilize consumer prices, and function as a monopoly exporter of domestically produced cereals.

In terms of construction costs alone, it has been estimated that the total cost of storage constructed at the groupement or farm level will be \$3.25 million over the life of the program. An equivalent volume of storage capacity built by the government would cost an estimated \$5.26 million. Village level storage thus represents savings of \$2.01 million or \$575,000 annually at current exchange rates over three years.

Private Sector

Togo already relies almost entirely on the private sector to market domestically produced food grains. The AEPRP/CTLP program's support to the private sector (producers and traders of cereals) to enable it to participate more effectively in the export of grain will serve to strengthen the capacity of the private sector to meet Togolese and regional food needs.

Among the benefits of the program to the private sector and to private commercial food grain marketing are improvements in marketing infrastructure, including physical infrastructure for storing and transporting cereals, and information system improvements. These near-term developments in the domestic and export grain marketing system will be monitored and evaluated as the rapid reconnaissances of the corn marketing system are conducted and the results absorbed. Important longer-term marketing system benefits will include more abundant supplies of cereal grains at remunerative prices for producers and affordable prices for consumers in Togo and elsewhere in the West African region.

C. STORAGE AND TRANSPORT

Storage

Although analysis of the constraints to improved food crop marketing is seriously lacking for Togo, three recent studies, including one each by the FAO and World Bank¹ clearly indicate that rural, and especially on-farm, storage is a binding constraint to increasing rural production and effective marketing and improving rural incomes. The GOT's New Strategy for Rural Development devotes considerable detail to the expression of their commitment to increasing the capacity for individual and cooperative (groupement) producer storage. (See Annex G.)

Existing fragmented, small-scale and localized private marketing channels are viewed as relatively efficient for meeting domestic demands. Grain marketing volumes and price levels (after the big harvest in July and smaller harvest in November) however, remain volatile due to post harvest losses (15 - 30 percent), farmer cash needs and lack of storage. Even though GOT trepidation about speculation is pervasive, all the footnoted studies indicate low average marketing margins (less than 10 percent) and limited capacity of traders to hold stocks.

The World Bank study notes that at current levels of technology approximately one third of maize production is marketed and that, if farmers improve crop drying and storage they could increase net incomes by 25 percent by spreading sales throughout the marketing season. The enhanced storage-revenue incentive would induce increased production; all the same, admittedly, there are no estimates of supply elasticities.

Given current and proposed GOT and donor efforts to improve rural production technology, and employing conservative projections of demographic and income trends, it is safe to say that on-farm storage will become an increasing constraint to improved private sector marketing for both domestic and export channels. TOGOGRAIN's agreed, restricted mandate to hold a food security stock of 10,000 tons vitiates the worst of government intervention. So only producer owned and operated stocks can have the effect of increasing effective marketing volume and providing direct incentives for increased production.

¹ These are (a) Societe Togolaise d'Etudes de Developpement, "Diagnostic du Marche des Produits Vivriers et Facteurs Explicatifs du Mouvement des Prix au Togo, Juin 1981; (b) FAO, "Mission de Securite Alimentaire et d'Identification de Projets-Togo", Septembre 1983, and (c) World Bank, "Examen de l'Identification Gouvernementale dans la Commercialisation des Produits Vivriers au Togo", Janvier 1984).

There are a few small prototype efforts underway by the GOT with donors to develop appropriate technological packages to meet Togo's maize storage needs. The technical package(s) to be delivered will be supplied by the Rural Works (Genie Rurale) and Plant Protection (Direction de la Protection des Vegetaux) Services. These services can provide both technical advice and supervision of storage construction and operations, including fumigation and maintenance.

Attempts by analysts to calculate optimal storage volume and unit cost have proved elusive, however. Estimations by the Ministry of Rural Development and several NGO's operating prototypes provide widely divergent costs per ton of storage. One conclusion emerges: that improved storage at small scale/individual farm level (three to five tons) is extremely expensive and, under conservative guesses at yields/prices, not profitable within a five year period. The consensus of opinion is that producer group storage at a level of about 25 tons can be profitable within five years, at prevailing yields and prices. The per ton storage costs estimated by the Ministry of Rural Development and the Plant Protection Service for 25 ton units range from about \$125 to \$200, including materials and labor. For purposes of calculating GOT provisions of credit for on-farm storage, the following assumptions were used:

- cost per ton storage = \$160;
- labor cost should be included in the credit program to ensure proper construction;
- fumigation and operations/maintenance costs are minimal (estimations are that fumigation by phosphine tablets would cost \$ 7 per treatment for a two year period.);
- a volume level for corn exports of 20,000 metric tons is technically feasible in the not too distant future; and
- there is an adequate number of producer groups and/or project assisted producers to achieve this level of storage over time.

On that basis, an on-farm storage credit program of \$3.25 million local currency, equivalent should be adequate. Because this program would be additive to existing CNCA programs, no great administrative costs are expected.

Transportation

Although Togo has a network of 7,000 kilometers of roads and 490 kilometers of railroads, recent studies by SOTED (1981), FAO (1983) and the World Bank (1984) cite the transportation sector as a major constraint to food and export crop marketing. Togo

benefits from a major north-south artery which has been somewhat maintained. However, farm to market roads throughout the country are even more poorly maintained and the only access to markets from many producing areas is by track or path. The SOTED study states: "...the absence of secondary roads in surplus and deficit areas renders the movement of products almost impossible. The road problem compromises rapid marketing of surplus from villages and requires long and painful portage."¹

Grain marketing in Togo is characterized by fragmented, small-scale and localized marketing channels. Primary assembly of maize is conducted in very small lots (2-5 sacks) by transporters with 1.25 ton pickup trucks. Transaction costs are high because lack of well maintained feeder roads and prevent larger (5-8 ton) trucks from serving the assembly function. The FAO report points out that lack of infrastructure or adaptable transport requires that most transport from village to market be done by headload or bicycle. As a result, the transport costs of a sack of grain from farmgate to consumer in Lome is estimated at 71 percent of the consumer price.

The three studies agree that the reduction of transport costs through new feeder roads, maintenance and rehabilitation of existing roads or more adaptable transport vehicles is a critical component of efforts to improve crop production, marketing and rural incomes. In 1985 the GOT dedicated 950 million FCFA for road maintenance. The government has stated that priority will be given to road maintenance and rehabilitation and that new road projects will be initiated. In support of this policy the government has decided to increase the budget allocation for road maintenance significantly in the GOT budget by 1988. In fact, the GOT has established a special road fund in the Treasury with 1.2 billion CFA to meet one of the conditions for the release of the second tranche of the World Bank's SAC II. In addition, under IDA's Fifth Roads Project, the government has agreed to attempt to mobilize foreign aid for maintenance of feeder roads. It cites the lack of maintenance funds and poor quality of maintenance services as one of the principal constraints faced by the government.

¹ "Diagnostic du Marche de Produits Vivriers et Facteurs Explicatifs des Mouvements des Prix au Togo", SOTED, 1981. See also "Mission de Securite Alimentaire et de l'Identification de Projets au Togo", FAO, 1983 and "Examen de l'Intervention Gouvernementale dans la Commercialisation des Produits Vivriers au Togo", The World Bank, 1984.

The Rural Works Service (Genie Rurale) is the principal institution concerned with improving rural transportation. Genie Rural will be the focus of the World Bank's new roads project whose purpose is to create and equip road maintenance teams. The Bank project will focus on maintaining the national highway system and major secondary roads. Provision of \$2.0 million counterpart local currency equivalent as a financing mechanism through the AEPRP/CTLP will enable the GOT significantly to increase its capacity to maintain and rehabilitate market roads without neglecting major roads. Though figures are not available to calculate the expected reduction on average transport costs, it is expected that, over time, improvement of both feeder and major roads will significantly lower costs to consumers and increase the margin that producers receive for their grain and exporters enjoy from trade.

ANNEX A

CABLES

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ICM 8/1/01 AEP RP

VZCZCLMI *
DE RUEFC RUEFAE
DI RUEFC 0821/01 044 **
ZAR UUUUU
E 151218Z FEB 00
FM AMEMBASSY IOMI
TO RUEHC / SECSTATE WASEDC 7806
INFO RUEHAL / AMEMBASSY ABIDJAN 8809
BT
UNCLAS SECTION 01 OF * ICM 0821

ANNEX A
CABLES

CLASS: UNCLASSIFIED
SERIAL: AID 22/13/76
APPRV: OAR:MGOLDE
DFTT: OAR:CPEASELY:SR
CLEAR: OAR:BEOWARD:SBLISS
DISTR: OAR DCM CERON

AILAC FOR RELSO

F.O. 12345: N/A
SUBJECT: FY 98 AEP RP PROGRESS REPORT: TOGO

REF: STAT: 037889

1. MISSION PLEASED TO HAVE BEEN SELECTED AS IT IS AEP RP PARTICIPANT. WE SHARE AID/W BELIEF THAT AEP RP CAN PLAY IMPORTANT ROLE IN HELPING TOGO MOVE FROM STABILIZATION TO MARKET-LED ECONOMIC GROWTH. FOLLOWING UP ON VISIT BY AID/W TEAM AND IN RESPONSE REFFLE, MISSION WOULD LIKE TO REPORT ON REFINED PROGRAM CONCEPT, AS AGREED TO WITH TEAM, AND NEXT STEPS IN DESIGN PROCESS.

2. PROPOSED PROGRAM FOCUS. PROGRAM WILL BE CLOSELY LINKED TO WORLD BANK'S STRUCTURAL ADJUSTMENT CREDIT II. ONE KEY ELEMENT OF SAC II IS PRIVATIZATION, INCLUDING LIBERALIZATION OF FOOD CROP EXPORTS, ALTHOUGH IT INCLUDES NO SPECIFIC CONDITIONALITY RELATED TO THIS OBJECTIVE. THE AEP RP WILL COMPLEMENT THE SAC BY SPECIFYING STEPS NEEDED TO LIBERALIZE EXPORTS AND LINKING DISBURSEMENTS TO ACHIEVEMENT OF THESE STEPS. IT THEREFORE WILL BE CLEARLY ADDITIONAL TO WHAT WOULD BE ACCOMPLISHED UNDER THE SAC ALONE. ALTHOUGH COMPLETE LIBERALIZATION IS THE LONG-TERM GOAL, TOGO'S CONCERNS ABOUT FOOD SELF-SUFFICIENCY MAKE IT UNLIKELY THAT THIS CAN BE DONE FULLY WITHIN THE 3 OR 4 YEAR LIFE OF THE AEP RP. LIBERALIZATION CAN ONLY BE INCREMENTAL, POSSIBLY INCLUDING THE AUCTIONING OF EXPORT LICENSES FOR PRODUCTION PRICE IS CLASSIFIED AS QUOTE SURPLUS UNQUOTE.

3. PROPOSED PROGRAM MECHANISM. MISSION PROPOSES A CASH TRANSFER (LESS TA, THE LEVEL OF WHICH IS STILL TO BE DETERMINED) TO THE GOVERNMENT OF TOGO. DISBURSEMENT OF DOLLARS WOULD BE TRANCHED AND TIED TO SPECIFIC POLICY REFORMS/STEPS LEADING TO LIBERALIZATION OF FOOD CROP EXPORTS. PER NORMAL CASH TRANSFER PROCEDURES, DOLLAR USES WOULD NOT BE SPECIFIED. LOCAL CURRENCY GENERATIONS WOULD BE PROGRAMMED TO REDRESS MAJOR CONSTRAINTS TO FOOD CROP EXPORT LIBERALIZATION, SUCH AS CREDIT, FOOD STORAGE, AND/OR TRANSPORT.

4. MAJOR ISSUES TO BE RESOLVED DURING DESIGN. AS NOTED ABOVE, THREE ISSUES REMAIN:

(A) UNTIL DETAILED DISCUSSIONS ARE HELD WITH GOV, WE ARE

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UNSURE OF REALISTIC PACE OF REFORM. COMPLETE LIBERALIZATION DURING LIFE OF PROGRAM MAY BE DIFFICULT TO ACHIEVE: WE MAY INSTEAD RELY ON INTERMEDIATE USE OF EXPORT LICENSES ON AUCTION BASIS. PRELIMINARY DISCUSSIONS WITH THE FANZ SUGGEST THIS IS MOST APPROPRIATE APPROACH. FINAL RESOLUTION WILL BE CLOSELY COORDINATED WITH THE BANK.

(E) LOCAL CURRENCY USES WILL BE DIRECTED TOWARD KEY CONSTRAINTS TO FOOD CROP EXPORT LIBERALIZATION. PER SEPTEL OUTLINING SCOPE OF WORK, THE MISSION IS JUST BEGINNING DETAILED ANALYSIS OF THESE CONSTRAINTS TO DETERMINE EXTENT TO WHICH ANY ARE KEY AND NEED TO BE BUILT INTO THE PROGRAM. POTENTIAL LOCAL CURRENCY USES COULD RANGE FROM CREDIT FUND FOR FINANCE OF ON-FARM STORAGE TO BUDGETARY SUPPORT FOR MAINTENANCE OF KEY FARM-TO-MARKET ROADS. FINAL DECISIONS ON LOCAL CURRENCY USES MUST AWAIT COMPLETION OF CONSTRAINTS ANALYSES.

5. PROGRAM DESIGN SCHEDULE. PER SEPTELS, THE MISSION IS REQUESTING AID/W ASSISTANCE IN IDENTIFYING CONSULTANTS TO DO CONSTRAINTS ANALYSIS. ASSUMING ARRIVAL OF THESE CONSULTANTS O/A MARCP 18, MISSION EXPECTS TO COMPLETE ANALYSIS BY APRIL 30. BUILDING ON PRELIMINARY DISCUSSIONS WHICH ARE NOW TAKING PLACE WITH GOI AND OTHER DONORS AND ON CONSTRAINTS ANALYSES, MISSION EXPECTS TO COMPLETE NEGOTIATIONS AND SUBMIT PAD BY JUNE 1. THIS WOULD ENSURE OBLIGATION BY EARLY TO MID-AUGUST.

6. EXTERNAL DESIGN REQUIREMENTS:

(A) MARKETING/PRODUCTION CONSULTANT - SEE SEPTEL FOR SCOPE OF WORK.

(E) CREDIT CONSULTANT - SEE SEPTEL FOR SCOPE OF WORK.

(C) REDSO/SCA ECONOMISTS

- 1. DUNCAN MILLER: FIRST TWO WEEKS APRIL TO REVIEW CONSTRAINTS ANALYSES AND ASSIST MISSION WITH EARLY GOI NEGOTIATIONS; ONE WEEK MID-MAY TO ASSIST WITH FINAL PREPARATION OF PAD.

- JOHN BAFFLON: TWO WEEKS BEGINNING O/A FEB 24 TO PREPARE BASIC MACRO-ECONOMIC ANALYSIS.

(D) USAID/SOMALIA ECONOMIST - BY SEPTEL, MISSION WILL

UNCLAS SECTION 22 OF 22 LOME 20801

1. REQUEST USAID SOMALIA TO RELEASE MEREDITH SCOVILLE FOR A TWO WEEK TDY IN APRIL TO HELP IDENTIFY MECHANISMS FOR AUCTIONING OF FOOD CROP EXPORT LICENSES.

(E) AFR/DP ECONOMIST - JERRY WOLGIN FOR APPROXIMATELY ONE WEEK IN EARLY MAY TO HELP MISSION PREPARE FINAL NEGOTIATION AGENDA AND CONDITIONALITY.

(F) PROJECT DEVELOPMENT OFFICER - PDO NEEDED FOR APPROXIMATELY 3 - 4 WEEKS O/A MAY 1 TO ASSIST MISSION IN FINAL PREPARATION OF PAAD. MISSION UNDERSTANDS DONALD MCKENZIE, USAID/BURKINA, HAS LATIN AMERICAN EXPERIENCE IN POLICY PROGRAM DESIGN AND BY SEPTEL TO BURKINA WILL ENQUIRE ABOUT HIS AVAILABILITY. IF HE IS NOT AVAILABLE, MISSION WILL EXPLORE OTHER OPTIONS WITH AFR/PE AND REDSO/WCA.

7. MISSION WOULD APPRECIATE AID/W ASSISTANCE IN RAPID IDENTIFICATION OF CONSULTANTS AND ALLOTMENT OF REQUIRED PL & S AND OF FUNDS.

8. THIS CABLE PREPARED AND CLEARED IN CONTEXT OF WOLGIN/PEASELY TDY. ROBERTS

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#0801

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UNCLAS SECTION 22 OF 22 LOME 20801

BEST AVAILABLE DOCUMENT

ACTION: AID INFO: DCM CERON

XUBVZC7CLMC475EHV454
PP RUFEPD
DE RUFEC 47990 1371950
ZNR UUGUU ZZ-
P 061949Z FEB 86
FM SECSTATE WASHDC
TO AMEMBASSY LOME PRIORITY 0713
BT
UNCLAS STATE 237992

LOC: 339 290
37 FEB 86 2321
CN: 23737
CERG: AID
DIST: AID

AIDAC

F.O. 12388: N/A
TAGS:
SUBJECT: TCGO A12PP

SR

REF: LONE 85 0729

1. TCGO HAS BEEN SELECTED AS ONE OF THE FINAL CANDIDATES FOR AFRIP BUILDING IN FY85 AT A PROPOSED LEVEL OF DOLS. 7.25 MILLION. THE PURPOSE OF THIS CABLE IS TO PROVIDE AID/W GUIDANCE TO THE MISSION AND TO REQUEST THAT A PAAD BE SUBMITTED FOR AID/W REVIEW BY JUNE 86. REGRET DELAY IN NOTIFICATION, BUT FINAL DECISIONS COULD NOT BE MADE UNTIL FY86 EST LEVELS WERE ESTABLISHED.

2. THE AFRIP WORKING GROUP AND EXECUTIVE REVIEW COMMITTEE RAISED THE FOLLOWING QUESTIONS AND DESIGN ISSUES WHICH SHOULD BE ADDRESSED DURING PAAD PREPARATION:

A. AID/W CONCURS WITH OBJECTIVE OF FOOD CROP EXPORT LIBERALIZATION, WHICH WE FEEL COULD BE ESPECIALLY CRITICAL AS PART OF SHIFT IN IBRD FOCUS AWAY FROM CONCENTRATION ON STABILIZATION TO COMPLETION OF REFORM

AND RESUMING GROWTH. HOWEVER TECHNICAL REVIEW COMMITTEE EXPRESSED CONCERN THAT THE OVERALL PROPOSAL NEEDED TO BE MORE FOCUSED AND THAT IT INCLUDED "PROJECT" INTERVENTIONS. THESE LATTER CREDIT AND STORAGE ACTIVITIES SHOULD BE DROPPED FROM THE PROGRAM UNLESS THEY CAN BE SHOWN TO BE ESSENTIAL TO EXPORT LIBERALIZATION. THIS SHARPER FOCUS IS PARTICULARLY CRUCIAL GIVEN REDUCED FUNDING LEVEL. FUNDING REDUCTION COULD BE MADE BY FOCUS ON FOREIGN EXCHANGE COSTS FOR COMMODITY IMPORTS AND TA ASSUMING THESE ARE CRITICAL TO PROGRAM PURPOSE.

B. PAIP (PARA III C) SEEMS TO INDICATE THAT CONDITIONALITY SOUJET WOULD CONSIST MAINLY OF THE DECONTROL OF AGRICULTURAL EXPORTS. HOWEVER, PAAD WILL NEED TO STATE THIS CONDITIONALITY AND ANY OTHER CONDITIONALITY IN GREATER DETAIL ALONG WITH TRANCHING AND OTHER SPECIFIC IMPLEMENTATION STEPS.

C. PAIP INCLUDES INSUFFICIENT ANALYSIS OF CONSTRAINTS TO TOGOLESE OWNERSHIP WITHIN TRUCKING INDUSTRY.

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CONSTRAINTS ANALYSIS WILL BE KEY TO DEMONSTRATING NEED FOR CIP VEHICLES AND MUST BE INCLUDED IN PAAD. FYI: AID/W DOES NOT BELIEVE THAT THE INTEREST RATE CHARGE FOR SUCH CREDIT SHOULD BE SUBSIDIZED; A MARKET RATE OF 17-18 PERCENT WITH 22-36 MONTH REPAYMENT IS NOT VIEWED BY AID/W AS NECESSARILY EXCESSIVE. END FYI. ALSO, PAAD SHOULD DISCUSS BASIS FOR PRIVATE TOGOLISE TRUCKING COMPANIES TO SUSTAIN BUSINESS ENTERPRISES IN A COMPETITIVE MARKETPLACE.

2. BECAUSE A POLICY OF LIBERALIZING EXPORT TRADE IN CEREALS MAY BE DIFFICULT TO SUSTAIN IN THE FUTURE, ESPECIALLY IF THERE ARE CYCLICAL CHANGES IN PRODUCTION LEVELS, THE PAAD SHOULD REALISTICALLY ASSESS WHAT MAY BE DONE TO REDUCE THIS CONCERN.

1. THE PAAD SHOULD EXPLAIN TO WHAT EXTENT A GUARANTY STOCK TO BE MADE POSSIBLE THROUGH THE PL 222 FOOD AID PROGRAM IS ESSENTIAL TO THE PROJECT, WHETHER THIS WOULD BE A REVENUE SOURCE AND HOW THE REVENUE GENERATED WOULD BE USED. ALSO, REQUEST MISSION ADDRESS QUESTION WHETHER FOOD AID SHOULD BE USED FOR THESE PURPOSES. IN ADDITION, WE BELIEVE THE EFFECTS OF SUCH ASSISTANCE AS A POSSIBLE DISINCENTIVE TO PRODUCTION SHOULD BE DISCUSSED.

3. THE LINKAGE OF THE PROPOSED AERPP PROGRAM WITH THE EXISTING OAR/TOGO PROGRAM SHOULD BE EXPLAINED IN THE PAAD.

4. SINCE THE ORIGINAL PROPOSAL WAS FOR DOLS. 12 MILLION, MISSION WILL HAVE TO SCALE DOWN PROPOSALS TO CONFORM TO THESE NEW LEVELS. AID/W SUGGESTIONS FOR THIS SCALING DOWN IS PROVIDED IN PARA 2. MISSION SHOULD ADVISE AID/W IF IT HAS OTHER PLANS FOR SCALING DOWN PROPOSAL.

5. PLEASE CABLE AN INTERIM REPLY BY FEBRUARY 22 ADVISING AID/W OF YOUR CONCURRENCE AND/OR COMMENTS ON THIS GUIDANCE, CURRENT STATUS OF PROGRAM DESIGN, YOUR PROPOSED SCHEDULE FOR DESIGN AND OBLIGATION OF PROJECT, AND WHAT MANPOWER RESOURCES WILL BE NEEDED TO COMPLETE THE PAAD BY AID/W DEADLINE FOR SUBMISSION.

4. PER SEPTIL, JERRY WOLGIN, CHIEF OF AFR/DP POLICY ANALYSIS AND RESEARCH DIVISION AND CAROL PEASLEY, AFR/PD, DEPUTY DIRECTOR, PLANNING ARRIVE IN LOME O/A FEB. 12 FOR DISCUSSIONS ON AERPP. SHULTZ

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ANNEX B

3(A)2 NONPROJECT ASSISTANCE CHECKLIST

A. GENERAL CRITERIA FOR NONPROJECT ASSISTANCE

1. FY 1986 Continuing Resolution Sec. 524; FAA Sec. 634A.

Describe how authorizing and appropriations committees of Senate and House have been or will be notified concerning the project.

A Congressional Notification was forwarded to Congress on July 25, 1986.

2. FAA Sec. 611(a)(2). If further legislative action is required within recipient country, what is the basis for reasonable expectation that such action will be completed in time to permit orderly accomplishment of purpose of the assistance?

Legislative action is not required. But a government decree is, and there is every expectation that that will be timely as it is a condition precedent to first disbursement.

3. FAA Sec. 209. Is assistance more efficiently and effectively given through regional or multilateral organizations? If so, why is assistance not so given? Information and conclusion whether assistance will encourage regional development programs.

No.

4. FAA Sec. 601(a). Information and conclusions whether assistance will encourage efforts of the country to (a) increase the flow of international trade; (b) foster private initiative and competition; (c) encourage development and use of cooperatives, credit unions, and savings and loan associations; (d) discourage monopolistic practices; (e) improve technical efficiency of industry, agriculture, and commerce; and (f) strengthen free labor unions.

The program will encourage international trade (cereals' exports), increase private initiative and competition domestically, encourage the use of cooperatives (groupements) and savings and loan institutions (CNCA), and will discourage monopolistic practices by locally opening the market to private traders.

5. FAA Sec. 601(b). Information and conclusions on how assistance will encourage U.S. private trade and investment abroad and encourage private U.S. participation in foreign assistance programs (including use of private trade channels and the services of U.S. private enterprise.

The long-term effect of the program should be to increase Togo's export trade, in which U.S. private international traders may participate as buyers. Resulting national economic growth may attract U.S. investment in Togo to which no barriers are currently placed. U.S. technical assistance services will be provided by U.S. private enterprise.
6. FAA Sec. 612(b), 646(h); FY 1986 Continuing Resolution Sec. 507. Describe steps taken to assure that, to the maximum extent possible, the country is contributing local currencies to meet the cost of contractual and other services, and foreign currencies owned by the U.S. are utilized in lieu of dollars.

The U.S. does not own any excess foreign currency in Togo. Local currency generated by the grant will be used in part to finance analytical services in the program.
7. FAA Sec. 612(d). Does the U.S. own excess foreign currency of the country and, if so, what arrangements have been made for its release?

No.
8. FAA Sec. 601(e). Will the assistance utilize competitive selection procedures for the awarding of contracts, except where applicable procurement rules allow otherwise?

Yes.
9. FAA 121(d). If assistance is being furnished under the Sahel Development Program, has a determination been made that the host government has an adequate system for accounting for and controlling receipt and expenditure of A.I.D. funds?

Not applicable.

10. FY 1986 Continuing Resolution Sec. 533. Is disbursement of the assistance conditioned solely on the basis of the policies of any multilateral institution? No.
- B. FUNDING CRITERIA FOR NONPROJECT ASSISTANCE
1. Nonproject Criteria for Economic Support Fund
- a. FAA Sec. 531(a). Will this assistance promote economic and political stability? To the maximum extent feasible, is this assistance consistent with the policy directions, purposes, and programs of part I of the FAA? Yes.
- b. FAA Sec. 531(c). Will assistance under this chapter be used for military, or paramilitary activities? No.
- c. FAA Sec. 531(d). Will ESF funds made available for commodity import programs or other program assistance be used to generate local currencies? If so, will such local currencies be available to support activities consistent with the objectives of FAA sections 103 through 106? No.
- d. ISDCA of 1985 Sec. 205. Will ESF funds made available for commodity import programs be used for the purchase of agricultural commodities of United States-origin? If so, what percentage of the funds will be so used? Not applicable.

e. ISDCA of 1985 Sec. 801. Not applicable.
If ESF funds will be used to finance imports by an African country (under a commodity import program or sector program), will the agreement require that those imports be used to meet long-term development needs in those countries in accordance with the following criteria?

f. ISDCA of 1985 Sec. 207. No.
Will ESF funds be used to finance the construction of, or the operation or maintenance of, or the supplying of fuel for, a nuclear facility? If so, has the President certified that such country is a party to the Treaty on the Non-Proliferation of Nuclear Weapons or the Treaty for the Prohibition of Nuclear Weapons in Latin American (the "Treaty of Tlatelolco"), cooperates fully with the IAEA, and pursues nonproliferation policies consistent with those of the United States?

g. FAA Sec. 609. If Not applicable.
commodities are to be granted so that sale proceeds will accrue to the recipient country, have Special Account (counterpart) arrangements been made?

2. Nonproject Criteria for Development Assistance

a. FAA Sec. 102(a); 111; 113; 281(a). Extent to which activity will (a) effectively involve the poor in development, by extending access to economy at local level; increasing labor-intensive production and the use of appropriate

technology, spreading investment out from cities to small towns and rural areas, and insuring wide participation of the poor in the benefits of development on a sustained basis, using the appropriate U.S. institutions; (b) help develop cooperatives, especially by technical assistance, to assist rural and urban poor to help themselves toward a better life and otherwise encourage democratic private and local government institutions; (c) support the self-help efforts of developing countries; (d) promote the participation of women in the national economies of developing countries and the improvement of women's status; and (e) utilize and encourage regional cooperation by developing countries?

b. FAA Sec. 103, 103A, 104, 105, 106, 107. Is assistance being made available: (include only applicable paragraph which corresponds to source of funds used. If more than one fund source is used for assistance, include relevant paragraph for each fund source.)

(1) [103] for agriculture, rural development or nutrition; if so (a) extent to which activity is specifically designed to increase productivity and income of rural poor; [103A] if for agricultural research, full account shall be taken of the needs of small farmers, and extensive use of field testing to adapt basic research to local conditions shall be made;

(b) extent to which assistance is used in coordination with efforts carried out under Sec. 104 to help improve nutrition of the people of developing countries through encouragement of increased production of crops with greater nutritional value, improvement of planning, research, and education with respect to nutrition, particularly with reference to improvement and expanded use of indigenously produced foodstuffs; and the undertaking of pilot or demonstration of poor and vulnerable people; and (c) extent to which activity increases national food security by improving food policies and management and by strengthening national food reserves, with particular concern for the needs of the poor, through measures encouraging domestic production, building national food reserves, expanding available storage facilities, reducing post harvest food losses, and improving food distribution.

(4) [106] for technical assistance, energy, research, reconstruction, and selected development problems; if so, extent activity is (i)(a) concerned with data collection and analysis, the training of skilled personnel, research on and development of suitable energy sources, and pilot projects to test new methods of energy production; and (b) facilitative of geological and geophysical survey work to locate potential oil, natural gas, and coal reserves and to

encourage exploration for potential oil, natural gas, and coal reserves.

(ii) technical cooperation and development activities, especially with U.S. private and voluntary, or regional and international development, organizations.

(iii) research into, and evaluation of, economic development processes and techniques;

(iv) reconstruction after natural or manmade disaster;

(v) for special development problems, and to enable proper utilization of earlier U.S. infrastructure, etc., assistance;

(vi) for special development, especially small labor-intensive enterprises, marketing systems, and financial or other institutions to help urban poor participate in economic and social development.

(5) [107] is appropriate effort placed on use of appropriate technology? (Relatively smaller, cost-saving, labor using technologies that are generally most appropriate for the small farms, small businesses, and small incomes of the poor.)

c. FAA 118(c) and (d). Does the assistance comply with the environmental procedures set forth in AID Regulation 16. Does the assistance take into consideration the problem of the destruction of tropical forests?

d. FAA Sec. 281(b). Describe extent to which the activity recognizes the particular needs, desires, and capacities of the people of the country; utilize the country's intellectual resources to encourage institutional development; and supports civic education and training in skills required for effective participation in governmental and political processes essential to self-government.

e. FAA Sec. 122(b). Does the activity give reasonable promise of contributing to the development of economic resources, or to the increase of productive capacities and self-sustaining economic growth?

ANNEX C

INITIAL ENVIRONMENTAL EXAMINATION

COUNTRY : Togo
PROGRAM TITALE : Cereals Export Liberalization in Togo (AEPRP)
FUNDING : LOP \$7.85 million
IEE PREPARED BY : James Osborn, REDSO/WCA

Activity Description

The objective of the program is to support liberalization of the grain export trade of Togo through policy reform resulting in the licensing of private traders and significant reduction in the role of the relevant parastatal. This should result in a stabilization and gradual increase in farmgate prices and an increase in national export earnings.

A portion of the dollar grant will finance technical assistance in establishing the licensing system and providing market and harvest forecasting data and analyses necessary to its operation. Generated local currency will be used for: (a) operations of the data gathering/analysis entity; (b) capitalization of an intermediate credit institution that lends to private entities for purposes of removing major constraints to trade in cereals (not production inputs, but storage and transportation largely) and where reservation of AID's right to review and approve individual loans is not involved; and (c) co-financing, as a minor donor, less than 25 percent of the costs of a multi-donor road maintenance project.

Environmental Actions Recommended

1. Categorical exclusions for dollar and local currency finance applied to technical assistance (216.2(c)(2)(i)) and analyses and studies (216.2(c)(2)(iii)).
2. Categorical exclusion for local currency applied to capitalization of an intermediate credit institution (216.2(c)(2)(X)).
3. Deferred decision on local currency co-financing of less than 25 percent of an IBRD road maintenance project until the total contribution is determined and, if greater than \$1,000,000 equivalent, the environmental procedures of the major donor have been reviewed (216.2(c)(2)(iv)).

Bureau Environmental Officer's Decision

Approved _____

Disapproved _____

Date _____

Clearances:

DIRECTION GÉNÉRALE DU PLAN
ET DU DÉVELOPPEMENT

Lomé, le 23 MAI 1986

B. P. 1667 - Tél.) 21-09-05
21-50-10

LOME-TOGO

1358 /MPI/DGPD /DPB/DDR

Le Ministre du Plan et de l'Industrie

à

Monsieur le Représentant de l'USAID

L O M E

Monsieur le Représentant,

Dans le cadre de la libéralisation de l'exportation des céréales, le Togo se propose de mettre en place des infrastructures nécessaires à la réalisation de cette opération. A cet effet,

il a l'honneur de solliciter auprès du Gouvernement Américain le financement du programme élaboré et qui comporte les éléments suivants :

1. la création d'un système d'attribution de licence pour l'exportation des céréales en 1986 et les années suivantes.
2. la définition du volume d'exportation sur la base des estimations de production, des besoins de consommation nationale et des exigences en matière de stock de sécurité.
3. Le système d'attribution de licence d'exportation doit offrir des possibilités d'accès élargi au marché d'exportation de céréales pour le secteur privé.
4. Lorsque la disponibilité en céréales sera confirmée par les prévisions, le Gouvernement débutera la délivrance de licences d'exportation dès le mois de septembre et pas plus tard que le mois de novembre de chaque année, et ceci à partir de 1986.
5. Les licences seront valables au moins à partir de la date de délivrance jusqu'à la période de mars-avril.

Le Gouvernement se réserve toutefois le droit de suspendre les exportations en cas de déficit céréalier manifesté.

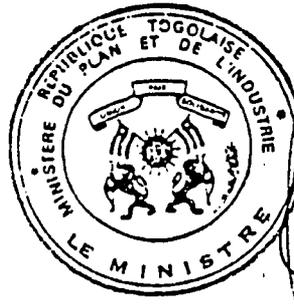
6. TOGOGRAIN achètera des céréales à des prix reflétant les conditions du marché dans le but de maintenir son stock de sécurité dans les limites ayant fait l'objet d'un accord avec la Banque Mondiale dans le cadre du crédit d'Ajustement Structurel. TOGOGRAIN peut aussi vendre du maïs sur le marché à l'exportation, dans le cadre du programme de gestion de son stock.

En application de la réforme du système d'exportation de céréales, le Gouvernement a besoin d'une assistance technique importante en matière de prévision et de suivi des mouvements de prix des céréales.

Les fonds de contrepartie contribueront à la construction des installations nécessaires pour des groupements de paysans organisés et à l'amélioration des moyens de transport des céréales destinées à l'exportation.

Je vous saurai gré des dispositions que vous voudriez bien prendre en vue du prompt aboutissement de ma requête.

Veillez agréer, Monsieur le Représentant, l'assurance de ma considération distinguée./-



Yaovi Adodo
Yaovi ADODO

ANNEX D

TRANSLATION

MINISTRY OF PLAN AND INDUSTRY

REPUBLIC OF TOGO
UNION-PEACE-SOLIDARITY

GENERAL DIRECTION OF PLAN
AND DEVELOPMENT

Lome, May 23, 1986

(21-09-05)

P.O.Box 1667, Tel: (21-50-10)
Lome, Togo

The Minister of Plan and Industry
to the
USAID Representative
Lome

No. 1358/MPI/DGDP/DPD/DDR

The Representative,

In the process of liberalizing cereals exports, Togo plans to put the requisite infrastructure into place for the achievement of this operation. To this end,

I am pleased to solicit financing from the American Government for the elaborated program which will include the following elements:

1. The creation of a licensing system for cereal exports in 1986 and in subsequent years.
2. The export volume will be based on estimates of production, national consumption needs and security stock requirements.
3. The export licensing system must offer possibilities for expanded access of the private sector to the export market for cereals.
4. Provided that forecasts demonstrate adequate supplies, the Government will begin to issue export licenses as early as September, but not later than November each year, beginning in 1986.
5. The licenses will remain valid from the date of issue at least until the period of March/April.

The Government reserves for itself the right to suspend exports in the case of a manifest cereal deficit.

6. TOGOGRAIN will purchase cereals at prices reflecting prevailing market prices in order to maintain its security stocks at the limits agreed upon with the World Bank under the existing Structural Adjustment Credit. Moreover, TOGOGRAIN can sell corn on the export market as part of its stock management program.

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In support of the system of cereal export reform, the Togolese Government will need important technical assistance in crop forecasting and in monitoring cereal price fluctuation.

The counterpart funds will go towards the construction of storage facilities for organized farmer-producer groups, and towards improving the means of cereal export transportation.

I am indebted to you for the measures you will take in order to give a prompt reply to my request.

Please accept the assurance of my highest consideration.

signed

Yaovi ADODO
Minister of Plan and Industry

ANNEX E

SCOPES OF WORK FOR TECHNICAL ASSISTANCE

A. Technical Assistance for DESA

1. Short term (July - August 1986)

Purpose: Assist DESA in the preparation of crop forecasts for maize for the current harvest. Assist DESA in the use of the maize production estimates to determine whether or not a surplus exists upon which export licenses may be issued. Refine and apply a formula for determining exportable surpluses based on production estimates and historical consumption levels. Advise DESA and the institution authorized to issue export licenses on the use of a formula for determining exportable surplus.

Scope of Work:

1. Estimate 1986 maize production using:
 - a) field observation of crop conditions in Maritime, Plateau and Centrale regions;
 - b) interviews with agricultural project staff and other knowledgeable participants in the maize production system;
 - c) analysis of historical rainfall levels and maize production and 1986 rainfall levels; and
 - d) NOAA satellite imagery.
2. Oversee DESA maize production estimation work in July and August. Review the procedures for estimating area cultivated and crop yields. Assist in improving DESA's reporting procedures.

Outputs:

- Maize production estimates for each of the three principal growing regions.
- An estimate of exportable maize supplies based on a formula that uses estimates of production, historical consumption needs and security stocks.
- A report detailing the status of maize production in Togo at the end of the 1986 harvest (August). The report will include:
 - a) estimated maize production for 1986;
 - b) estimated domestic maize consumption requirements;
 - c) level of existing public maize stocks and to the extent possible private stocks;
 - d) estimated maize surplus or deficit for 1986-87; and
 - e) estimated exportable maize surplus or import requirements.

- A recommendation on the volume of maize available for export under the licensing system.
- Recommendations on the level and type of additional technical assistance required to strengthen DESA's capacity to conduct crop forecasts and price monitoring.

Personnel and Level of Effort:

The short-term technical assistance to DESA will require the services of an agricultural statistician and an agricultural economist with the following responsibilities:

Agricultural Statistician

Responsibilities include conducting field observations of maize crop conditions, reviewing data collection procedures of DESA and recommending improvements, assisting DESA's staff in data collection and statistical analysis of maize crop conditions; preparing with DESA staff an estimate of the 1986 maize crop; and making recommendations for further levels and types of technical assistance to strengthen DESA's capacity to assess and make estimates of crop production.

Agricultural Economist

Responsibilities include: developing and implementing the formula for estimating exportable supplies of maize, including estimates of consumption requirements, security stock levels, and maize production; recommending levels of exports; integrating NOAA provided information on crop conditions into the report; and making recommendations on further levels of and types of technical assistance to strengthen DESA's capacity to assess cereal conditions and make estimates of crop supply and demand.

Illustrative Budget

Agricultural Statistician for 2 months	\$33,000*
Agricultural Economist for 2 months	33,000
Travel in-country	4,000
Miscellaneous (Computer rental, report preparation, translation services, etc.)	5,000
Total	\$75,000

includes salary, international travel and per diem

2. Long-term Technical Assistance (September 1986 - August 1987)

Purpose: to strengthen the institutional capacity of DESA systematically to collect and analyse data on cereals production, prices and marketing. To assist DESA in the development and implementation of a system to: (a) develop estimates of supplies and utilization of cereals in Togo, (b) estimate the level of exportable cereals supplies, and (c) monitor and forecast producer and consumer cereal prices. This will enable DESA to present this information and analysis as the basis for making decisions on managing Togo's food supplies, including decisions about the issuance of export licenses and food imports.

Training:

On-the-job and formal training of DESA personnel will constitute a principal component of the technical assistance program. DESA personnel will receive instruction in the following:

Enumerators - Training in techniques for estimating area under cultivation and crop yields. Review of price collection techniques and advice on how generally to record data.

Field Supervisors - Training in management of surveys and techniques to be used in collection of production and price data.

Statisticians - Training in area frame sampling. Review of techniques used to extrapolate data to regional and national levels. Training in the use of microcomputers to organize and analyze data. Training in the use of techniques in making estimates and forecasts of crop supplies, including exportable supplies and in monitoring and forecasting price movements.

Analysts - Training in the design of survey instruments which are computer-compatible. Training in the use of microcomputers for data analysis. Instruction in the use of rainfall data and satellite imagery as crop production forecast indicators. Training in the application of the formula for determining the existence of exportable surpluses. Analysis of price data. Training in the preparation of reports for use by decision makers and for public dissemination.

Senior Administrators - Management training.

Technical Tasks:

Given the weak institutional capacity of DESA, it will be necessary for the technical assistance personnel to fulfill line functions within the organization. These line functions will be concentrated at the statistician and analyst level. The technical assistance team will participate in the planning, design, implementation and analysis components of the crop production forecast and price monitoring systems.

Outputs:

Enumerators trained in crop and yield estimation techniques and in the collection of price data.

Statisticians trained in sampling procedures, crop estimation techniques and the use of microcomputers.

Analysts trained in the use of crop forecast information as a means of measuring exportable maize surpluses and trained in microcomputer applications.

A fully articulated system for estimating cereals supply and utilization.

Personnel and Level of Effort:

The long-term technical assistance to DESA will require the services of the following:

Agricultural Statistician

Qualifications: PhD in agricultural statistics with substantial experience in design and implementation of sampling systems for estimating area, yield, and production of cereal crops. Fluent in French at the R-3 S-3 level. Experience in working in Africa.

Responsibilities will include developing a system for estimating crop supply and utilization for major cereal crops in Togo; providing technical advice in all aspects of crop condition assessment and estimation procedures; organizing seminars, workshops, and other training for DESA staff; overseeing preparation of reports on crop supply and demand for use by decision makers as well as reports, press releases, etc. for public dissemination.

Agricultural Economist

Qualifications: PhD in agricultural economics; with substantial experience in agricultural commodity research and analysis, including experience in estimating supply and utilization of agricultural commodities and in forecasting crop supply, demand and prices. Fluent in French at R-3 S-3 level; extensive experience in preparing agricultural policy analysis, including demonstrated experience in preparing analytical reports for use by policy officials as well as reports destined for public dissemination. Experience in working in Africa.

The agricultural statistician will be available full-time. The agricultural economist will be available on a regular basis corresponding with the schedule for field work and preparation of analytical reports worked out in conjunction with the Director of DESA and the agricultural statistician. It is expected that the agricultural economist will be available for three months out of each year.

Illustrative Budget

Ag. Statistician for 2 years @ \$125,000/year	\$250,000
Ag. Economist for 6 months/2 years @ \$15,000/month	90,000
Seminars/Workshops/Training	45,000
Miscellaneous	20,000
Total	\$405,000

B. Technical Assistance for Licensing System and TOGOGRAIN Rules

Purpose: Devise an export licensing system for maize to be used by the Ministry of Commerce. Assist TOGOGRAIN to codify its operating rules for intervention in the domestic and export maize market.

Scope of Work:

1. Review past GOT cereals export licensing procedures;
2. Design an export licensing system in collaboration with the Ministry of Commerce that addresses the following considerations:

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- a) timing of issuance and length of license validity;
 - b) qualifying requirements for license applications;
 - c) cost of license and procedures for distributing licenses;
 - d) volume (i.e. metric ton) unit of each license;
 - e) renewal procedures; and
3. develop a set of rules regarding the operation of TOGOGRAIN which covers the following points:
- a) when and at what price TOGOGRAIN may buy maize;
 - b) conditions under which TOGOGRAIN may sell on the domestic market;
 - c) conditions under which TOGOGRAIN may export maize;
 - d) management of TOGOGRAIN's stock, i.e. turnover each year; etc.

Outputs:

1. A detailed report describing the export licensing system to be used by the Ministry of Commerce in the implementation of CELT.
2. A set of operating rules for TOGOGRAIN's buying, selling and stock management operations.

Personnel and Level of Effort:

This short-term technical assistance will require the services of an international agricultural trade and marketing specialist with at least 10 years of experience in cereals export trade. Fluency in French at the R-3 S-3 level is desirable along with experience in Africa.

Illustrative Budget:

Agricultural Trade and Marketing Specialist for 6 weeks	\$22,000
International Travel	2,000
Miscellaneous	1,000
Total	\$25,000

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C. Technical Assistance for Rapid Reconnaissance of the Maize Marketing System

Purpose: The objective of the studies is to assess the organization, operation and performance of the cereals marketing system in order to identify what further technical and financial interventions the government should make to improve the efficiency of the system. The surveys will identify problems, opportunities and constraints for producers and traders and will assist the government to increase direct producer participation in the marketing system.

Scope of Work:

Each survey will examine the following key aspects of the corn marketing system:

- Technical Characteristics - Examination of how technical characteristics of maize affect physical marketing practices such as harvesting, storage, and processing.
- Marketing System Participants and Organization - Identify marketing channels and participants, including types and numbers of firms and their geographical distribution. Identify key assembly, redistribution and terminal markets.
- Marketing Infrastructure - Assess physical infrastructure for marketing, including adequacy of storage, transportation and markets and evaluate the degree to which these constrain market access and incentives to produce for the market.
- Marketing System Operation - Examine exchange processes, risk-sharing mechanisms and information dissemination and any evidence of unusual market power.
- Marketing Strategies of Farmers - Examine sales practices including timing and volume of sales, terms of transactions and storage practices.
- Consumption Patterns - Estimations of supply availability and determination of the direction and magnitude of commodity flows. Maps of surplus and deficit areas.
- Price Trends and Seasonality - Analysis of seasonal and secular trends in wholesale and retail prices and examination of the affect of price variation on wholesaler behavior.

Outputs:

Since the surveys will be focused at the farm and rural market level, they will provide a very timely means of testing assumptions underlying the export liberalization program and adjusting the program when necessary. The surveys will assess the extent to which these hypotheses are valid:

- farmgate prices for maize will increase due to increased demand generated by the export market;
- farmers will increase maize production in response to increased prices;
- farmers will increase investment in storage, through participation in groupements, to increase their market power;
- farmers will gain access to more buyers as competition for limited supply brings more buyers;
- traders will seek greater supplies of maize once they are assured of an export opportunity and a stable government policy with respect to commercial exports of maize; and
- farmers will form groupements as means of gaining access to credit for inputs to increase productivity and to obtain storage and marketing services to increase their influence in the market.

Personnel and Level of Effort:

Conduct of the periodic Rapid Reconnaissance surveys will be the responsibility of SOTED. SOTED will be assisted in this task by a full-time agricultural marketing specialist and short-term expertise as needed.

Agricultural Marketing Specialist

The marketing specialist will hold either a PhD. or a M.A. in agricultural economics, economic anthropology or economic geography and have at least five years of experience in the analysis of marketing systems in developing countries. Experience in Africa is highly desirable. The specialist must be fluent in French at the R-3 S-3 level.

Si

The marketing specialist will be responsible for the design, conduct and analysis of periodic studies of the Togolese cereals market. Specifically, this involves assessing the organization, operation and performance of the maize marketing system to identify the impact of policy reform such as the liberalization of the export market. Special studies of the regional cereals market may also be required.

Illustrative Budget:

Agricultural Marketing Specialist 2 years @ \$125,000/yr	\$250,000
Short-term Technical Assistance - 4 months @ 15,000/m	60,000
Miscellaneous	20,000
Total	\$330,000

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ANNEX F

NOTE ON PROSPECTS FOR REGIONAL MAIZE EXPORTS FROM TOGO

Export Policy

In 1980, the Togolese Government issued a decree prohibiting all cereal exports by the private trade. Only exports through its public grain marketing board, TOGOGRAIN, were officially sanctioned. Thus, in 1984 TOGOGRAIN sold about 5,000 tons of maize to the Federal Republic of Germany for re-export to the drought-affected Sahelian country Cape Verde. In 1985, TOGOGRAIN sold grain for export under license to private traders. About 1,655 tons of maize were officially exported under this procedure. Most of the licenses issued in 1985 were issued to traders from Niger. The licensing scheme employed by TOGOGRAIN appears relatively simple. Individual traders were issued licenses designating amounts and values of the purchase. Traders paid a handling fee which covered the cost of fumigating the grain.

Unofficial Cereals Exports

Despite the ban on private trade, there is by all accounts a thriving but small scale illegal export trade of maize from Togo to Burkina Faso and Niger and probably through Benin to Nigeria. Because the trade is illegal, no effort is made to record or publish estimates of its volume. There are also imports of maize into Togo from Ghana, but the extent is also unrecorded. The unofficial trade is not effectively policed, but the limits the government has imposed on private cereal exports nevertheless constitutes a constraint to larger commercial exports of cereals.

Estimated Volume of Unofficial Exports

A recent study by the Caisse Centrale de la Cooperation Economique (1985) estimates that exports of maize, not counting officially sanctioned and licensed exports could have totalled as much as 14,000 tons in 1980. This estimate is based on available supply/utilization data, including estimates of available supplies of maize, rural and urban consumption, seed use, and losses. The 14,000 ton estimate is a residual after accounting for supply and use. (The formula used by the CCCE is: Production - seed and losses = available supplies; available supplies + imports - rural and urban consumption = exports.)

TOGOGRAIN's Role in Cereal Exports

TOGOGRAIN was created in 1971 as a public sector enterprise for marketing cereals and other foods. Its responsibilities include:

- buying, storing, conserving and distributing food products;
- stabilizing prices paid to producers; and
- identifying foreign markets for exports during times of surplus and identifying sources of food imports during periods of shortage.

Sp

Under the World Bank's second Structural Adjustment Credit (SAC) TOGOGRAIN would have a much more limited role. It would maintain a maximum of 10,000 tons of cereals as a food security stock.

Changes in Export Policy

Under the SAC the Togolese Government has agreed to a number of policy changes that will affect cereals exports. The principal changes include:

- liberalizing the export of food grains, except in times of shortage.
- establishing operating guidelines for TOGOGRAIN in order to improve its management and efficiency and to help it to assume its food security role; and
- promoting increased output of food and encouraging farmers to increase their own storage capacity through a program of constructing small storage facilities.

These are all agreements in principle. The AEPRP/CELT would enable the government to implement these policy changes.

Cereals Export Potential

Cereal export potential is based on the expectation that sufficient production potential exists in Togo to produce an exportable surplus of maize. While it is not clear that Togo has achieved a "structural" surplus of maize, it appears that Togo has substantial production potential. Yields have averaged little more than a ton per hectare in traditional cultivation, but with improved seeds, cultural practices, information, etc., yields of 2.9 tons per hectare have been achieved. According to one set of estimates (USDA supply/utilization data for Togo), Togo has increased production of maize in seven of the past 9 years. Drought substantially reduced the harvest of 1983, but 1984 and 1985 crops of maize were substantial. Such large harvests are thought by most observers to be a disincentive to production because of their depressing effect upon prices and the small size of the Togolese domestic market. Exports would give additional impetus to demand, creating incentives for producers to increase their output of cereals.

Regional Demand

Cereal deficits in Niger and Burkina Faso were estimated to be more than 500,000 tons in 1984-85. Most of this deficit was met by food aid imports from the United States, the European Community, the World Food Program and other donors. Togo is a long way from being able to fill a substantial portion of the food needs of drought-affected Sahelian countries, but it could meet some of the demand for cereals notably in urban areas in those countries.

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Surplus maize from Togo could be profitably exported to Niger and Burkina Faso according to the recent CCCE study. That study estimates an average net margin, after paying assembly, storage, transport costs, on maize exported to those two countries of FCFA 30 per kilogram. With 15,000 tons of maize exports, the total net returns would be FCFA 450 million, or approximately \$1.2 million per year.

Other Export Opportunities

There is also the possibility that Togo could participate in "triangular" trade arrangements with financing by donors of exports to drought affected countries in the Sahel or elsewhere. Such was the case with exports financed by Germany, of 5,000 tons of maize from Togo to Cape Verde in 1984.

It would be difficult for the private sector to participate in such triangular trade arrangements because of the fragmented nature of the private marketing system. However, TOGOGRAIN would not be in a position to respond to such opportunities if such a response conflicted with its responsibility to maintain a limited food security stock of 10,000 tons of cereals.

ANNEXE G

Republic of Togo Ministry of Rural Development

Excerpts from New Strategy for Rural Development*
(March, 1985)

Chapter 2: Definition of the New Strategy (excerpts pages 28 and 29)

2.3. Actions subsequent to production

Following crop production are the issues of storage and marketing. Their improvement can provide a powerful means to raise revenues for the farmer.

In storage, the focal point will be the reduction of post-harvest crop losses. This implies the overriding necessity to promote a program to improve storage conditions at both the individual farmer level and for producer groups. Besides limiting crop losses, improved storage facilities will allow farmers to take advantage of peak price periods to market their products at fair market value. Farmer revenues stand to gain by improvements in storage and marketing.

A storage improvement policy means that farmers and producer groups are able to obtain requisite financing for the procurement of essential materials for the construction of storage facilities.

Assistance from the World Food Program, distributed only in-kind, is insufficient to achieving this end; financial assistance will be sought from other sources, including PVOs which are well-adapted to support these micro-projects. Local farmers will furnish their own labor.

As for marketing, the most significant actions to undertake focus on constituting producer groups for marketing purposes. Experience has shown that farmer-producers, grouped for marketing their produce, succeed better than those grouped for input supply to production.

Producer prices for cash crops will be fixed in such a way that producers obtain an incentive revenue, without greatly diminishing the revenue which the state receives from this type of production.

As for food crops, for which the price is determined by the law of supply and demand, it will be satisfactory to act so that farm production costs are maintained sufficiently low that farmers will be able to withstand depressed food crop prices. In the same way, production costs ought to be such that in the end, Togolese products can find sub-regional markets. This would imply a relative lessening of production costs which will essentially be gained from an increase in yields.

*) unofficial translation

The application of the new rural development strategy, and the efforts mounted to improve storage and marketing will lead to:

- an increase in the volume marketed, either locally (which will improve the coverage of national needs), or for export purposes - which will contribute to an improvement in the balance of payments;
- a hike in monetary revenue for the producer, and thereby, to an improvement of the quality of life in his milieu, so that he can act more effectively; and
- a transfer to the farm level of a major part of the storage and marketing activities, all of which will permit TOGOGRAIN to limit itself to establishing and managing cereal stocks for food security.

ANNEX H

PRIVATE SECTOR INCENTIVES IN THE SECOND STRUCTURAL ADJUSTMENT PROGRAM FOR TOGO

The basic objective of the second phase (1985-87) of the Government's structural adjustment program is to lay the foundation for the resumption of a sustainable rate of economic growth over the medium-term. Continued progress in financial stabilization is a prerequisite for success. However, structural adjustment means exploiting the areas of greatest comparative advantage. These lie in both the export crop and food crop sectors which contain the bulk of the country's population and where land resources would permit expansion. To a lesser extent, Togo has development potential in industrial processing for export and in efficient small- and medium-scale enterprise production for the domestic and regional markets. Phosphate mining represents an important source of export revenues which could be greatly enhanced, should the market prospects for the proposed phosphoric acid plant currently being studied improve significantly.

The strategy to accomplish these growth objectives is based on two major thrusts. First, it requires a shift from direct involvement by the Government in the production process in favor of introducing private sector supply responses through an expansion of incentives. Second, it requires much greater efficiency in the use of public resources through the disengagement of the Government from the inefficient public enterprise sector, a compression of public expenditures, redirection of spending towards economic priorities and finally an efficient economic management and policy decision-making system.

The program to carry out this strategy, with the support of SAC II, would have the following main features grouped around the two main themes described above:

Private Sector Incentives

- agricultural incentive reforms including real increases in producer prices for coffee, cocoa and cotton, in order to expand production of export crops and income as a basis for rural investment; and liberalization of food crop marketing including exports, in order to give farmers access to regional markets where there is a potential to sell increased output;
- an action program to raise food crop output through improved quality of agricultural services (extension services, input supply, etc.);
- preparatory studies for an industrial incentive reform in the areas of customs tariffs, taxes and small- and medium-scale enterprise promotion.

Public Sector Efficiency

- concentration of public investment on productive sectors, high-return projects which clearly identify recurrent costs, with primary emphasis on increased returns from existing assets through maintenance and rehabilitation; the first stage of reforming the operational efficiency and organization of the key economic ministries would be initiated and an increasing emphasis would be placed on the review of the composition of both current and investment spending; and
- reduction and reform of public enterprise sector through restructuring, the closing if necessary, and privatization where possible, of the bulk of state-owned enterprises, taking into account prospective industrial incentive reforms.

Rural Development

In its overall development strategy, the Government gives priority to rural development and to increased agricultural production and exports. The Government's objective is to increase food production so as to ensure food self-sufficiency and make available a marketable surplus, while continuing to increase the production of the country's three main export crops. As Togo is a predominantly rural economy, this policy is critical for the country's overall development, incomes and public revenues. Moreover, Togo's major agricultural exports (coffee, cocoa, cotton) are important foreign exchange earners with considerable growth potential.

To achieve this objective, the SAC II program calls for: (i) a realignment in real export crop producer prices in order to stimulate production and rural income; (ii) a liberalization of foodcrop marketing, including export; and (iii) a reorganization and reinforcement of agricultural services.

Realignment of Export Crop Producer Prices

As part of the preparation of the SAC II program, the Government increased producer prices for cocoa and cotton in October 1984 as follows: cocoa from CFAF 275 per kilo to CFAF 300 (9.1 percent) and cotton from CFAF 75 per kilo to CFAF 90 (20 percent). During SAC II appraisal, in November 1984, it also raised the producer prices for coffee from CFAF 290 per kilo to CFAF 315 (8.6 percent).

For the next three years, the Government would continue to increase the producer prices for coffee, cocoa and cotton. These increases should be higher than the inflation rate and lead to a significant improvement in rural income. The Government medium-term objective is to substantially increase real incomes of producers of coffee, cocoa and cotton. An understanding was reached with the Government during

negotiations that quantitative objectives will be established in agreement with the Association before the second tranche release. The quantitative objectives would be achieved by a combination of annual adjustments of prices and increases in output at the producer's level (increases in yields and acreage), taking into account the international market prices of the products in question and other factors. For crop year 1985/86, the Government increased the real incomes of producers of the main export crops by 5 percent by setting the following new producer prices: CFAF 365 per kilo for coffee (15.9 percent), CFAF 330 for cocoa (10.0 percent); and CFAF 105 per kilo for cotton (16.7 percent). Further increases in producer prices would take place after consultation with IDA for crop year 1986/87, in the light of the objectives and principles set forth above, as a condition of release of the second tranche (Schedule 3 to the Development Credit Agreement). These increases, in conjunction with other factors, would aim at accelerating the growth of real producer incomes.

Liberalization of Foodcrop Marketing

Food crop marketing is mainly handled by private merchants with limited Government involvement and prices are set by market forces. Togo has succeeded in achieving food self-sufficiency, except in years of severe drought. The country has even produced significant food crop surpluses when good rainfall occurred such as in 1984-85. However, there are important seasonal variations in food crop prices due to wide fluctuations in the size of marketable surpluses, erratic climatic conditions and a shortage of storage facilities. In 1971, the Government created a grain marketing board (TOGOGRAIN) in order to stabilize the market and secure the food supply. This direct intervention has been reduced since the Government has limited the role of TOGOGRAIN to maintaining a maximum 10,000 tons of cereals for food security purposes. The main policy constraint on food crop marketing is the present limitation imposed by the Government on food exports through regular commercial channels, as informal border trade cannot be controlled. Government policy would reinforce this non-intervention policy in food crop marketing in three ways:

First, in order to take advantage of the growing demand for food imports by neighboring countries, the Government has in principle agreed to liberalize the export of foodcrops, except in periods of food shortages. However, the implementation timetable should coincide with the definition of detailed programs to be carried out in the context of upcoming agricultural projects. This liberalization would permit market forces to raise the producer prices and give incentives to farmers to produce a larger marketable surplus of food crops for both the domestic market and exports.

Second, the Government would establish new operating guidelines for TOGOGRAIN, including buying and selling procedures, maximum amount of security stock, appropriate cash flow and necessary investments. To help establish these operating guidelines, the Association is providing funds to analyse TOGOGRAIN's present management and also a management adviser to TOGOGRAIN, under the proposed third technical assistance credit. Further, the Government would establish an early warning system in the Ministry of Rural Development (MDR) to forecast harvests and analyze markets.

Third, the Government would actively promote increased output of food and encourage farmers to increase their own storage capacity through a program for small and inexpensive storage structures patterned on traditional methods. These objectives would be achieved by an expansion of extension services and the supply of modern input such as improved seeds, fertilizers and insecticides as well as the introduction of a system of credit to farmers under the forthcoming IDA agricultural project now under preparation and scheduled for fiscal years 1986 and 1987. Both these projects and the SAC II program would contain the objective of removal of foodcrop export licensing as soon as appropriate.

Improvement of Agricultural Services

The Togolese agricultural sector is served by two ministries, the Ministry of Rural Development (MDR) and the Ministry of Rural Works (MAR), five Regional Directorates of Rural Development (DRDR), and two major export crop companies (SOTOCO and SRCC). The ministries and the DRDR employ nearly 3,000 civil servants but they are poorly funded. More than 90 percent of the MDR's budget is for personnel, and less than 10 percent for materials and service spending. As a result, the official agricultural extension and support services, input supply and research are weak, and several individual projects have had to organize their own agricultural services. This situation is unsatisfactory due to the dispersion of efforts amongst diverse projects and donors. Thus, the agriculture sector does not benefit from adequate extension, input supply, seed distribution or applied research. Less than a third of Togolese farmers appear to be reached by the development projects in place and official institutions are generally not organized sufficiently to service the rest of the rural farming community.

Under the SAC II program, the Government has agreed to achieve a better balance between personnel expenditures and material spending in MDR's current budget, and to strengthen and expand agricultural services, particularly the extension services, in preparation of a specific IDA-supported agricultural extension project which could be based on the training and visit system. It has already increased the MDR non-personnel budget from CFAF 95 million in 1984 to CFAF 265 million in

1985; part of this amount comes from the state's current budget (CFAF 90 million) and part from the investment budget (CFAF 175 million). Before the release of the second tranche, the Government would allocate at least 25 percent of the MDR's 1986 budget to non-personnel spending, to support improved extension services and input supply, and limit personnel expenditures to not more than 75 percent of the total (Schedule 3 to the Development Credit Agreement).

In addition, a series of coordinated actions would be designed through future agricultural projects under preparation and implemented to raise output as follows:

- i. the input supply system would be improved through an increased budgetary allocation starting in 1985;
- ii. a national seed plan would be prepared by the end of 1986 covering the organization of seed multiplication farms, and linking their activities to existing research stations;
- iii. future foodcrop research efforts would be coordinated on a national basis and linked to the training and visit system mentioned above; assistance in this would be provided by the proposed third technical assistance credit under revised terms of reference for the expert working on agricultural research;
- iv. an experimental system of credit to farmers would be introduced within the framework of village groups by the agricultural credit bank (CNCA) and the DRDRs;
- v. improved farm technologies such as ox-drawn traction would continue to be encouraged, while small scale irrigation systems and feeder roads would be constructed or rehabilitated; and
- vi. subsidies on fertilizers and insecticides would be progressively phased out as farm output and incomes rise. In total, subsidies represent about CFAF 330 million (US\$0.7 million) a year in budgetary outlays. Fertilizers to cotton account for two third of the total distributed to farmers. The rate of subsidy on these fertilizers has been reduced from 40 percent in 1983/84 to 20 percent in 1985/86 and will be phased out completely by 1987/88 in the context of the cotton development project.

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Preparatory Studies for Industrial Policy Formulation

The decreasing role of the public sector in industry would create a climate for an enhanced role of the private sector. Under the structural adjustment process, the Government's second focus of increased incentives to the private sector would consist of systematic efforts made to improve the policy environment and institutional framework for private investments.

The Government has recently revised the Investment Code with a view to extending its benefits to small businesses and making value added a criterion for eligibility. It has agreed to an industrial incentives and fiscal study to be undertaken by the IDA by September 1985, as part of its economic and sector work. The Government would examine the recommendations of the study before deciding on customs tariff reform and long-term industrial policies. Togo maintains an exchange system free of restrictions on payments and transfers for imports. Quantitative restrictions are limited and the customs duty varies from five to 40 percent. However, the customs tariff system is complex and should be simplified and standardized with a view to promoting domestic output of both intermediate and final goods for efficient import substitution and export, protecting Togo's transit trade and raising fiscal revenues.

ANNEX I

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