Africa Economic Policy Reform Program

Interim Evaluation of

Togo's

Cereals Export Liberalization Program

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Office of the AID Representative

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2-x

ACRONYMS

ADB	African Development Bank
AEPRP	African Economic Policy Reform Program
A.I.D.	Agency for International Development
A.I.D./W	Washington Office of A.I.D. (Headquarters)
BCEAO	Central Bank for West African Monetary Union
CFAF	Central and West African Franc (monetary unit)
CIF	Cost, Insurance and Freight
CNCA	National Agricultural Development Bank
CP's	Conditions Precedent
COOPEC	Credit Union
DESA	Directorate of Studies and Agricultural Statistics
DRDR	Togolese Regional Rural Development Offices
FUCEC-Togo	National Credit Union Federation of Togo
GOT	Government of Togo
GTZ	West German Assistance Agency
IBRD	International Bank for Reconstruction and Development (World Bank)
IDA	International Development Agency (World Bank)
IMF	International Monetary Fund
MDR	Ministry of Rural Development
OAR	Office of the A.I.D. Representative
OPAT	Togolese State Marketing Company for Export Crops
REDSO/WCA	Regional Economic Development Support Office/West and Central Africa
SAP	Structural Adjustment Program (World Bank)
SORAD	Ex-Togolese Regional Rural Development Offices
SOTOCO	Togo's State Cotton Company
TogoGrain	Togolese State Grain Company
USAID	A.I.D. Overseas Mission
WAMU	West African Monetary Union
WOCCU	World Council of Credit Unions

Preface

This evaluation report was initially prepared by Richard Fraenkel, REDSO/WCA, and Stephen Sposato, AFR/DP during their February 15 to March 4, 1988 stay in Togo. During this period this evaluation team was able to meet all the key players in this program and to make upcountry visits.

Following reviews of the first draft by OAR/Lome personnel, Mr. Fraenkel, returned to Togo during the May 2 to 6, 1988, period to write in close consultation with OAR/Lome a second draft of the report. Completion of this report was then held in abeyance pending receipt on May 18, 1988, of a separate study, "Appraisal of the Togolese Financial Institution's Rural Sector Activity," prepared by Coopers and Lybrand during the April 5-22, 1988 period. Unfortunately, this study arrived too late to be adequately reflected in some sections of the report. In any event, in view of the high relevance of this draft study, especially with regards to the section in the evaluation report on agricultural credit policy in Togo, it should be read in conjunction with this report.

Africa Economic Policy Reform Program

Interim Evaluation of Togo Cereals Export Liberalization Program

I. Introduction and Summary of Recommendations:

Under the Africa Economic Policy Reform Program (AEPRP), on August 29, 1986, in consideration of a cash transfer of $7.0 million, the Government of Togo (GOT) signed a Program Grant Agreement with the U.S. for the Cereals Export Liberalization Program ("the Program"). The Program provides for four types of activities: (1) a legal-regulatory change to begin issuance of export licenses for foodcrops to private traders, (2) private sector credit to encourage the production, marketing and exports of foodcrops, and (3) budget support for two governmental functions that support food crop exports: rural roads and agricultural statistics. To complement the AEPRP package, expatriate technical assistance also is being provided under a separate Limited Scope Grant Agreement with an authorized value of $850,000.

Before the Program, Togo generally had had an official ban on private foodcrop exports. According to the PAAD dated June 5, 1986, "in 1980, the GOT issued a decree prohibiting all cereals exports by the private trade." When the domestic supply situation warranted relaxation of the ban, Togograin, a parastatel agency, had a legal monopoly on exporting foodcrops. A concern about Togo's food security prompted the GOT officially to ban foodcrop exports, except at times of demonstrable surpluses, in which case, Togograin would take the lead in handling the exports. At the same time, due to the importance of Togo's informal and unrecorded border trade, the Program clearly is operating in an area of "soft law," that is, an administrative environment where a mix of cooperation and conflict between private economic operators and government officials in the sector, widespread bargaining over outcomes, unrecorded economic activity, low administrative capacity to monitor and enforce, and widespread non-compliance prevails. In such an environment, the real impact of a legal-regulatory reform is difficult to ascertain.

With regard to crop eligibility, the reference in the title of the Program to "cereals" has proven unduly narrow. While it was originally foreseen that maize exports would be promoted by the Program, the GOT expanded the commodity eligiblity to all major Togolese foodcrops, including millet, sorghum, roots, tubers, and grain legumes. Contrary to the original purpose of the Program, no private sector maize exports have been licensed. On the other hand, a small volume of rootcrop exports have been licensed.

According to the Program, AID's $7 million cash transfer was to be disbursed in two tranches, originally envisaged over a two-year period. Of the $7 million in local currency (CFAF) generations that the GOT is required to deposit, $2 million in CFAF was to be set aside for maintenance of rural roads. The sum of $1 million in CFAF was also to be set aside to strengthen the Direction des Enquetes et Statistiques Agricoles (DESA), for gathering and analysis of export-related crop data. Decisions about issuing export licenses were based on the crop

5x

production and consumption data which DESA provided. The remaining $4 million was to be placed in a revolving credit fund, which would serve the needs of those involved in marketing, storage, and export of Togolese foodcrops.

Togo's membership in West African Monetary Union-WAMU did not prevent the cash transfer and counterpart funds from being used in specified ways under the Program. Dollar disbursements under the Program add to Togo's net reserve position with the WAMU Central Bank, ultimately increasing Togo's ability to finance imports. The counterpart funds in CFCA are deposited in local Togolese bank accounts for the designated purposes.

According to the Program Grant Agreement, release of the first and second tranches is conditional upon the satisfaction of two sets of Conditions Precedent (CPs). The authorization of the first tranche was on January 7, 1987. The substantive conditions for this tranche were as follows:

1. Formed a Cereals Export Licensing Commission authorized to determine the volume of exports and licenses;

2. Publicly announced the legal status of cereals exports and Grantee's commitment to permit exports of cereals subject to preservation of national food security;

3. Approved that cereals export licenses will be issued as early as September and no later than November in a given crop year; and

4. In collaboration with AID, defined responsibilities for management of the Cereals Export Liberalization Program in Togo.

The key step in meeting the CPs of Tranche 1 was the issuance of Presidential Decree 86-210, which took place on November 25, 1986. First Tranche disbursement was authorized on January 7, 1987. In April, 1987, the GOT deposited in the designated local account the equivalent amount in CFAF counterpart funds.

The CPs for the release of Tranche 2, which is pending, are as follows:

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 year, valid at least until the following March/April if crop production estimates so warranted, on the basis of an open and fair licensing system, with export volume 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 DESA;

3. Evidenced satisfactory progress in removing constraints to the grain trade through provision of credit to farmer groups and export traders through CNCA;

4. Prices paid for cereals by TOGOGRAIN have reflected prevailing market rates and that TOGOGRAIN has purchased cereals only in order to maintain security stocks at the limits agreed upon with the World Bank under the existing Structural Adjustment Credit; 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.

The terms of reference for the present evaluation were keyed to helping AID management decide whether or not the GOT had satisfied the second set of CPs. The Evaluation Team additionally was instructed to pursue its mission broadly while in Togo. The Team was in country from February 15 to March 4, 1988. It examined the issue of whether the reform measures embodied in the Program represent progress towards a more liberal trade regime, or possibly movement away from it, due to the quantity restriction provisions implied in CP-1 (For a discussion of quantity restrictions in trade regimes, see Ann O. Krueger, Liberalization Attempts and Consequences, New York: National Bureau of Economic Research, 1978). The question of broadening the evaluation to include the Program's design became particularly germane once it was determined that the second set of CPs had not been met, thereby opening the possibility of modifying the CPs in the Agreement.

The Evaluation Team did not analyze the impact of liberalizing cereals exports on agricultural production incentives or consumer welfare. Since, as will be discussed, the provisions of the Program were not implemented, an empirical analysis would have been difficult to conduct. At this point in program implementation the Team could only speculate that the export of 15-20,000 MT of cereals could possibly result in 10-20% increase in prices to the Togolese consumer.

The Evaluation Team also did not address U.S.-Togolese political relations as an input into senior management's decision to release tranche two. Senior GOT officials told the Evaluation Team that, in their view, their government is in "full compliance" with the undertakings of the Program. In particular, they explained that the failure to extend a significant number of export licenses is fully consistent with CP-1, which foresaw the eventuality of an insufficient harvest to justify the licensing of exports.

The Evaluation Team's conclusions with regard to the GOT's satisfaction of the CPs for disbursement of the second tranche, along with recommended modifications for future management of the Program, are summarized in the remainder of this introductory section.

The first CP calls for the issuance of export licenses in two crop years, if crop production estimates warrant, on the basis of an open and fair system. Despite this, no licenses were issued for the first export season of the Program, September, 1986-April, 1987. It may have been unrealistic to expect any, since, as noted previously, President Decree 86-210, that established the administrative procedures, itself was not issued until November 25, 1986. In the second, 1987-88 export season of

7x

the Program, licenses were issued for 97 tons of foodcrop exports. The process for obtaining these licenses by private traders was not a particularly open or competitive one. The environment for the Program changed from large maize surpluses in 1984-85, to marginal surpluses or even deficits in most major foodcrop categories. From 1986-87 to 1987-88, total foodcrop production in Togo fell by about 10%, making exports problematical under existing "food security" policies. Weather-related crop shortfalls clearly influenced the GOT's attitude towards issuing licenses. The Evaluation Team also observed a tension existing from the outset of the Program between the desire to export, and an equally strong, and frequently overriding, tendency to want to control food supplies, so as to ensure food security. A good understanding of food security in national income and commercial terms does not seem to exist widely in the GOT.

The Evaluation Team prefers an approach in which licenses would be accorded to all legitimate traders wanting to undertake export operations, provided they obey the banking and tax laws of the country, rather than the current approach of approving specific export transactions. This would eliminate the objectionable aspect of the Program, the underwriting of quantity restrictions in the trade regime, and move towards a trade regime that maximizes national income through relatively unrestricted commercial operations. The Mission observes, however, that GOT authorities probably would be reluctant to adopt this approach and would instead prefer to operate according to procedures of CP-1. Whether or not one views the implementation of CP-1 as liberalizing the trade regime depends essentially on one's perspective towards the pre-Program, baseline situation. That is, the implementation of CP-1 represents progress towards relaxation of the de jure export ban, but a possible expansion of government regulation in terms of the de facto situation on the ground into an area having had relatively little governmental activity. In light of the difficulty of renegotiating a substantive, and potentially controversial part of the Agreement with the GOT, the Evaluation Team recommends that the Technical Assistance Team address further liberalization of the trade regime, and the encouragement of exports generally, rather than formally amending CP-1. The Technical Assistance Team arrived in Togo during April, 1988, and will be in-country for two years. The second tranche would be released after a sufficient number of licenses, for an adequate volume of exports, has been issued either to individual traders or for specific export transactions. This will probably occur by the end of the 1988-89 agricultural year.

CP-2 concerns the publication and dissemination of relevant agricultural production and price data by DESA. DESA is collecting and analyzing production and price statistics. This was found to be done in a competent manner, using accepted standards and methodology. Performance regarding dissemination of information to the public, once published internally, could be improved, however. For example, in addition to the regular publication of crop prices at local markets in the local newspaper, which was started in February, 1988, radio broadcasts of foodcrop price and production information could be used to a greater extent. On the other hand, the private sector's use of government limited by the small number of bankable projects in rural areas. The Coopers and Lybrand study observes that the demand for rural private sector credit in Togo is constrained by the structure of the agricultural sector in Togo, and especially by the subsistence objectives of most Togolese farmers. Furthermore, it appears that foodcrop exports can increase without additional credit from Tranche 2 becoming available. The Mission will continue to be involved in rural private sector credit through the administration of Tranche 1 proceeds, only. However, the crisis affecting CNCA does not make it prudent at this time to place additional proceeds that will be generated by Tranche 2 of the AEPRP into CNCA for rural private sector credit.

CP-4, concerning limitations on Togograin's activities, reflects commitments of the GOT under SAP-II to the World Bank. CP-4 states that purchases of cereals made by the national cereals company, Togograin, must be at market prices, and limited in volume to maintenance of a security stock. Allegedly, in the early 1980s, Togograin had been requiring compulsory deliveries of foodcrops from farmers at below fair market value. The full compliance with this condition and the consequent effective withdrawal of Togograin from all cereals marketing activities, except the limited maintenance of security stocks, has been an important factor in helping to liberalize the grain trade. It is to be noted, however, that the GOT Council of Ministers authorized Togograin on March 16, 1988 to sell part of its stock in food deficit areas in southern Togo. This appears to be the only instance of Togograin intervening on the local market since the inception of the Program, and the World Bank states that such an action is in full compliance with the food deficit conditions of its agreement with the GOT.

In the Evaluation Team's view, performance to date, particularly with regard to CPs 1, 3, and 5, does not warrant release of Tranche 2. We anticipate a period of resident expatriate technical assistance, and an active role of the USAID Mission in working with the GOT to informally modify the export licensing provisions. This would encourage the evolution of a more liberal export regime, which would avoid the problems associated with measuring exportable foodcrop surpluses, and imposition of quantity restrictions.

II. Main Report

A. Export Licensing

The events which influenced the design of the Program were two consecutive bumper maize harvests, 1984 and 1985, which produced crops in excess of Togo's long-term production trend and consumption needs (Cf. Table One - Official Maize Production, Imports, and Export Statistics). At the same time, immediately north of Togo, the populations of the Sahelian countries, Mali, Burkina Faso, and Niger, were suffering from the effects of a serious drought. An objective of donors and African governments alike was to increase interregional trade, as a way of helping Africans to feed other Africans. The Program also reflected understandings between the government, the International Monetary Fund and the World Bank, to reform and liberalize Togo's trade regime.

information channels for information of this kind would probably be of marginal importance. In allocating local currency proceeds, it is probably more important to improve fundamentals in the marketing system, instead of large investments in improving information flows, which may already function efficiently in the traditional marketing system.

Both CP-3 and CP-5 focus on the management of the CFAF local currency generated by the cash transfer. CP-5 requests the GOT to provide USAID with an acceptable proposal for the uses of CFAF counterpart funds. CP-3 stipulates using a portion of the local currency for the provision of credit to farmer groups and export traders through the Caisse Nationale de Credit Agricole (CNCA). In April, 1987, the GOT deposited the CFAF equivalent (1.054 billion) of the first tranche of the cash transfer in an account in the CNCA. As of March, 1988, the concerned government agencies and the CNCA had not proposed a program to USAID for use of these funds. DESA has already received a small allocation, however.

The Evaluation Team recommends that Tranche 1 counterpart funds be used according to the uses indicated in the Grant Agreement. These uses are budget support for rural roads and agricultural statistics, and private sector credit through the CNCA. The Technical Assistance Team will work with concerned agencies of the GOT to develop an acceptable proposal for uses of CFAF counterpart funds from Tranche 1. In light of the situation of the CNCA, however, adjustments should be made in implementation of the local currency program with regard to Tranche 2 funds. At present, CNCA does not represent an adequate implementation mechanism for rural private sector credit programs. Moreover, it does not appear that any other institutional mechanisms exist in Togo that could handle the large amounts of CFAF being generated under the AEPRP. In light of this, the Evaluation Team sees two options for the management of Tranche 2 local currency proceeds. The first would be a cash transfer, emphasizing the policy reforms in the trade regime, but without programming of local currency. The second option would be a cash transfer with policy reforms and local currency programming, but with local currency programming being restricted to rural roads and agricultural statistics. That is, none of the local currency generations of Tranche 2 would be used to carry out a private sector credit program through CNCA. The decisive factor is the lack of existing mechanisms capable of administering rural private sector credit at this time. Of the two options, the Evaluation Team and the Mission prefer option 1.

Option 1 would be particularly acceptable to the GOT and donors, including the IMF, which has been urging the donors to provide their assistance in a form that contributes to reducing the budget and balance of payments gaps. By not programming the local currency proceeds, the AEPRP cash transfer would contribute to deficit reduction on a one-for-one basis. Additionally, not programming the local currency proceeds would reduce the management load of USAID/Lome, and permit the Mission to focus on the policy reforms in the trade regime. Rural private sector credit was, of course, foreseen in the Program design. However, regarding the demand and supply for credit by the private sector in rural areas, it now appears that there may already be sufficient liquidity in the Togolese commercial banks, and the demand for credit is

9 x

Table 1

Togo - Official Corn Production, Imports, and Exports Statistics

(in MT)

Year	Production	Imports	Exports
1988/87	167,540		
1987/86	125,817		
1986/85	181,576	283	5,396
1985/84	221,756	642	4,800
1984/83	144,663	3,064	2,452
1983/82	150,929		
1982/81	150,970	772	
1981/80	138,391	1,021	
1980/79	159,308	539	9
1979/78	138,698	20	110
1978/77	123,731	1,875	3,566
1977/76	94,520		

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Currently, the Third Structural Adjustment Program includes measures to eliminate all import licenses and export licenses for local industrial products. (Cf. Report P-4765-TO, Report and Recommendation of the President of the International Development Association to the Executive Directors on a Proposed Credit of SDR 33 Million to the Republic of Togo for a Third Structural Adjustment Program, March 7, 1988, p. 62-63). The Third Structural Adjustment Program specifically refers to the AID Program as engaging the GOT to liberalize foodcrop exports (Ibid., p. 61). The World Bank has been concerned with rationalizing the operations of Togograin, OPAT, SOTOCO, and the other parastatel agencies which conduct agricultural marketing. Finally, the Program contributes to the goal of economic integration among states with small market size in West Africa. Togo is a country of 3.1 million people, and it has a GDP of $1.2 billion (355.8 CFA billion-1987 estimate).

The Togo-AEPRP approach of working through the private sector to increase food crop exports was one of several options under discussion for increasing exports at the time it was formulated (1985-86). In a sense, the design represented a modest departure from the status-quo. In many respects, it simply legalized what was happening anyway in regional, West African markets for foodcrops. Irrespective of government regulations, private traders arbitraged these markets. Indeed, despite the barriers to trade that governments imposed, there was a regular, widely-known pattern to intra-regional trade in West Africa. An alternative approach for facilitating regional trade, also proposed in 1986 by the French Economic Cooperation to the GOT, was more interventionist than the AEPRP approach. (Cf. Ph. Gernelle and G. D'Andlau, "Projet de regularisation des cours du mais au Togo fonde en partie sur l'exportation," Ministere de l'Agriculture-Ministere des Relations Exterieures Cooperation Developpement-Office National Interprofessionnel des Cereales-Caisse Centrale de Cooperation Economique, March, 1986). The French proposal involved governmental organization and financing of the delivery of surplus Togolese products, maize in particular, on a subsidized basis to drought victims in the Sahel. It should be noted that the French plan reflected the particular production-consumption conditions as they existed in West African coastal and Sahelian states in 1984-85. These conditions have not been repeated since.

In fact, neither the U.S. plan of legalizing private trade in Togolese food crop surpluses, nor the French plan of subsidizing the transfer of these surpluses from surplus to deficit areas, was implemented. Instead, "business as usual" continued in the West African grain trade. The private sector continued to arbitrage regional markets despite governmental barriers, albeit subject to additional, but minor transaction costs due to the illegal, but easily detectable, nature of the activity. The French plan, to transfer grain surpluses from Togo to deficit areas of the Sahel, was not implemented, basically because the conditions of 1984-85 were not repeated. Unlike the AEPRP Program, which granted to the GOT one-half of the 'resource transfer' prior to substantive action regarding foodcrop exports, the French plan was designed to transfer resources to the GOT only as the grain marketing plan was executed. A report prepared for REDSO/WCA, in 1979, concerning the intra-regional grain trade (John R. Moore and Associates, The Potential Role of Nigeria and Ivory Coast in Assisting Sahel Countries Acquire Emergency Food Grains, November, 1979), observed that coastal and Sahelian grain production fluctuations tend to be highly correlated. That is, food crop production levels in the Sahel historically coincided with production along the coast, thereby minimizing the potential for intra-regional, West African grain trade. It appears that the conditions of 1984-85 -- on which both the American and French plans were premised -- were an anomaly indeed.

The feasibility of the French plan was based on an unusually low price of maize, 35,000-45,000 CFAF per ton (the price now is around 100,000 CFAF per ton). Implementation of the U.S. plan was hamstrung by the safeguards that the GOT built into the agreement for "managed trade," despite a U.S. preference for free trade and an elimination of quantity restrictions in interpreting the Agreement. The GOT's final crop estimates for the 1987-88 agricultural year rule out exports by not showing an adequate "exportable surplus," over-and-above Togolese consumption needs. Assuming that market prices in regional, West African trade reflect scarcity values, a test of this conclusion would be to let licensed, law-abiding traders freely undertake arbitrage operations in regional markets. Although GOT technicians are aware that few Togolese products would be exported, due to higher prices in Togo than in surrounding countries, reflecting the short supply situation, the political leadership reportedly is unwilling to launch the country into what it perceives as a risky experiment of turning over the country's food security to market forces.

A number of factors mitigate the pressures on the political leadership to promote foodcrop exports for balance-of-payments reasons. Membership in the franc zone, which insures the free convertibility of the national money, and the success of Togo's other principal exports, phosphates, cotton, coffee, cocoa, and goods in transit, tend to reduce, though they do not eliminate, the pressures to expand foodcrop exports on balance of payments grounds. Given the thinness and volitility of West African food crop markets, their perceived vulnerability to manipulation by speculators, and the differential price levels between the rich and the poor countries within West Africa, many GOT officials believe it is better to err on the side of safety, and have a large supply of staple foodcrops at home by imposing quantity restrictions on exports. To the extent exports are permitted, the Togolese predilection is for managed trade. Reflecting this preference, the AEPRP Cereals Export Liberalization Program was not publicized within the private business community of Togo. While, as noted, several exporters received licenses for 97 tons, others who had received trade inquiries from Europe regarding West African food products, gari and igname, were reportedly not allowed to export these goods when they applied to the government for the export licenses.

The income flows resulting from a decision to implement aggressively food exports by the private sector would have far-reaching ramifications for established public-private relationships in Togo's economy. Current agricultural exports, consisting primarily of cotton, coffee, and cocoa, are marketed through official channels of OPAT, insuring the government of the trading profits. Under the Program, the profits from the export of food crops would be returned to the private sector. Government officials argue that, since, politically, the government is the guarantor of "food security," private sector food exports would seem to expose the government to the risk of having to import food, using official foreign exchange, should shortfalls develop as the result of private exports. At the same time, the private sector would receive the proceeds of food exports. The asymmetry in the benefits and risks for government and the private sector from the Program perhaps explains, in part, the lack of incentives for the GOT to implement the Program aggressively. The fact that Togo has a de facto, liberal trade regime may also explain why there is so little private sector interest.

Since CP-1 of the Program Grant Agreement foresaw (a) the contingency of not having food crop surpluses for exports, and (b) that this contingency would be grounds to not issue export licenses to private exporters, GOT officials told the evaluation team that they believe their government is in "full compliance" with the Agreement, and deserves release of the second tranche of the AEPRP. GOT officials cite Presidential Decree 86-210, issued on November 26, 1986, as the basis for the system they have established to grant export licenses. The high, ministerial level participation in the export granting process, provided for in Decree 86-210, is, however, an indicator of the sensitive nature of the subject for the GOT. At the least, it is clear that the GOT never viewed the Program as a minor regulatory change, or as an oversight that needed to be corrected in an otherwise quantity-restriction-free trade regime. In conclusion, the trade regime regarding foodcrop exports is a matter of concern to the highest levels of the GOT.

Lack of working level bureaucratic intiative in the GOT in support of the reforms tends to explain why the complementary measures in the Program, especially in the area of marketing credit, were not implemented. A leadership vacuum tends to exist in so far as the reform measures are concerned in the GOT. Perhaps the reason for the lack of interest in public policy reform in the export liberalization area is the fact that, in reality, regional trade with Togo's neighboring countries in cereals, roots and tubers, and grain legumes, in their raw and processed forms, already is free, subject to customs and the informal "parafiscal" payments that have to be made to circumvent the official ban on exports. Surprisingly, according to a recent National Bureau of Economic Research report, "the policy and theoretical literatures on trade liberalization policies have most times tended to ignore the fiscal role of tariffs, either official or 'parafiscal', in the developing nations" (NBER 2502, p. 30). A market source surmised that an export ban could never be effective in Togo since it would reduce customs revenues, and that serious enforcement would rapidly dry up the "parafiscal" payments as well. Customs duties on cereals exports are 10% (droit de sortie), plus another 5-8% in miscellaneous export taxes. According to a market source, exporters must make only very modest informal payments, of approximately 200 CFAF per sack of 100 kgs, to be able to export corn from Togo to Benin and Ghana. Given the minor costs of exporting foodcrops, and the controversial nature of the Program due to the public, "food security" objectives of the Government, the incentive is weak for the private sector to vigorously lobby the government to implement the intent of Decree 86-210, if indeed they ever heard of it.

Decree No. 86-210 officially assigned responsibility for implementation of the Program to two specialized committees of the GOT. Four ministers (Commerce, Rural Development, Interior, and Rural Improvements), constituting the National Commission for the Attribution of Export Licenses, were authorized to act on export license applicationsfrom potential exporters. A Technical Committee for Cereals Exports, including rerpresentatives from the concerned ministries, and other organizations (Chamber of Commerce, Togograin, Union Nationale des Femmes Togolaises, and the Caisse Nationale du Credit Agricole), would monitor the food supply situation, and determine the quantities that could be exported without causing shortages and inflation. Decree 86-210 did not go beyond making the ex officio assignments for committee members. The committees themselves were to determine the procedures and methods for insuring the implementation of the major provisions of the Program. That is, the procedures of the National Commission for processing applications from the private sector would affect whether the licensing system was "fair and open."

The method that the Technical Committee used would establish the quantity restrictions setting the levels of permissible exports of foodcrops. Decree 86-210 assigned lead responsibility for implementing the Program to the ministers who made up the National Commission, whose president was the Minister of Commerce. Leadership from this quarter reportedly was compromised by the fact that the Minister of Commerce headed the organization directly responsible for administering the licensing system. The Technical Committee was a working level group. Its estimates of "exportable surplus" had to be approved by the Council of Ministers before any licenses could be issued by the National Commission.

The procedures for licensing exports were developed only after the first crop year of the Program, 1986-87, was well-underway. No foodcrop export licenses were issued in 1986-87. In 1987-88, a few licenses were issued, for a total of 97 tons. All these products are rootcrops, rather than cereals or maize, the targeted commodity under the Program. The numbers and tonnage of licenses are far less than calculations of "exportable surplus" of the GOT. By any standard, the licenses issued have been token. It is not known how many applications from private traders were received by the National Commission. The Commission apparently has made no effort to publicize the Program. With only three licenses issued, it was inevitable that charges of favoritism would arise--as they have. The licensing system has not been "open and fair," as called for in CP-1. Given the low level of official foodcrop exports covered in the three licenses, the "open and fair" provision has become a secondary issue.

Table Two shows "Principal Food Crops Production - Togo, 1979-80 - 1987-88". It will be noted that, from 1986-87 to 1987-88, the volume of

15 x

Table Two

Principal Food Crops Production - Togo

1979-80 - 1987-8

AGRICULTURAL CAMPAIGN: / PRODUCTS:	1979-80	1980-81	1981-82	1982-83	1983-84	1984-85	1985-86	1986-87	1987-88
Corn	159,308	138,391	150,970	150,929	144,663	221,756	181,576	125,817	167,540
Sorghum-Millet	136,278	137,529	120,356	136,087	130,756	195,240	168,883	212,938	168,210
Rice (Paddy)	14,642	14,700	14,512	16,304	10,033	17,760	15,185	18,898	23,155
Groundnuts	24,122	24,488	27,641	17,611	15,916	23,080	31,466	34,802	31,770
Beans	16,616	15,081	19,828	26,500	20,643	32,971	26,558	23,084	35,680
Cassava	438,535	407,858	372,078	366,874	345,172	444,407	474,365	410,722	685,700a/
Igname	482,872	483,901	537,815	471,545	383,087	341,926	364,437	409,386	-
TOTAL:	1,172,373	1,221,948	1,243,200	1,185,850	1,050,270	1,277,140	1,262,490	1,235,646	1,112,055
Percent Change		+4.2%	+2%	-4.6%	-11.4%	+21.6%	-1%	-2%	-10%

a/ Includes igname.

Source: DESA

major foodcrop production fell 10%, from 1,235,646 to 1,112,055 tons, while consumption increased with an annual population growth of near 3%. Table Three presents the GOT's final calculations of "exportable surplus" (or deficit) for 1987-88, which was the first full operational year of the Program. The method that DESA uses for the calculation of "exportable surplus" is to estimate total production of major foodcrops, and then to subtract seed and physical consumption requirements. Consumption requirements are based on population, using a constant growth rate, and consumption parameters of basic foodcrop commodities, which differ by region of the country.

While Table Three shows small exportable surpluses for major foodcrops besides rice, given the modest size of the surpluses, the GOT is said to lack sufficient confidence in the data to risk permitting exports. DESA's latest technical recommendation to the government is not to authorize any export licenses due to the margin of error, 5-10%, that the DESA statisticians believe the production estimates contain. DESA estimates that Togolese food crop production is growing at a rate of 1.5% per annum, while the consumer population has been growing at a 2.9% rate. Given these parameters, the food security philosophy, coupled with the physical planning methodology, means that the "export window" for Togolese foodcrops will be closed by rising quantity restrictions in the near- to medium-term. It is the Evaluation Team's view, the "physical planning" methodology adopted by the Technical Committee to determine the quantity restrictions on exports is biased in its conception against licensing exports. It is therefore antagonistic to the export-oriented goals of the Program.

In fact, the Government does not rely solely on the "physical quantity" methodology for its food security planning. Government policy is to have an implicit grain price stabilization policy, with floor (farmer) and ceiling (consumer) prices of CFAF 50 per kg. and CFAF 150 per kg., respectively, for the major grains (maize, millet, sorghum). The policy instruments that the GOT manipulates to maintain prices within the 50-150 CFAF/kg. band are the rather passive export ban, and a more active domestic purchasing and sales mechanism, through Togograin. More direct controls also are used at the local level, such as jawboning the private trade to keep consumer prices down. Use by the GOT of all these instruments to stabilize grain prices should not be interpreted as suggesting that the GOT is fully successful in keeping prices within the 50-150 band.

DESA management has suggested making use of the AEPRP technical assistance to improve the accuracy of the physical planning methodology for estimating exportable surpluses. While accuracy is always desirable, the real problem is that the physical planning methodology omits consideration of how the Togolese agricultural sector could produce, export, and import, according to its comparative advantage, and to maximize national income. The methodology also fails to address the phenomenon of consumer substitution among foodcrops, in response to price. By assuming static consumption needs, the methodology does not

Table Three

GOT Estimates of Exportable Surplus (Deficit) in 1987-88

	November '87 Production Forecast	March '88 Final Production Estimate	Seeds	"Available Production	Physcial Consumption Requirement	Tradeable Surplus (or deficit)
Corn	145,100	167,540	4,100	163,440	162,100	+ 1,340
Sorghum-Millet	212,500	168,210	3,000	165,210	160,000	+ 5,210
Rice (Paddy)	18,500	23,155	2,500	20,655	31,700	- 11,045
Groundnuts	32,500	31,770	2,500	29,270	27,300	+ 1,970
Beans	21,900	35,680	3,500	32,180	21,500	+ 10,680
Roots and Tubers	750,000	685,700	15,000	670,700	650,000	+ 20,700

Source: DESA

calculate the adjustments that consumers make in their consumption baskets, in response to changing food prices. The Technical Assistance Team should attempt to introduce the concepts of comparative advantage and consumer substitution, and national income, rather than simply aiming for improved accuracy in the physical planning methodology. While the physical planning methodology probably will continue to be used in Togo, sole dependence on it should be supplemented by other, suggested approaches from Western economics.

The GOT did not view the intent of the AEPRP Program Grant Agreement as being the establishment of a free trade regime in foodcrops, but rather to address special situations that arose under Togo's "managed trade" regime. As with the maize harvests of 1984-85, the Togolese side tends to view the Program as facilitating specific transactions, viz., divesting the country of windfall, burdensome surpluses, rather than systemic liberalization of the trade regime. The U.S. side tends to interpret the Program Assistance Grant Agreement as part of a process of movement towards the ultimate objective of free trade.

The objectives of the Cereals Export Liberalization Program are shared with the Togo-World Bank Structural Adjustment Program. Non-performance in terms of the former may place in jeopardy the larger economic program with the World Bank and the IMF, along with the second tranche of the AEPRP. In light of the important stakes, what explains the GOT's reluctance to issue export licenses for foodcrops to the private sector, particularly if (a) free trade is occuring anyway, and (b) the volume exported would be restricted by the high relative prices for Togolese foodcrops in West African markets? The answer to this question must be conjectural, since the Evaluation Team did not have direct access to principal decision-makers in the GOT.

It appears that a combination of (i) ideology regarding food security, (ii) pragmatic considerations regarding controls over exports, and (iii) possibly also the protection of the traditional, labor-intensive grain marketing systems, has deterred GOT political leaders from vigorously implementing the Cereals Export Liberalization Program. In general, an ambiguous public policy--in this case, the discrepancy that exists in Togo between the real and the legal trade regime--may occur when a government is pursuing irreconcilable objectives. While the GOT agreed to the Program, it had serious reservations about free trade in foodcrop exports, giving priority instead to preserving Togo's self-sufficiency. It was feared that strategic groups, such as urban residents, civil servants, and the military, would react negatively if food prices increased, due to private exports. As a result, the GOT determined that export volumes had to be monitored and controlled. The fact that much of Togo's trade is illegal, or "informal," tends to restrict it to physical distribution channels which, by their nature, limit volume. Unpaved dirt tracks, leading to the Ghana, Benin, and Burkina Faso borders, reportedly are the major conduits of the illegal trade. The illegal trade is restricted from using the modern port of Lome, where efficient, bulk handling methods could be employed. The resulting constriction of exports appears purposive on the government's part.

The difficulty of obtaining export licenses, contributing to the continuing partial ban on private sector exports, also serves as a disincentive for the modern, high volume and efficient grain trade, to expand its activitities in Togo. The modern grain trade already is present in Togo, as wheat and rice importers, millers, and distributors. It is not currently active in the areas of coarse grains, roots and tubers, or grain legumes. The traditional industry could not compete with the efficient bulk-handling techniques of the modern grain trade, were the latter to expand in the Togolese market. Due to its small size, Togo offers limited possibility for market penetration by modern firms, except as a transit point to the major, target markets of Nigeria, Ghana, and, secondarily, Mali, Burkina Faso, Niger, and Benin. Since modern firms, with substantial capital investments, insist on having clear legal sanction to conduct their activities, the Togolese export ban is sufficient to keep them from expanding in Togo, using the country as a base for regional trade, no matter what the real practices of local, indigenous traders.

The reluctance of the GOT to bring the legal trade regime into line with evidence that a relatively free trade regime already exists thus serves to protect the traditional, female-dominated, labor-intensive grain trade, which is the source of livelihood for thousands of grain traders, porters, and guardians, including many males. In Togo, petty trading is a safety net for the poor, and even a national pastime. Certain market women are reputed to have political clout in government circles. One may conjecture that their influence may be reflected in the maintenance of the export ban, through cumbersome licensing procedures, that impacts only the modern firms whose expansion in Togo could disrupt the existing, traditional foodcrop marketing system.

Segments of the Togolese business community, having a possible interest in food crop exports, include:

1) thousands of women grain sellers (femmes revendeuses), who constitute the retail and wholesale levels of the domestic "grain trade" (the term, "grain trade" is intended to include the commodities of gari, tapioca, beans and groundnuts)
2) hundreds of private companies that are registered to engage in import-export; and,
3) non-Togolese, African traders.

Each of these groups, their markets, and their reactions to the Program are described below.

1) Women Grain Sellers

The women grain sellers are formally registered as grain traders with the government. This is their profession, as it appears on their national identity cards. They also are organized into associations des femmes revendeuses, which have formal contacts with government officials. The grain trade in Togo appears intensely individualistic. For the most part, the women grain sellers are individual operators, bearing the risks of trading, and using their own or joint-venture capital. For transportation, they rent trucking services from private (male) operators. Grain is usually stored nearby the selling locations in municipal marketplaces. Conducting foodcrop marketing outside of officially-designated markets, a practice held to be prejudicial to the interests of farmers and which permits the private sector to avoid market taxes, is illegal in Togo. The largest woman grain trader whom we met had an inventory of several hundred sacks, valued at approximately five-thousand dollars. The average woman grain trader had a net worth of perhaps several hundred dollars, with no apparent access to credit. The women grain sellers provide credit until payday, to trustworthy customers. Turnover of stock ranges from overnight to several months, if favorable price movements are anticipated.

The women grain sellers in the market said it is forbidden to export foodcrops. They tend to describe customs enforcment of the foodcrop export ban as a real risk to them. Should they export, by proceding illicitly across Togo's long and porous borders, they insist that they would risk the "confiscation" of their goods by customs agents. Despite the element of risk, and verbal protests to the contrary, evidence of various types suggests that the network of women grain traders plays a major role in foodcrop exports, as they play in marketing generally in Togo. It is believed, but can be confirmed only anecdotically, that the more important women grain sellers participate in importing and exporting through arms-length transactions. The women have the business skills and acumen to engage in regional trade. Sacks of imported beans and groundnuts were observed in their storage areas. Imported maize reportedly appears in the market in early Summer. If the women grain traders are capable of importing, they should be equally capable of exporting.

Despite the women grain traders' claims that exporting is illegal, the customs regulations of Togo recognize the possiblity of foodcrop exports. Exported foodcrops are among dutiable items listed in the *Tarif Officiel des Douanes*, which shows the official customs rates. Export duties for foodcrops range from exemptions for bananas, pineapples, mangoes, avocados; 5% duties for exports of citrus fruits; 10% for rootcrops, maize, rice, millet and sorghum. Since export duties are foreseen for targeted commodities under the Program, the reality of the "ban" on exports of these commodities comes into question. An ECOWAS study of trade in West Africa points out that "while recorded trade in maize is low," "unrecorded trade is 'significant'." (quoted in Elliot Berg Associates, *Intra-African Trade and Economic Integration, Volume I*, August, 1985, p. 339).

In interviews, the women grain traders alluded to the fact that intra-regional arbitrage in foodcrops was commonplace, and that it follows a traditional pattern of price differences. Current coarse grain prices appear to be higher in Togo than in the surrounding countries. Indeed, imported maize appears on the Togo market openly and regularly each year. Yellow "Lagos" maize, believed to be from the U.S. or Zimbabwe, regularly appears in the lean period, from January to July, selling at a 25% discount below the local white corn, which the African consumer prefers. In contrast to cereals, roots and tubers, including the biproducts of gari and tapioca (starch), seem to be more abundant and cheaper in Togo than in neighboring countries. Several women grain traders stated that the export ban on foodcrops was resulting in economic losses of cassava flour, which is in seasonal surplus, but perishable under Togolese conditions.

2) Export-Import Companies

Due to the sizeable transit trade in internationally imported goods with neighboring countries, hundreds of private import-export companies exist in Togo. Most are small, owner-managed firms. As an example of the vitality of this sector, approximately 50 of these private companies are formed, and duly registered by the Chamber of Commerce, each month (Cf. Bulletin mensuel).

The export-import companies must be more cautious than the women grain sellers in observing the GOT's trade regulations. They have legal businesses to protect, bank accounts, papertrails, addresses, reducing their flexibility in circumventing trade barriers. For many of them, exporting food crops illegally is problematical, in light of the government ban.

Should the government begin according export licenses for food crops, a number of these companies would request them. Though not currently active as foodcrop exporters, the private firms nevertheless have information about demand in regional and European markets for Togolese food crop products. This seems particularly true of companies operating in both Togo and Ghana. The Ghanaian government has actively promoted foodcrop exports through private commercial channels.

3) Other African Traders

At times when millet and sorghum are in short-supply in the Sahel, and Togolese prices are competitive, Nigerian (Hausa) and Voltaic traders buy in Togolese markets for resale in the Sahel. This is a traditional commerce that appears to be unaffected by current regulatory developments.

Whether the trading community will export Togolese food crops through the licensing procedures of the Program will depend on a number of factors. Even the significance of licensing is unclear. Official sources tend to portray licensing as opening up a new area of activity, food crop exports, to the private sector. Another interpretation would be that, since smuggling along Togo's uncontrolled borders is common, licensing is tantamount to introducing regulation to a previously unrestricted area of economic activity. Under these circumstances, the reaction of the private sector to a regulatory change is difficult to guage. It would depend, *inter alia*, on complementary enforcement measures against non-compliance with the licensing procedures through smuggling.

The success of the Program depends on its timely administration by the GOT. Another major problem that the private sector faces with the licensing system is delays in issuing the licenses. Trade opportunities can easily disappear during the time needed to obtain approval of a license. To prevent missed opportunities by the private sector, the GOT might consider licensing traders (commercants agrees) rather than specific transactions. If the GOT seriously wants to promote food crop exports, it might consider granting annual licenses to dealers. License-holders would be allowed to export, possibly within limits (e.g. 500 tons per transaction), and subject to complying with banking and tax laws. A condition for an unrestricted export license might be that the dealer maintain a bank account in Togo, surrender the proceeds of export earnings, respect the tax laws, and so forth. Additional conditions might relate to the maximum size of single export transactions, provisions of reporting to the government monthly concerning total exports and unusually large export deliveries. Willingness of the government to license dealers for the export trade, rather than individual transactions, would be a significant step towards the privatization of trade. At present, revenues of all legal exports of agricultural commodities (cotton, coffee, cocoa), through OPAT, accrue to the government. Legalization of private sector exports would mean that export receipts would belong to the private sector. Nevertheless, they would be indirectly available to government (through surrender-of-proceeds provisions of the Central Bank, direct and indirect taxes, etc.). At the same time, the perceived loss of official revenues might explain government reluctance to implement the Program. This also might be offset by perceived willingness of the private sector to import food crops at times of shortfall in Togo.

B. GOT Food and Agriculture Statistics as related to Program Implementation

This section provides an indepth examination of the GOT's agricultural statistics system, including analysis, collection, publication, and dissemination functions, as related to implementation of the Program. It also addresses the GOT's methodology for calculating "exportable surplus," the quality and timeliness of its statistical data, and the publication of agricultural price and production data for use by private economic actors.

The Direction des Enquetes et Statistiques Agricoles, (DESA), Ministere du Developpement Rural, issues food crop production statistics (Enquete Agricole, Rendements des Principales Cultures Vivrieres, Campaigne Agricole); and data regarding prices received by producers (Prix a la Production des Principaux Produits Agricoles sur les Marches Ruraux). The Direction de la Statistique Generale, Ministere du Plan, is responsible for issuing market prices for food crops paid by consumers. The Ministry of Commerce, Direction de Commerce Exterieur, handles the country's trade statistics.

For the food crop production statistics, since 1982, DESA has collected yield and area data from 1,200 farmers each year, according to an FAO methodology of sampling and physical measurement. Since 1975, DESA also has collected prices received by producers for all major food crops. The collection system is well-developed, with 82 markets in Togo's 5 regions being covered. Enumerators weigh physical amounts being traded to convert them from local volume measures into the metric system.

23x

The difference between DESA's producer market prices, on the one hand, and consumer market prices, issued by the Direction de la Statistique Generale, on the other, provides an estimate of the value-added by the marketing sector. Besides indicating trading margins, it also serves as a check on the accuracy of the two statistical series. Generally speaking, the relation between producer and consumer market price series appear to be consistent.

DESA produced two separate series of crop production estimates for the 1987-88 crop year. The production forecast of November, 1987, was followed in March, 1988, by final production estimates. The November forecast, coming at harvestime of many eligible commodities, provided the National Commission with timely information for issuing export licenses. (Cf. Programme de Liberalisation de l'Exportation des Cereales et Autres Produits Vivriers, Resultats de la Prevision de Recoltes, Campagne 1987-1988, Document de Travail du Comite Technique, Novembre, 1987). To assess the accuracy of DESA's estimates, the March 1988 final production estimates were subtracted from the November 1987 forecasts (as shown in Table 3). The following results were obtained:

Maize	+22,440
Sorghum-Millet	-44,290
Rice	+ 4,655
Groundnuts	-730
Beans	+13,780
Roots & Tubers	-64,300
ABSOLUTE DIFFERENCE	150,195

For all major foodcrops, the November forecast differed from the final March estimate by 13.5% (150,195/1,112,055). Due primarily to the estimated drops in sorghum-millet and root and tuber production, in early March DESA rescinded its previous recommendation to accord export licenses.

DESA releases weekly producer price data to the press and broadcast media. Unlike price data, production forecasts remain restricted to official use by the government. Particular sensitivity is attached to dissemination of information that show production shortfalls. Government officials believe that private traders could speculate on such information, driving up inflation. The success of the export Program also depends on knowing foreign prices. DESA, however, lacks information about prices in West African or international markets, even internally. It is difficult to appraise the value of government-provided information to the private grain trade. The grain trade has its own means of knowing about production and price developments in Togo and West African markets.

The motivating factor of the Program in 1984-85 was to facilitate export surplus maize production. However, the Program's long-term viability depended on delinking it from maize. Market conditions for maize, or any single commodity, are too variable to guarantee the feasibility of exports in a short timeframe (such as the original 2-year period of the AEPRP). Furthermore, a maize export campaign probably would not have won support under the AEPRP program. The intent of AEPRP was to support economic policy reform, and not merely to encourage single transactions based on windfall events (e.g. good rainfall). In the design of the Program, commodity eligibility was expanded to include all cereals. During implementation, the GOT has gone a step further and expanded commodity eligiblity to include rootcrops and grain legumes. The Mission and the Evaluation Team agree with the GOT's broad interpretation of commodity eligibility, and assume that AID/W and REDSO/WCA have similar views.

Togolese authorities and USAID also need to address the problem of the inconsistency between public and private decision-rules under the Program. The problem is due to the fact that the public decision-rule now in effect regarding "exportable surplus" is based on quantity, whereas the private sector traders respond to international price differences. While there will be a tendency for Togolese prices to be competitive abroad at times of "surplus," there is no guarantee that, simply because the government finds that an exportable surplus exists,the private sector simultaneously will find it profitable to export. This depends, at the least, on price differences between Togo and destination markets. In its "managed trade" policy, the GOT should begin employing decision-rules based on prices rather than physical volumes. Togograin already has used the 50-150 CFAF per kilogram range as the appropriate band for domestic cereals prices. Export licensing needs to be coordinated with Togograin's management of the food security stocks.

The Togolese consumer appears to be price-conscious and flexible in the basket of foodcrops that s/he consumes. The current physical planning approach to determining "exportable surplus" does not appear to take into account consumer substitution among food commodities in response to changes in relative prices. The Technical Committee report assumes a completely inelastic demand for all major commodities. If, for example, the maize price rises, low-income consumers will substitute cheaper cassava products for maize in their diet. Thus, as prices rise, the quantity of maize needed in the country would decrease, and "exportable surplus" would increase. Allowing for substitution in consumption of food commodities would increase agriculture's contribution to national income.

Among the factors affecting the competitiveness of Togolese foodcrop exports are exchange rates, export taxes, and commodity price levels. Each, in turn, is discussed below.

Exchange rates: Special problems exist for trade with Ghana and Nigeria, since they are not members of the franc zone. Aside from banking fees for transferring funds from one currency zone to another, recent exchange rate movements raise the cost of Togolese exports. The Ghanaian cedi has stabilized in recent months, but the Nigerian naira has continued to fall against the CFAF, making Togolese exports less competitive. Unfortunately, the other countries in the franc zone, which are likely trading partners of Togo (Niger, Mali, Burkina Faso, and Benin) have lower incomes than Ghana and particularly Nigeria.

25x

Export taxes: Togo's export promotion campaign has not been accompanied by the modification of customs laws, which currently provide for export duties on maize and other cereals of 10%, plus miscellaneous duties and fees amounting to 5-8%. This raises Togolese FOB export prices by 15-18% above domestic levels.

Commodity price levels: Table Four arrays current (February, 1988) cash prices (CFAF/kg) for white maize, in Lome, with prices in other West African markets, and the U.S. CIF Lome price for No. 2 yellow maize, a substitute for West African white maize. Similarly, Table Five shows sorghum prices.

Table Four

($1.00 = 285 CFA)

March 1988 - White Maize Prices (CFAF/Kg.)

Lome wholesale (Central market)	130
U.S. CAF Lome (yellow no. 2)	37
Ghana (official exchange rate)	120
Ghana (parallel exchange rate)	81
Cotonou retail	135
Abidjan retail	150

Table Five

($1.00 = 285 CFA)

March 1988 - Sorghum Prices (CFAF/Kg.)

Lome wholesale (Central market)	100
U.S. CAF Lome (yellow no. 2)	31
Cotonou retail	100
Abidjan retail	150
Burkina official consumer	80
Burkina OFNACER purchase	50
Niamey, Niger retail	75
Zinder-Marady, Niger, retail	68

To determine the competitiveness of Togolese exports, Lome retail prices would have to be adjusted for a) wholesale level, b) export duties, c) transport and handling costs and d) import duties at the destination market. The price data tend to suggest that Togolese maize and sorghum exports probably would not be competitive in most West African markets. In the Evaluation Team's view, lack of competitiveness should not serve as grounds for the GOT to withold export licenses from the private sector, however. It always is possible that real export opportunities exist that are only known to the private trade. Furthermore, costs and prices at home and in the destination markets are subject to rapid change. Rather than licensing transactions, it would be preferable to have an export regime that licenses traders. The traders then would be allowed to export, possibly within overall volume limits, subject to compliance with the relevant banking and tax laws. Such a system would allow exports to procede on the basis of prices rather than quantity restrictions.

U.S. Coarse Grain Exports to West African Markets: Tables Four and Five also indicate the current price advantage that U.S. commercial exports enjoy in West African coarse grain markets, due to the dollar devaluation, efficiency of U.S. producers, etc. This suggests that, in the near-term, one of the major dynamic factors in West African grain markets may be a gain in the U.S. market share. A proviso is whether U.S. suppliers reorient their marketing strategy for coarse grains (maize, millet, sorghum) sales in Africa away from animal feed, and towards human consumption. On the importers' side, it seems unlikely that the other West African countries will follow Nigeria's lead in banning grain imports. Maize currently enters Togo without duty, and other grains, including sorghum and millet, are subject to a 4% tariff. West African governments currently seem inclined to increase protection for grain production. However, with conceivable protection levels, possibly up to 10%, West African grain, including Togolese exports, will have great difficulty in competing with U.S. exports.

C. Agricultural Credit Policy in Togo

General Overview of the Monetary System

Togo is a member of the West African Monetary Union (WAMU) and as such is served by the central banking facilities of the BCEAO "Banque Centrale des Etats de l'Afrique de l'Ouest". Control over monetary policy is exercised through the BCEAO, which maintains fixed credit ceilings. National credit ceilings are fixed, however, based on three parameters (1) net reserves, (2) desired growth in GDP and (3) a limit of 20% of total revenues on credit extended by the Central Bank to a members' government. The BCEAO also fixes interest rates.

The common currency of the zone is referred to as the Franc CFA. The French Treasury guarantees fixed and free convertibility for all members of the zone at 1 Franc CFA = .02 French Francs, acting as a lender of last resort. To limit the extent of liabilities to the French Treasury, strict measures go into effect when net reserves of the BCEAO with the Treasury become negative. Those measures curtail the money supply and should result in the correction of the negative balance of payments situation in the zone. The measures become more severe as the negative reserve position increases. Once an overdraft position of 20 percent of the BCEAO's sight liabilities is reached, a freeze on long and medium term lending takes effect, as well as restrictions on BCEAO participation in the capital of development banks. An emergency meeting of the Board of Directors is then called to take any further necessary corrective actions.

27x

The system is designed to work as a modified gold system, where trade and capital flows serve to expand or contract the money supply, and as a result are self-correcting through the effect of money supply on prices and the levels of economic activity. When such systems have worked they have done so only over lengthy periods of time and have often led to accumulated maladjustments and severe corrections in the form of deep recessions. Within a homogenous region, where labor and capital can both move freely, a fixed exchange rate as that of the Franc zone, is usually thought to encourage trade and economic integration. This is inspite of the negative effects it will have on some disfavored regions. Where labor or capital cannot move across regional boundaries and, where for political reasons, balanced regional growth may be desired, the benefits of a single currency area are more open to question.

Most observers will agree that the fixed parity with the French Franc has made the Franc zone countries safer areas to invest in, when compared with the rest of Africa, with its inflation-prone money systems. Most will also point to the problems of regional imbalances. The slowness of the money supply system to affect trade competition and balance of payments difficulties is also a serious problem. In a world where both real rates of exchange and commodity prices -- on which a large percent of WAMU trade is based -- are changing rapidly, the tendancy of the system to adjust slowly can be a disadvantage.

Failures of the system, whereby balance of payments deficits should lead to reduced monetary growth, but which are circumvented through uncontrolled lending, have caused the system to function less well than it might. The system has a strong political and business clientele among investors in West Africa, and is more than likely to continue, albeit perhaps with reforms of the type discussed.

On the positive side, the French -- who are the majority of investors in the zone -- and to a lesser extent non-French investors, seem married to the system because of the assurance it gives them as to their ability to repatriate their capital. In the last few years, even rumors of devaluation of the CFAF have led to massive capital outflows. These, however, appear to be occuring for many other reasons not the least of which is the deterioration in the terms of trade.

Togo's main exports are phosphate ores followed by cotton, cocoa, and coffee. Prices for all of Togo's major exports are quoted and payments made in dollars. The failure of the CFAF to be devalued in the face of a falling dollar and deteriorating commodity terms of trade has hurt Togo in respect to other producers of these commodities, and has hurt nascent industrial and manufacturing activity in the country.

One may question, however, how elastic production of these commodities is over the short term, or how well Togolese production could respond to a devaluation. A rapid reversal of either the depreciating dollar, or falling commodity prices, would remove much of the impetus to reform the system. On the other hand a long term downtrend in these prices would, and is, seriously hurting Togo's competitive position with respect to non-West African competitors.

Money supply in Togo expanded rapidly between 1978 and 1982 at a rate of almost 17 percent per annum, before slowing to an 8 percent per annum rate between 1983 and 1986, when more restrictive measures were put into place under a Structural Adjustment Program. Quasi-money (savings and time deposits) grew at an even more rapid pace, increasing at between 20 and 30 percent per annum over the period. Much of the expansion in quasi-money went to finance parastatal activities undertaken in the late 1979's, lending which is uncontrolled under current regulation of the BCEAO, as discussed above. Since much of this investment was ill conceived or poorly managed, it did not lead to the economic growth anticipated, and, consequently, left the government with significant arrears on foreign loans and non-performing assets in the banking system. These deflationary tendencies offset the opposite tendency of the rapid monetary expansion, leaving Togo with a moderate rate of inflation of 6.5 percent for the period 1980-86) but a significantly deteriorated foreign reserve and debt situation.

Togo's banking system is more developed than that of many African countries with 56 bank offices of 9 major private and development banks. On average, nationally, one bank covers 53,000 inhabitants, or twice the coverage of the Kenyan banking system, three time that of Somalia, and six times that of Mali.

In spite of a significant deterioration in the credit portfolio of the banking system between 1981 and 1984, Togo's banking and credit system appears in much better shape today than that of some of its West African neighbors. Indeed, the private banking sector finds itself in a high liquidity position. Both poor government loans and the general economic downturn during the period affected, however, the quality of commercial loans in Togo. Under the auspices of several Structural Adjustment Programs, the GOT has taken steps to privatize and close poorly performing parastatals and consolidate and repay debt of those remaining open. This has helped stem the crisis, as have corrective steps within the banking sector itself. Fund placement has moved to less risky WAMU money market instruments, away from industrial, agricultural and commercial loans, and bank reserves against non-performing loans have been expanded.

In addition to the formal banking sector, Togo has an active Credit Union movement (COOPEC), as well as the more traditional forms of West African savings clubs (adkavi, tontine, caisse collective, yes-yes).

Agricultural Credit

Despite a 1986 National Credit Committee goal of 15 percent for all lending to agriculture and 2 percent to livestock and fisheries, agricultural credit, including marketing, still remains significantly below these levels. Two reasons play a role in the aversion of the banking sector to a more active role in the agricultural sector, the foremost being, the risky nature and the generally small size of these loans, while the lack of effective sanctions for non-compliance with the

National Credit Committee goals gives the banks little additional incentive to undertake them. Total credit to the primary sector in 1986 totaled only 1.7 percent of all credit. Short term credit in Togo is heavily concentrated in the commercial sector, which accounts for a large proportion of total medium credit as well. Agriculture shows a very small share in short term credit but a larger participation in longer term credits. In both cases, however, the share of agriculture in credit extended has decreased in recent years.

While the Togolese banking system has advanced only limited amount of funds to agriculture, the role of public sector investment in agriculture is important. About a third of the Government's investment program for the period 1981 - 1986 was for agriculture, about 8 times the amount of institutional credit allocated to the primary sector. This represents an increase in both quantity and share, as government investment priorities have shifted to allow the private sector to take a larger role in manufacturing and industry, while trying to provide the necessary road, extension, input, and support services for domestic agriculture.

Caisse Nationale de Credit Agricole (CNCA)

Founded in 1967, Togo's National Agricultural Bank the Caisse Nationale de Credit Agricole (CNCA) is the largest provider of credit in the agricultural sector, accounting for about 27 percent of formal credit, the quasi-totality of bank credit going to the sector. The CNCA operates 18 permanent branches (9 regional offices and 9 local branches) and 23 periodic (mobile) offices. Fifteen of the permanent branches and all of the periodic offices are located outside of Lome. Total bank personnel of 285 persons were divided as follows:

Distribution of CNCA Staff

Total	of which : Lome	external	middle : management	auxiliary :	high level
281	84	197	166	18	97

The CNCA both accepts savings deposits and grants credit. Savings facilities are not well used by the rural communities, where family savings are usually held with a credit union or informal savings clubs. The small amount of savings mobilized by these households necessitates a saving vehicle in proximity to them, with limited formalities in relation to handling their account. Savings accounts which accounted for 67 percent of bank funds in 1986 have shown a tendency to grow in recent years, an encouraging trend in terms of developing a healthy stable fund base from which to do business. On the other hand the CNCA has been burdened with the management of salary accounts to upcountry GOT civil servants who usually withdraw their salaries immediately after they are deposited.

For its loan activity the CNCA relies on its extensive branch network as well as coordinating its operations with the DRDR, SOTOCO and certain projects in regions where they operate. At the GTZ project in Sokode, DRDR and GTZ made farm loans from a special project fund. They then seek to replenish the fund by borrowing from the CNCA. This process is much quicker than requiring the farmer to apply to the CNCA directly and provides the CNCA with guarantees and loan servicing capacity it would not otherwise have. It is this network of rural contacts which is the principal strength of the CNCA.

The CNCA's current difficulties, which have brought it to the brink of collapse, stem from a number of factors. The recent financial difficulties had begun as early as 1979 with the failure and closure of the regional development authorities, SORAD (Societes Regionales d'Amenagement et de Developpement-SORAD). SORAD, a state agency, borrowed money from the CNCA to lend to farmers. By forcing the CNCA to absorb losses on SORAD loans, the government caused a significant deterioration in the CNCA balance sheet, which in view of further difficulties which lay ahead, were to make its situation more precarious than its internal problems warranted.

The government closed SORAD in 1978. SORAD's activities as intermediary between CNCA and the farming population, agricultural extension, and distribution of agricultural input supplies, were divided among SOTOCO, the DRDR and regional projects. SORAD's marketing functions were dropped in favor of private marketing or marketing by farmer collectives, "groupements", which receive technical aid from the extension and cooperative services.

Problems which led to the failure of SORAD and the low repayment rate on its loans seem to have been to a large extent resolved. The inadequate training of the extension personnel has been compensated by the services of SOTOCO, DRDR and various projects extension, and has progressively improved over time. The over extension of SORAD both geographically and in terms of its functions has been addressed.

By reducing the number of farming families covered by extension and credit provision, the new system has sacrificed universality, but gained in increased efficiency. Finally, by letting the private sector and "groupements", with technical assistance, take over food crop marketing, the new system has significantly decentralized economic activity in the crop sector and allowed the private sector to develop in a more dynamic manner.

In the early 1980's, CNCA, which continued to carry the bad SORAD loans on its books, was faced with further problems, both internal and external. Several seasons of severe drought and generally poor climatic conditions hurt farmers' ability to repay loans. Falling prices for the principal export crops, coffee, cotton and cocoa, and since 1985, the rapid devaluation of the dollar, has caused increasing difficulties for the agricultural economy. Also, during this same period, the number of loans

31/x

made to the non-agricultural sector begin to dominate the CNCA's portfolio. By 1986 doubtful loans had risen to 52 percent of total loans from 38 percent in 1983. Additionally, an embezzlement scandal, discovered in March of 1987, revealed that a sum equivalent to three times the bank's remaining net capital was stolen. The director was subsequently replaced and criminal charges brought against a number of CNCA officers.

The CNCA, with French assistance, seems to have begun taking the steps necessary to rectify the situation and to put itself on a sound long term footing. Loan-loss provisions have been increased significantly, and a conservative system of loan classification seems to have provided a sound evaluation of the loan portfolio. This has sharply reduced working capital, however, and the CNCA is badly in need of capital infusion. A major restructuring of the CNCA will be required and a serious effort to recover bad loans must be made if the CNCA is to attract the capital it needs to continue functioning. This restructuring of the CNCA should lead to a new bank which focuses entirely on agricultural loans.

Credit Demand

According to a survey of rural households undertaken by the WOCCU and USAID [1)], 40 percent of all rural households used informal credit in the year surveyed. Ten percent of households, or one fourth of all those using credit received credit from more than one source. For 46 percent relatives were the most important credit source while for 25 percent traders were. An additional 12 percent cited money lenders as the principal source. Of the loans received 65 percent were made in cash while 18 percent was in the form of grains or other consumer items. Sixteen percent of those surveyed participated in non-traditional savings. The largest loans received from non-institutional credit sources were in the neighborhood of $1,000. There is clearly a demand for credit that is being at least partially satisfied.

Talks with farmers and awareness of the bottlenecks to Togolese agricultural production lead one to believe that more credit, properly used, would lead to increases in agricultural production. However, there is a lack of a formal institutional mechanism for delivering such small loans throughout Togo. (The average minimum profitable loan for commercial banks is in the $10-20,000 range). USAID and other donors are progressively addressing this problem through the gradual build up of local Credit and Savings Cooperatives (COOPEC's).

1) Cuevas, Carlos E., "Baseline Study of the Togo Credit Union Movement", Report to the World Council of Credit Unions (WOCCU), September 1987

For the time being, funding availabilities for making such loans does not appear to be a constraint.

D. Togograin and GOT Food Crop Export Policy

In 1986, the GOT reached agreement with the World Bank under the second SAP to lifting the prohibition on the exports of food crops, thereby elininating Togograins monopoly on the purchase and sale of large volumes of cereal, and limiting its role to the maintenance of a 12,000 MT security stock of cereals that could be sold on the open market only in times of food shortage and high prices (150 CFAF/kilo). Since 1986, Togograin has not intervened in the market place except in late March 1988 when Togo's Council of Ministers asked that it place a limited quantity of cereals on the rural markets of some areas of southern Togo. These areas had suffered high crops losses from the drought which had occurred in the previous agricultural season and, consequently, was experiencing high local market prices and severe food shortages. As the agreement with the World Bank permits the selling of food security stocks under such conditions, this intervention of Togograin was considered acceptable, as it did not have any disincentive effect on agricultural production or marketing. In the same vein, the Evaluation Team believes the GOT is in full compliance with relevant AEPRP condition as far as Togograin is concerned.

Under the third SAP, which was signed with the World Bank in March 1988, the issue of Togograin's activities was again thoroughly dealt with in the agreed upon Policy Framework Paper 1/. In this paper a "grain policy" for promoting the development of marketable surpluses is summarized as follows:

1. Strengthen the GOT's policy of refraining from intervention in foodstuff marketing by:

   - Granting export licenses to private entrepreneurs in times of surplus;

   - Limiting the role of Togograin in food bufferstock management;

   - Establishment of an early warning system and improvement of the relevant statistical data;

   - Encouraging farmers to establish village marketing organizations and increase their own storage capacity for times of shortage. And,

1/ "Togo: Policy Framework Paper, 1988 to 1990," IBRD, January 22, 1988, pages 7-9, and 17.

33 x

2. Adoption, of an export license system covering grain surpluses by September 1988.

It was also agreed in this document that Togograin would be further studied in 1988 to see if further improvements could be made in its operations. The World Bank and the African Development Bank also plan to undertake in August 1988 a study of the export licensing system the GOT is putting into place. This evaluation report and the work of USAID's two-person AEPRP technical assistance team which arrived on April 16, 1988 under a two-year contract will have a major bearing on the outcome of this study and this element of the third SAP. (For more information on Togograin's operational procedures see paragraph 3A of Annex A.)

E. Counterpart Funds and Options

Handling of the A.I.D. account

In April, 1987, the equivalent in local currency counterpart funds to the first tranche disbursement of USAID AEPRP dollar funds of $3.5 million (CFAF 1.054 billion) was paid into an account with the CNCA. In November, after reception by the CNCA of a letter from the Ministere du Developpement Rural (MDR), the funds were placed in an interest bearing account in the name of the MDR. The CNCA is currently paying 5 percent interest on the funds in the account to the budget of the MDR.

In January 1988, the CFAF equivalent of $ 27,000 was paid to the DESA out of $750,000 earmarked from the first tranche for Technical Assistance. Planned use of these funds includes the purchase of 5 automobile type vehicles, 20 small motor bikes, 30 bicycles and 2 micro-computers. Use of the remaining funds in the MDR account with the CNCA, with the exception of $480,000 remaining for operational support to DESA, is awaiting further instruction from the MDR.

CNCA must obtain authorization from the MDR to use the funds for particular credit purposes, as control of the account has been placed in the MDR's hands. Under conditions for second tranche disbursement, propositions for the use of these first tranche funds should be made and agreed upon by USAID before the second tranche release.

Counterpart Fund Concept

The use of the counterpart fund for targeted credit purposes is an important component of the Togo AEPRP. To fulfill a useful role, such a fund should in principle support an economic goal that the private market distribution of credit will not underwrite independently.

A failure of the market to underwrite profitable economic activities can occur for several reasons: inadequate institutional development, insufficient market depth to underwrite riskier type ventures, risk adverse nature of lenders as well as the nature of the benefits of the project being public rather than private. A case can be made that agricultural lending in general, and in Africa in particular, is an area where economic gain from credit extension is greater than the risk and loss factors, and that the private sector is unwilling to undertake. The near universal development in the industrialized countries of specialized agricultural lending institutions, with co-operative or state affiliation, is one indication of the reluctance of the private sector to take-on these riskier, lower-profit making loans. Very few African banking institutions carry on any agricultural lending in spite of the predominant role of agriculture in the continent's economic activity.

Our examination above of agricultural credit practices in Togo leads us to several observations: (1) credit is being used to a limited extent to enhance agricultural production and marketing in Togo; (2) the formal banking institutions are only very marginally involved; (3) only small amounts of credit are finding their way into agriculture; (4) with proper guarantees and collection mechanisms, the level of credit risks are manageable and returns acceptable; (5) the CNCA along with several agricultural related government and private services has a basic system of rural infrastructure and contacts in place that can serve as such collection points; and (6) sufficient agricultural and marketing credits are one of the keys to development of the sector.

Our examination of the CNCA further showed that, while the organization possesses well developed rural branches and relationships that would be difficult and costly to reconstitute, the organization's recent financial difficulties make its continuation as recipient and manager of U.S. counterpart funds somewhat risky to the future solvency of the fund. While the deposit of the counterpart fund in the CNCA will, in and of itself, help ameliorate the institution's financial position, it appears that this is only a small percentage of the total capital CNCA needs to salvage this important Togolese institution.

Economic Effects of Dollar Disbursement and Counterpart Funds

Aside from the direct benefits of the counterpart fund when used correctly as a mechanism to mobilize credit for worthwhile projects not otherwise underwritten, U.S. aid, in the form of dollar disbursement placed in a government controlled fund, has direct and indirect effects on the country's ability to import, economic growth and government budget. In the case of the Franc Zone, these effects are complicated by the partial control of the BCEAO over money supply growth and by the ability of member countries to borrow each other's reserves. A brief review over relevant BCEAO regulations gives some idea of the effect of dollar disbursement on the ability of the recipient country to import and on economic growth, before discussing the effects on the government's budget.

Since the 1973/74 reform, Central Banks of the franc zone can hold up to 35 percent of their reserves directly in non-franc instruments. Other reserve earnings are credited to their account with the French Treasury, which is indexed to the SDR to guarantee the value of reserves. The central banks in turn maintain net foreign reserve accounts for each member country. Only the Central Bank's account with the French Treasury must be in balance, so it is true that member countries can borrow against each others' reserves, up to a point. That point is reached when the overall net balance of the Central Bank becomes negative.

While the French Treasury guarantees convertibility of the CFAF at a fixed rate, when the overall net reserve position of a Central Bank becomes negative, several mechanisms come into play. They have the effect of reducing money supply growth, lowering prices and demand, and bringing the balance of payments back into a positive net position. These are: 1) payment of interest on negative reserve balances -- increasing the rate with the deficit in the balance; 2) restriction of all medium (ten year or more) and long term lending once a net deficit position of 20 percent is reached by the Central Bank, and restriction of Central Bank loans to development banks after such a deficit level is achieved; and, 3) a meeting of the Board of Governors to take further corrective action. In addition, national credit ceilings are fixed in function of two parameters: 1) net foreign reserve position and 2) anticipated growth in GDP.

The system acts as a modified gold system with A.I.D.'s foreign reserves, including dollars, taking the place of gold. Our provision of dollars, by increasing the reserves of the Central Bank, allows all the countries of the zone to import more. It directly helps the recipient country by improving its net reserve position, and consequently allowing it an expanded credit ceiling. Since the dollars are credits to the recipient's reserve account, in the longer run, only the recipient profits from an enhanced import ability. While the effect of fast disbursing dollar aid and a targeted credit fund in the franc zone is less direct on imports than in a non-franc country, the net effects over the long term are the same. However, in the enhancement of imports the guarantor (France) of the CFAF benefits the most as it will be the source of most of Togo's inports. In addition to its effect on the ability of the recipient country to import more with the dollars received and deposited with the Central Bank, the creation of a counterpart fund and consequent credit to a government held account has an effect on the government's fiscal position.

Obliging the host government to use the additional resources provided by dollar disbursement to set up a counterpart fund in effect obliges it to defer current expenditure in favor of savings and investment in private sector initiative. Dollars are deposited in the reserves of the Central Bank and serve to enhance import capacity, while the counterpart in local money is deposited as a saving and investment. By using this money as a saving, the creation of a targeted fund avoids additional current spending, and encourages the host government to reduce spending within the limits of its revenues. By using this savings to invest in private sector initiative, the program encourages the choice of the private sector as the primary motor of economic development. However, this assumes additional investment capital is needed by the private sector. The principal drawback in the establishment of such funds lies in their management difficulties.

F. Options for Counterpart Funds

In view of the difficulties that the Togolese institution (CNCA) responsible for delivering rural credit is having and the large amount of counterpart funds (752 billion CFAF) still available from the first tranche will largely satisfy those loans which can be efficiently absorbed, and administered, it is believed that options for the eventual use of second tranche counterpart funds should be explored. Furthermore, it appears that in the near term the CNCA and other Togolese banks are structurally incapable of assessing an individual rural sector client's risk and potential as well as not being able to manage the relatively small loans required. Although some sort of guarantee fund might change this situation, experience has shown that these funds only encourage unwise lending. Ultimately, it is such unwise lending that will further increase the rural sector's poor reputation among financial institutions.

This situation prompts the Evaluation Team to propose two options for Mission and AID/W consideration. The first option would be to disburse the second, $3.5 million dollar tranche according to original program design, but to drop the requirement that the GOT deposit and program an equivalent amount of counterpart funds. Such an option would maintain the cash transfer nature of the program and all the relevant policy reform performance objectives. It would also relieve the GOT and the Mission of the awesome management burdens that these additional, GOT-owned counterpart funds would represent. Moreover, this option would reinstate this program's second tranche dollar disbursement on the IMF and IBRD's list of potential donor contributions that will reduce the GOT's budgetary deficit. Under the current design, the IMF is not counting AID's contribution under AEPRP because of the offsetting CFAF counterpart fund requirement.

The second option would maintain the requirement to deposit and program an equivalent amount of counterpart funds, but would limit local currency programming to the building and maintenance of rural roads, and the collection and analysis of agricultural statistics. Under this option, there would not be a private sector credit program managed by the CNCA, as foreseen in the original design. It is not believed, however, that this option would address needs that are not already covered elsewhere. It is also believed that this option would not have a meaningful impact on the main objective of the program, - increasing food crop exports. Option number one is therefore much preferred by the Evaluation Team and the Mission.

Postscript

Also prepared by the Evaluation Team, but not included in this report, were sections providing background information on the Togolese economy and agricultural sector. These sections are available upon request. It is suggested, however, that for the most up-to-date information on Togo's situation the most recent World Bank and IMF documents be consulted. These include the following:

37x

"Togo, Structural Adjustment Facility, Economic Policy Framework Paper for 1988-90," World Bank, January 22, 1988.

"Togo, Request for Stand-By Arrangement and for Arrangements Under the Structural Adjustment Facility," IMF African Department, February 17, 1988.

38

ANNEXES

VZCZCLMI *
PP RUEHC RUEHAB
DE RUFHPC #0530/01 028 **
ZNR UUUUU ZZH
P 281610Z JAN 88 ZDK
FM AMEMBASSY LOME
TO RUEHC / SECSTATE WASHDC PRIORITY 5199
INFO RUEHAB / AMEMBASSY ABIDJAN 7199
BT
UNCLAS SECTION 01 OF * LOME 00530

CLASS: UNCLASSIFIED
CHRGE: AID 1/27/88
APPRV: OAR:MGWENTLING
DRFTD: OAR:MGWENTLING:KS
CLEAR: AMB:DKORN:AID:SF
(DRAFT)
DISTR: AID DCM CHRON

AIDAC

AID/W FOR AFR/DP, AFR/CCWA AND AFR/PD
STATE FOR AF/W AND AF/EPS
ABIDJAN FOR REDSO/WCA

E.O. 12356: N/A
SUBJ: TOGO AEPRP CEREALS TRADE LIBERALIZATION PROGRAM (693-0229): ANNUAL STATUS REPORT

REF: LOME 320

1. SUMMARY: ON AUGUST 29, 1986, SUBJECT PROGRAM AGREEMENTS WERE SIGNED FOR A DOLS 7 MILLION CASH TRANSFER, TO BE DISBURSED IN TWO EQUAL TRANCHES UPON THE SATISFACTION OF SPECIFIC CONDITIONS RELATING TO THE ESTABLISHMENT OF A SYSTEM FOR THE PRIVATE EXPORT OF CEREALS, AND DOLS 850,000 FOR THE PROVISION OF TECHNICAL ASSISTANCE NEEDED TO IMPROVE MARKET AND CROP FORECASTING ANALYSES REQUIRED FOR THE EFFICIENT FUNCTIONING OF THE SYSTEM. FOLLOWING ISSUANCE OF GOT PRESIDENTIAL DECREE ON NOVEMBER 25, 1986 WHICH SET FORTH THE MECHANISM FOR ISSUING EXPORT LICENSES FOR FOOD CROPS, IT WAS AGREED ON FEBRUARY 6, 1987 THAT FIRST TRANCHE CONDITIONS HAD BEEN MET. THEREFORE, ON FEBRUARY 11, 1987, DOLS 3.5 MILLION WERE TRANSFERRED TO A GOT ACCOUNT. AS REQUIRED BY THE AGREEMENT, THE GOT DEPOSITED AT THE SAME TIME THE LOCAL CURRENCY EQUIVALENT OF THIS AMOUNT INTO A DESIGNATED ACCOUNT AT NATIONAL AGRICULTURAL CREDIT BANK (CNCA) FOR THE PURPOSE OF CREATING A CREDIT FUND FOR MAKING LOANS TO IMPROVE THE EFFICIENCY OF PRODUCER MARKETS AND SUPPORTING THE GOT OFFICE RESPONSIBLE FOR AGRICULTURAL STATISTICS. ONGOING WORK CONTINUES ON THE SATISFACTION OF SECOND TRANCHE CONDITIONS INVOLVING THE ACTUAL ISSUANCE OF EXPORT LICENSES, REGULAR PUBLICATION OF CROP STATISTICS; GOOD USE OF THE CREDIT FUND; RESTRICTIONS ON GOT PARASTATAL (TOGOGRAIN) ROLE IN CEREALS TRADE; AND RECEIPT OF PROPOSAL ON CONTINUED USE OF THE CREDIT FUND DURING FINAL YEARS OF THE PROGRAM. TO DATE, ONLY TWO OF THESE FIVE CONDITIONS MAY HAVE BEEN SATISFIED: ONE REGARDING THE COLLECTION AND DISSEMINATION OF SATISTICS AND THE ONE CONCERNING THE LIMITING OF TOGOGRAIN'S MARKET INTERVENTIONS. MAJOR OBSTACLES TO THE EARLY SATISFACTION OF THE THREE OTHER CONDITIONS HAVE BEEN UNFAVORABLE WEATHER WHICH MADE CORN A DEFICIT CROP IN 1986 AND 1987; A MAJOR EMBEZZLEMENT SCANDAL WHICH HAS ROCKED THE CNCA AND THE LONG TIME REQUIRED BY THE OPEN COMPETITION

PROCESS TO CONTRACT FOR T.A. IN THE STRICTEST TERMS, THESE OBSTACLES MEAN THAT AT THE VERY EARLIEST SECOND TRANCHE CONDITIONS CANNOT BE SATISFIED UNTIL AFTER THE FALL 1988 HARVEST SEASON, OVER A YEAR LATER THAN THE ORIGINAL PLAN. CURRENT PACD OF 6/30/89 WILL THEREFORE HAVE TO BE EXTENDED AN ADDITIONAL YEAR, OR AT LEAST TWO YEARS BEYOND THE EXPECTED APRIL 1988 ARRIVAL OF THE T.A. TEAM. THESE MAJOR CONTRAINTS TO PROGRAM IMPLEMENTATION AND OTHER IMPORTANT ISSUES ARE ANALYZED BELOW IN MORE DETAIL.

2. ANALYSIS OF CONTRAINTS:

A. CORN DEFICIT. IN 1984 AND 1985 TOGO HARVESTED BUMPER CORN CROPS, EXPORTING UNOFFICIALLY AN ESTIMATED 20,000 MT IN 1985. THESE LARGE CORN SURPLUSES WERE THE MAJOR IMPETUS BEHIND THE DEVELOPMENT OR A PROGRAM TO REMOVE LEGAL RESTRICTIONS AND ENACT OTHER MEASURES TO ENCOURAGE THE PRIVATE EXPORT OF CORN AS A MEANS OF INCREASING AND STABILIZING FARMGATE PRICES, AND INCREASING CEREALS PRODUCTION AND EXPORT EARNINGS. WITH ESTIMATED CORN DEFICITS OF 21,000 MT IN 1987 AND 37,000 MT IN 1986, A MAJOR BLOW WAS STRUCK AGAINST THE IMPLEMENTATION OF THE SUBJECT PROGRAM, WHICH WAS DESIGNED ESSENTIALLY TO BE A CORN EXPORTING PROGRAM. THIS IS EVIDENCED BY PROGRESS BENCHMARKS DESCRIBED IN THE PAAD WHICH SINGLED OUT CORN EXPORTS AS THE MAJOR QUANTIFIABLE PERFORMANCE INDICATOR. ALTHOUGH IT IS TRUE THAT ESTIMATED ANNUAL SURPLUSES IN NORTH TOGO'S MILLET/SORGHUM PRODUCTION OF ABOUT 50,000 MT IN 1986 AND 1987 PUT TOGO IN AN OVERALL CEREALS SURPLUS SITUATION, THE LARGE DEFICIT IN CORN, THE MAJOR STAPLE OF TWO-THIRDS OF TOGO'S POPULATION WHICH LIVES MOSTLY IN THE SOUTHERN HALF OF THE COUNTRY, AND OTHER FOOD CROP DEFICITS (E.G. COWPEAS) HAD TO BE SUBTRACTED FROM THE MILLET/SORGHUM SURPLUSES. THIS LEFT PERHAPS 10 TO 15,000 MT AND 5,000 MT OF MILLET/SORGHUM FOR EXPORT IN 1987 ND 1986, RESPECTIVELY (SEE REF A). HOWEVER, SUCH A FACILE SUBSTITUTION OF FOOD CROPS SEEMS TO BE A FLAWED CONCEPT AS IT IS VERY DIFFICULT TO SEE HOW PEOPLE ACCUSTOMED TO EATING CORN CAN SWITCH TO MILLET/SORGHUM EVEN IF THE MARKET SYSTEM WORKED IN SUCH A WAY. ESTABLISHED TRADITIONAL CONSUMPTION AND DISTRIBUTION

PATTERNS WOULD HAVE TO BE ALTERED AND THE REQUISITE QUANTITY OF MILLET/SORGHUM WOULD HAVE TO FIND ITS WAY FROM THE NORTH TO VILLAGE MARKETS IN THE SOUTH. SUCH PRACTICAL CONSIDERATIONS HAVE RECENTLY PROMPTED THE GOT TO CONSIDER THE COMMERCIAL IMPORT OF 5,000 MT OF CORN. (THIS IS IN ADDITION TO THE USUAL LEVEL OF WHEAT AND RICE IMPORTS OF, RESPECTIVELY, 1,500 MT AND 1,300 MT PER MONTH. NOTE: A GOT PARASTATAL HAS HAD A MONOPOLY OVER ALL RICE IMPORTS SINCE 1985.) THESE ISSUES AND OTHERS CAST DOUBTS ON THE VIABILITY OF THE SUBJECT PROGRAM AS LONG AS THE MORE MARKETABLE CORN IS A DEFICIT CROP. THE GOT HAS PUT A SYSTEM IN PLACE FOR THE PRIVATE EXPORT OF CEREALS BUT UNFAVORABLE RAINS OVER THE PAST TWO YEARS HAVE NOT PROVIDED IT WITH SURPLUSES THAT CAN BE PROCESSED BY THE SYSTEM. SUCH ARE THE RISKS OF A WEATHER-DEPENDENT PROGRAM.

B. CREDIT FUND: A MAJOR COMPONENT OF THE PROGRAM WAS THE CREATION OF A REVOLVING LOAN FUND BY REQUIRING THAT THE GOT DEPOSIT A LOCAL CURRENCY EQUIVALENT OF THE DOLLAR TRANCHE AT THE CNCA. THIS FUND WAS TO PROVIDE CREDIT TO PRODUCER GROUPS, FOOD CROP EXPORTERS AND TRANSPORT BUSINESSES. ALSO, SOME SUPPORT OF THE PLANNED IBRD ROAD (PAAD) ALSO STATES THAT THIS FUND WOULD BE USED TO HELP LOCAL PRODUCER GROUPS BUILD 50 GRAIN STORAGE UNITS IN THE SECOND YEAR AND A HUNDRED MORE THEREAFTER, CREATING 5,000 MT OF STORAGE CAPACITY. AS NO STORAGE UNITS HAVE BEEN BUILT WITH THESE FUNDS TO DATE, PROGRAM MANAGERS ARE BEGINNING TO HAVE SECOND THOUGHTS ABOUT THE WISDOM OF BEING SO SPECIFIC ABOUT THE NUMBERS OF UNITS TO BE BUILT. IN ADDITION, IT IS TO BE NOTED THAT THE IBRD ROAD PROJECT HAS NOT YET BEEN STARTED.

THE IMPLEMENTATION OF SUCH A LOAN FUND SCHEME IS A COMPLEX AND DEMANDING TASK THAT WOULD HAVE BEEN DIFFICULT EVEN DURING THE BEST OF TIMES. UNFORTUNATELY, SINCE THE DISCOVERY IN THE SPRING OF 1987 OF THE EMBEZZLEMENT OF THE EQUIVALENT OF SEVERAL MILLION DOLLARS OF CNCA FUNDS, CNCA OPERATIONS HAVE BEEN PARALYZED. THE RESULTING SHAKE UP IN PERSONNEL, AUDITS AND INVESTIGATIONS, COURT CASES, ETC., HAVE MADE IT DIFFICULT TO PUT INTO OPERATION THE PROGRAM'S CREDIT FUND. ALTHOUGH LEGAL PROCEEDINGS AND INVESTIGATIONS CONTINUE ON THIS CASE, THE CNCA IS ONLY NOW JUST BEGINNING TO REGAIN ITS USUAL LEVEL OF ACTIVITY UNDER THE SUPERVISION OF A NEW FRENCH DIRECTOR (DETACHED FROM THE FRENCH SUPPORT INSTITUTION, CREDIT AGRICOLE FRANCAIS). ALSO, THE MINISTRY OF RURAL DEVELOPMENT HAS ADVISED THE MISSION THAT IT IS PUTTING THE FINISHING TOUCHES ON ITS PROPOSAL ON HOW THE FUND COULD BE USED. IT IS THEREFORE POSSIBLE THAT PROGRESS ON THIS CONDITION CAN BE MADE IN 1988.

NONETHELESS, IN HINDSIGHT, CURRENT PROGRAM MANAGERS QUESTION THE WISDOM OF ESTABLISHING SUCH A FUND, PARTICULARLY IN LIGHT OF TOGO'S DIFFICULT FINANCIAL SITUATION WHICH MAKES THE DEPOSIT OF FRANCS CFA (A CONVERTIBLE CURRENCY BACKED BY THE FRENCH FRANC) A RATHER ONEROUS REQUIREMENT. IF NOTHING ELSE, IT SEEMS TO

DETRACT FROM THE ORIGINAL INTENTION OF USING THE CASH TRANSFER MECHANISM TO HELP AMELIORATE TOGO'S BALANCE OF PAYMENTS PROBLEM. IT APPEARS THAT THE COUNTERPART FUND CONCEPT MIGHT BETTER BE RESTRICTED TO THOSE COUNTRIES WITH UNCONVERTIBLE CURRENCIES: IN BRIEF, WAS SUCH A FUND REALLY NEEDED IN THIS PROGRAM? THIS QUESTION WILL BE MORE CLOSELY EXAMINED IN THE UPCOMING INTERIM EVALUATION AND THE CNCA FUND WILL BE SCRUTINIZED THIS SPRING AS PART OF A LARGER AID-FUNDED STUDY OF TOGO'S FINANCIAL MARKETS TO BE UNDERTAKEN BY AN INTERNATIONAL ACCOUNTING FIRM.

C. T.A. CONTRACT: PROGRAM DESIGN CALLS FOR THE CONTRACTING OF A TWO-PERSON, LONG-TERM (2 YEARS) T.A. TEAM (STATISTICS AND MARKETING SPECIALISTS) AND OTHER SHORT-TERM CONSULTANTS TO ASSIST PRIMARILY MDR'S AGRICULTURAL STUDIES AND STATISTICS OFFICE (DESA) IN THE CREATION OF A DATA COLLECTION AND ANALYTICAL SYSTEM WHICH INFORMS THE LICENSING PROCESS. THE PROCUREMENT OF THESE SERVICES IS TO BE THROUGH THE FULL AND OPEN COMPETITION PROCESS PRESCRIBED IN THE FEDERAL ACQUISITION

REGULATIONS. THE REQUIRED A.I.D. REQUISITION DOCUMENT (PIC/T) WHICH ASKED THAT THESE SERVICES BE PROVIDED BY SEPTEMBER 1987 WAS COMPLETED IN EARLY 1987 AND THE REQUIRED COMMERCE BUSINESS DAILY NOTICE WAS PUBLISHED APRIL 6, 1987. THE PERIOD FOR RECEIPT OF PROPOSALS CLOSED IN MAY 1987 AND THE EVALUATION OF THE NINE PROPOSALS RECEIVED WAS COMPLETED IN EARLY AUGUST 1987. GIVEN THAT THE PROPOSALS OF FIVE FIRMS WERE IN THE COMPETITIVE RANGE, THESE FIRMS WERE REQURESTED TO PRESENT BEST AND FINAL PROPOSALS BY NOVEMBER 30, 1987. FOUR OF THESE FIRMS DID SO AND THEIR OFFERS WERE EVALUATED IN DECMEBER 1987.

THE REGIONAL CONTRACTS OFFICE IN ABIDJAN IS CURRENTLY NEGOTIATING A CONTRACT WITH THE SELECTED FIRM AND IT IS BELIEVED THAT THE LONG-TERM T.A. TEAM COULD BE IN PLACE IN APRIL, EIGHT MONTHS LATER THAN THE REVISED ARRIVAL DATE AND 20 MONTHS AFTER THE SIGNING OF THE LIMITED SCHOPE GRANT AGREEMENT WITH THE GOT. ALTHOUGH DESA AND USAID-HIRED SURVEYORS HAVE BEEN DOING WELL IN PROVIDING DATA NEEDED BY THE LICENSING SYSTEM TO DETERMINE CROP SURPLUSES THAT CAN BE EXPORTED WITHOUT COMPROMISING TOGO'S FOOD SECURITY, THE ARRIVAL OF THE T.A. TEAM IS ESSENTIAL TO THE ESTABLISHMENT OF THE KIND OF SYSTEM NEEDED TO DO A TIMELY, RELIABLE AND CREDIBLE JOB. AREAS NEEDING PARTICULAR ATTENTION ARE THE DEVELOPMENT OF A MEANS TO ESTIMATE ON-FARM STOCKS AND IN THE CALCULATION OF HOUSEHOLD CONSUMPTION. ALSO NEDED IS A SYSTEM TO MONITOR DEMAND IN OTHER COUNTRIES AND IN INTERNATIONAL MARKETS AND HOW THESE MARKETS CAN BE ACCESSED. AT PRESENT, GOOD DATA IN THESE AREAS IS EITHER ABSENT OR GROSSLY INADEQUATE. AN APRIL ARRIVAL OF THE T.A. TEAM WILL REQUIRE EXTENDING THE PACD FROM 6/30/89 TO 5/31/90.

3. OTHER IMPORTANT CONSIDERATIONS AND ISSUES:

A. STATUS OF TOGOGRAIN ACTIVITIES: THE CONDITION REQUIRING THAT TOGOGRAIN PAY MARKET PRICES FOR LOCALLY PURCHASED CEREALS AND THAT IT BUY CEREALS ONLY IN ORDER TO MAINTAIN SECURITY STOCKS AT LEVELS AGREED UPON UNDER IBRD'S SECOND SAC PROGRAM HAS NOT POSED ANY PROBLEMS THUS FAR, BUT THERE IS ALWAYS THE POSSIBILITY THAT CHRONIC FOOD SHORTAGES COULD INCREASE THE ROLE PLAYED BY TOGOGRAIN. AVAILABLE INFORMATION INDICATES THAT TOGOGRAIN HAS NOT SOLD ANYTHING IN TWO YEARS. THIS RAISES QUESTIONS ABOUT THE CONDITION OF THE 12,000 MT (TWO-THIRDS CORN AND ONE-THIRD SORGHUM/MILLET) OF CEREALS IT WAS AGREED WITH IBRD IT COULD CONTINUE TO HANDLE FOR SECURITY PURPOSES. (THIS REPRESENTS LESS THAN TWO MONTHS OF CEREALS CONSUMPTION IN TOGO.)

NORMALLY, TOGOGRAIN IS SUPPOSED TO ROTATE ONE-THIRD (4,000 MT) OF ITS STOCK PER YEAR BY SELLING IN THE MARCH-JULY PERIOD AND BUYING IN THE AUGUST-DECEMBER PERIOD. OTHERWISE, IT ONLY SELLS WHEN CEREAL SHORTAGES CAUSE PRICES TO RISE TO A LEVEL WHICH IS CONSIDERED HIGH BY GOT AUTHORITIES. FOR EXAMPLE, IF CORN PRICES RISE TO 150 F CFA PER KILO FOR AT LEAST 15 DAYS IN THE DRY SEASON

PERIOD STARTING IN JANUARY, TOGOGRAIN IS AUTHORIZED TO SELL ALL ITS CEREALS STOCKS. (NOTE THAT EVEN DURING CORN DEFICIT YEARS OF 1986 AND 1987, THE AVERAGE NATIONAL PRICE WAS LESS THAN 100 F CFA PER KILO.) AS THE GOT CONTINUES TO CUT TOGOGRAIN'S BUDGET AND THERE IS TALK OF RENTING TOGOGRAIN'S WAREHOUSE SPACE TO THE PRIVATE SECTOR, IT APPEARS THAT TOGOGRAIN'S FUTURE ROLE IS VERY MUCH IN DOUBT. HOWEVER, THIS AND TOGOGRAIN'S CURRENT OPERATIONAL STATUS IS SOMETHING THAT NEEDS FURTHER VERIFICATION BEFORE THE SATISFACTION OF THE SECOND TRANCHE CONDITIONS RELATING TO TOGOGRAIN IS CONCLUDED. THIS IS SOMETHING THAT WILL BE LOOKED AT DURING THE INTERIM EVALUATION SCHEDULED FOR THIS MARCH.

B. LICENSING SYSTEM: SINCE THE ISSUANCE OF PRESIDENTIAL DECREE NO. 86-210 OF NOVEMBER 25, 1986, THAT DEFINED A SYSTEM FOR THE ISSUANCE OF FOOD CROP EXPORT LICENSES TO THE PRIVATE SECTOR, THE SYSTEM HAS WORKED AS WELL AS COULD BE EXPECTED, PARTICULARLY IF THE ABSENCE TO DATE OF PLANNED TECHNICAL ASSISTANCE IS TAKEN INTO ACCOUNT. THE GRANT AGREEMENT CONDITION STIPULATES THAT BEFORE THE SECOND TRANCHE IS RELEASED THE GOT MUST, QUOTE...FURNISH

CEREALS EXPORT LICENSES TO PRIVATE SECTOR TRADERS IN TWO CROP YEARS BEGINNING AS EARLY AS SEPTEMBER BUT NO LATER THAN NOVEMBER IN EACH YEAR AND VALID UNTIL THE FOLLOWING MARCH/APRIL IF CROP PRODUCTION ESTIMATES SO WARRANT, ON THE BASIS OF AN OPEN AND FAIR LICENSING SYSTEM, ...UNQUOTE. GIVEN THE VARIABILITY OF THE SHORT AND LONG RAINY SEASONS, THE MISSION IS INCLINED NOT TO REQUIRE THE FOLLOWING OF THE EXACT MONTHS STATED IN THE AGREEMENT. THE IMPORTANT THING IS TO HAVE A SYSTEM WHICH WORKS AND RESULTS IN THE ISSUANCE OF LICENSES FOR CEREALS DETERMINED TO BE SURPLUS TO TOGO'S NEEDS. THE NOVEMBER SIGNING OF THE PRESIDENTIAL DECREE PROBABLY MADE IT TOO LATE FOR THE SYSTEM TO BE SET UP TO DEAL WITH THE IMMEDIATE 1986 POST HARVEST PERIOD (NOVEMBER-DECEMBER). MDR'S DESA HAS HOWEVER DONE A SUFFICIENTLY GOOD JOB OF COLLECTING AND ANALYZING STATISTICS THAT THE TECHNICAL COMMITTEE RESPONSIBLE FOR THE APPLICATION OF THE DECREE WAS ABLE TO MEET ON MAY 4, 1987, AND DECIDE THAT 5,000 MT OF SORGHUM/MILLET, 20,000 MT OF ROOT CROPS (YAMS, CASSAVA) AND 1,000 MT OF GARI (CASSAVA FLOUR) COULD BE SAFELY EXPORTED. THE RECOMMENDATION OF THIS COMMITTEE GAINED MINISTERIAL APPROVAL AND IT WAS FORWARDED TO THE MINISTRY OF COMMERCE AND TRANSPORT (MCT) FOR ACTION ON JUNE 30, 1987. HOWEVER, BY THIS TIME THERE HAD BEEN SOME RISES IN CEREALS PRICES AND MCT, FEARING FOOD SHORTAGES AND MARKET SPECULATION, CONSEQUENTLY DECIDED AGAINST ISSUING LICENSES.

THE TECHNICAL COMMITTEE CONTINUED TO MEET PERIODICALLY AND PLANNED TO MEET BY NOVEMBER 10, PRIOR TO THE END OF THE HARVEST, AS REQUIRED BY THE AGREEMENT IN ORDER TO DECIDE ON THE BASIS OF THE ON-GOING DATA BEING COLLECTED BY DESA IF THERE WERE EXPORTABLE QUANTITIES OF FOOD CROPS. AS THE RAINY SEASON WAS UNUSUALLY LONG, THIS MEETING DID NOT TAKE PLACE UNTIL DECEMBER 21, 1987. THE COMMITTEE CONCLUDED ON THIS DATE THAT 10 TO 15,000 MT OF SORGHUM/MILLET, 15 TO 20,000 MT OF ROOT CROPS AND 200 TO 500 MT OF GARI COULD BE EXPORTED. THE REPORT OF THIS COMMITTEE IS CURRENTLY BEING PREPARED FOR FORWARDING TO THE MINISTERIAL LEVEL FOR APPROVAL. THEREFORE, IF ALL GOES WELL LICENSES FOR THESE QUANTITIES COULD BE ISSUED OVER THE NEXT TWO MONTHS.

ALTHOUGH THE MINISTER OF COMMERCE (SEE REF A) CLAIMS THAT THERE ARE PLENTY OF PRIVATE ENTREPRENEURS READY AND ABLE TO EXPORT THESE QUANTITIES OF FOOD CROPS, IT IS NOT CLEAR TO THE MISSION WHAT CRITERIA AND PROCEDURES AND BEING USED IN THE SELECTION OF THESE ENTREPRENEURS TO ENSURE QUOTE OPENNESS AND FAIRNESS UNQUOTE. THIS IS ANOTHER AREA THAT NEEDS TO BE LOOKED AT CLOSELY DURING THE UPCOMING EVALUATION AND FOLLOWING THE SIGNING OF THE TECHNICAL ASSISTANCE CONTRACT.

C. MARKETING ISSUES: ANOTHER AREA WHICH NEEDS FURTHER STUDY IS WHAT ARE THE EXTERNAL MARKETS FOR TOGO'S SURPLUSES AND WHAT TOGO NEEDS TO DO TO BETTER COMPETE IN THESE MARKETS. AT THE OUTSET, IT APPEARS THAT IF TOGO IS TO BE A SERIOUS COMPETITOR IN REGIONAL AND INTERNATIONAL

GRAIN MARKETS IT MUST DEVELOP A REPUTATION OF OFFERING QUALITY CEREALS ON A RELIABLE BASIS AT A COMPETITIVE PRICE. WITHOUT CONSISTENT SURPLUSES, SOME QUALITY CONTROL AND TRADERS EXPERIENCED IN THIS AREA, THIS WILL BE VERY HARD TO DO.

WHERE ARE THE MARKETS? IN A GOOD HARVEST YEAR, NEIGHBORING COUNTRIES USUALLY ALSO EXPERIENCE GOOD HARVESTS. TOGO IS ALSO NOT CURRENTLY THE ONLY COUNTRY UNDERTAKING A LIBERALIZATION PROGRAM (E.G. GHANA). NIGERIA REPRESENTS THE MOST IMPORTANT MARKET FOR TOGO CORN, BUT CURRENTLY AND DESPITE THE SHORTAGE OF THIS CROP THROUGHOUT WEST AFRICA, WE ARE WITNESSING NIGERIAN CORN BEING SOLD IN MARKETS IN SOUTHERN BENIN AND TOGO. THE ARRIVAL OF THIS CORN IS PROBABLY A MAJOR FACTOR IN HOLDING CORN PRICES AT NEAR 100 F CFA PER KILO IN THE COTONOU AND LOME MARKETS. ALSO, NIGERIA CONTINUES ITS OFFICIAL BAN ON THE IMPORT OF CORN AND ROOT CROPS. IN VIEW OF THE DIETARY PREFERENCES, IT IS ASSUMED THAT MOST SORGHUM/MILLET WILL GO TO THE SAHEL AND NORTHERN REGIONS OF NEIGHBORING COUNTRIES AND NOT BE BROUGHT SOUTH IN SUFFICIENT QUANTITIES TO COVER THE CORN DEFICIT. BUT

NOTE AGAIN THAT ALTHOUGH NIGERIA PERMITS SORGHUM/MILLET IMPORTS, THEY ARE DUTIABLE AT 20 PCT AD VALOREM. ANOTHER CONSIDERATION TO TAKE INTO ACCOUNT IS THE EXCHANGE RATES OF NEIGHBORING NON-CFA COUNTRIES (NIGERIA AND GHANA).

ANOTHER QUESTION WHICH MUST BE ASKED IS THAT WITH THE MODEST QUANTITIES (10 TO 30,000 MT) OF CORN THAT TOGO COULD POSSIBLY EXPORT IN GOOD CROP YEARS, HOW MUCH IMPORTANCE CAN BE PLACED ON TOGO AS A CEREALS EXPORTER. ALSO, EVEN WITH GOOD YEARS HOW LONG CAN TOGO PRODUCE THESE EXPORTABLE QUANTITIES WHEN ITS OWN POPULATION IS GROWING AT THREE PERCENT A YEAR AND WILL THEREFORE NEARLY DOUBLE IN TWENTY YEARS. IN VIEW OF THIS RAPID POPULATION GROWTH AND INSPITE OF THE PRICE INCENTIVES AN OPEN MARKET CAN PROVIDE, TOGO'S AGRICULTURAL SECTOR WILL HAVE GREAT DIFFICULTY IN PRODUCING SURPLUSES IF IT DOES NOT EMPLOY MORE INPUTS AND THE ASSOCIATED PRACTICES THAT THEY REQUIRE. THE KIND OF INCREASE IN THE USE OF IMPORTED INPUTS NEEDED TO PERMIT TOGO'S AGRICULTURAL SECTOR TO KEEP UP WILL PROBABLY BE DIFFICULT TO ACCOMPLISH IN THE CURRENT AND PROJECTED ECONOMIC ENVIRONMENT WITHOUT AT LEAST SOME INITIAL SUBSIDIZATION OF INPUTS. THE INCREASED USE OF INPUTS WILL ALSO REQUIRE THE FORMATION OF PRODUCER GROUPS WHICH HAVE ACCESS TO FARM CREDIT. ALTHOUGH TOGO IS MAKING SOME PROGRESS ALONG THESE LINES, IT IS STILL A LONG WAY FROM HAVING THE NUMBER OF FARMERS USING YIELD-RAISING TECHNIQUES NEEDED TO ENSURE THAT PRODUCTION STAYS WELL AHEAD OF CONSUMPTION. WITHOUT AN ACCELERATION IN THE DISSEMINATION AND USE OF THESE TECHNIQUES, TOGO'S CLAIM TO HAVING ACHIEVED FOOD SELF-SUFFICIENCY WILL BE THWARTED OVER THE NEXT DECADE.

4. CONCLUSIONS: THERE ARE GOOD PROSPECTS THAT A VIABLE SYSTEM FOR ISSUING CEREALS EXPORT LICENSES TO THE PRIVATE SECTOR CAN BE INSTITUTED IN TOGO, BUT WITHOUT ADEQUATE SURPLUSES THIS SYSTEM WILL NOT HAVE A CHANCE TO PROVE ITSELF. IF EXPORTABLE SURPLUSES DO BECOME AVAILABLE DURING THE NEXT HARVEST SEASON, MORE WORK IS REQUIRED TO ENSURE THAT LICENSES ARE ISSUED IN AN OPEN AND FAIR MANNER AND THAT GOOD MARKETS EXIST FOR TOGO'S EXCESS CEREALS. THE ARRIVAL OF THE PLANNED T.A. TEAM WILL BE HELPFUL IN EXAMINING THESE ISSUES AND DETERMINING CURRENT AND PROJECTED GRAIN SURPLUSES IN TOGO. IN ADDITION TO THESE ISSUES, THE VIABILITY OF THE LOCAL CURRENCY CREDIT FUND AND THE LIMITATIONS PLACED ON TOGOGRAIN WILL BE REVIEWED DURING THE REGULAR SCHEDULED INTERIM EVALUATION IN MARCH. THIS EVALUATION WILL HELP DECIDE WHETHER OR NOT PROGRAM AMENDMENTS ARE IN ORDER. MISSION CONTINUES TO BELIEVE THAT THE MAJOR OBJECTIVES OF PROGRAM CAN BE ACHIEVED BUT IT WILL TAKE MORE TIME THAN ORIGINALLY ENVISIONED AND MUCH WILL DEPEND ON WEATHER FAVORABLE TO GOOD CROP PRODUCTION. INDEED, IT HAS BEEN UNDERSTOOD FROM THE BEGINNING THAT THE ACHIEVEMENT OF THE PROGRAM GOAL OF RAISING AND STABILIZING FARMGATE PRICES AND INCREASING BOTH CEREALS PRODUCTION AND EXPORT EARNINGS WILL REQUIRE A LONG-TERM COMMITMENT. KORN

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UNCLAS SECTION 01 OF * LOME 01103

AEPRP EVALUATION
TERMS OF REFERENCE

CLASS: UNCLASSIFI
CHRGE: AID 02/18/
APPRV: OAR:MGWENT
DRFTD: OAR:SKBLIS
CLEAR: OAR:EMCLEC
DISTR: OAR DCM CE

AIDAC

SECSTATE FOR AFR/DP/PAR; AFR/PD; AFR/CCWA;
ABIDJAN FOR PDRI

E.O. 12356 N/A
SUBJECT: TOGO AEPRP EVALUATION

REF: STATE 41541

AFTER HAVING DISCUSSED SUBJECT EVALUATION WITH TEAM MEMBERS, FRAENKEL AND SPOSATO, OAR/LOME HAS ADOPTED AND IS PROCEEDING WITH THE FOLLOWING TERMS OF REFERENCE (TOR):

THE EVALUATION EXPLORES BACKGROUND ISSUES TO THE ACTUAL POLICY REFORMS, I.E., QUALITY OF EXECUTION, STEPS REQUIRED FOR IMPROVED EXECUTION, REASONS FOR MODIFICATIONS IN PROGRAM EXECUTION, AND THE ECONOMIC AND POLITICAL ENVIRONMENT IN WHICH THE CONDITIONS MUST BE MET, IN SO MUCH AS THIS IMPACTS ON THEIR ULTIMATE FULFILLMENT. A SIXTH EVALUATION POINT (F) EVALUATES THE QUOTE GENERAL PROGRAM ENVIRONMENT UNQUOTE. IT FOCUSES ON THE GENERAL ECONOMIC PERFORMANCE AND IMPLEMENTATION OF UNDERSTANDINGS WITH INTERNATIONAL MONETARY FUND AND WORLD BANK PROGRAMS, AND, IN A MORE DETAILED FASHION, ON THE POSSIBILITIES OF DEVELOPMENT IN THE AGRICULTURAL SECTOR, REGIONAL MARKETING, AND OTHER ISSUES RELATED SPECIFICALLY TO THE OVERALL SUCCESS OF THE PROGRAM. RECOMMENDATIONS ARE INCLUDED IN A FINAL SECTION (G).

THE TERMS OF REFERENCE WILL FOLLOW THE CONDITIONS PRECEDENT AS STATED IN THE PROGRAM GRANT AGREEMENT:

A. EXPORT LICENSING

1. ISSUANCE - HAVE CEREALS EXPORT LICENSES BEEN ISSUED TO PRIVATE SECTOR TRADERS? IF NOT, WHAT ARE THE CIRCUMSTANCES THAT HAVE PREVENTED THIS?

2. IS A SYSTEM FOR ISSUING CEREALS EXPORT LICENSES IN PLACE? HAVE AUTHORIZED COMMITTEES MET AND MADE DECISIONS?

3. IS THE MANNER OF ISSUING LICENSES QUOTE OPEN AND FAIR UNQUOTE?

4. DOES A SUFFICIENT POOL OF PRIVATE ENTREPRENEURS, WHO ARE INTERESTED IN CEREALS EXPORTS, EXIST IN TOGO? WHO ARE THEY? WHERE ARE THEIR MARKETS?

5. HAS DESA ISSUED STATISTICS ON AGRICULTURAL PRODUCTION, NATIONAL CONSUMPTION NEEDS, AND SECURITY STOCK REQUIREMENTS? ARE THESE ESTIMATES ACCURATE AND TIMELY? GIVEN THE WEATHER AND OTHER FACTORS (E.G. GROWTH IN DOMESTIC DEMAND), HAVE QUOTE ADEQUATE UNQUOTE SURPLUSES BEEN AVAILABLE TO WARRANT THE ISSUANCE OF LICENSES? IS THE PROGRAM VIABLE IN THE ABSENCE OF SUBSTANTIAL CORN SURPLUSES?

6. HAVE ADDITIONAL PUBLIC OR PRIVATE ACTIONS (MESURES D'ACCOMPAGNEMENT), THAT APPEAR NECESSARY TO THE SUCCESS OF THE PROGRAM, BEEN TAKEN? THESE MIGHT INCLUDE PROVISION OF MARKET INFORMATION, CREDIT TRADE FAIRS, PRIVATIZATION OF CEREALS IMPORTS AND CASH CROP EXPORTS?

B. PUBLICATION AND DISSEMINATION OF STATISTICS

1. HAVE STATISTICS, DEALING WITH CROP PRODUCTION AND CONSUMPTION PRICES, FROM DATA GATHERED BY DESA, BEEN PUBLISHED? WHAT CHANNELS HAVE BEEN USED FOR DISSEMINATION OF THE STATISTICAL INFORMATION? WHICH AUDIENCES HAVE BEEN REACHED WITH THE INFORMATION? HOW HAS IT LED THEM TO TAKE ACTION? HAS IT BEEN PROVIDED ON A TIMELY BASIS? HAVE THESE STATISTICS LED TO CHANGED BEHAVIOR ON THE PART OF FARMERS, TRADERS, GOVERNMENT OFFICIALS?

2. HAS THE QUALITY OF THE STATISTICS BEEN ADEQUATE? IS THE RIGHT DATA BEING COLLECTED? WHAT IS THE TECHNICAL QUALITY OF THE DATA? FOR EXAMPLE, IS THERE SUFFICIENT SCOPE IN THE TYPE OF STATISTICS GATHERED, I.E., HAS PRICE DATA BEEN USED TO SUPPLEMENT QUANTITY ESTIMATIONS, ARE DATA COLLECTION POINTS SUFFICIENT IN NUMBER AND REPRESENTATIVE, ARE SUFFICIENTLY DIVERSE INDICES USED (COST, QUALITY, PRODUCTION, ETC.)?

UNCLAS SECTION 02 OF * LOME 01103

3. HAS THE TA PROVIDED TO DATE BEEN EFFECTIVE? WHAT ARE THE OBJECTIVES FOR THE TA THAT IS PROGRAMMED, IN PARTICULAR, WITH REGARD TO IMPROVING DESA'S PERFORMANCE? HAS THE DELAY IN PUTTING LONG-TERM TA IN PLACE HAMPERED PROGRAM PERFORMANCE?

C. OVERALL AGRICULTURAL CREDIT POLICY (MARKETING AND PRODUCTION)

C.1. HISTORY
C.2. RECENT EVOLUTION AND POSSIBLE ALTERNATIVES
C.3. IMPACT OF AID AND WORLD BANK PROGRAMS

D. TOGOGRAIN'S STATUS

1. WHAT ACTIVITIES IS TOGOGRAIN CONDUCTING? DOES IT MAINTAIN A SECURITY STOCK?

2. WHAT IS THE RELATION OF TOGOGRAIN TO THE PRIVATE EXPORT AND IMPORT COMPANIES HANDLING GRAIN? IS THE PRIVATE SECTOR CURRENTLY PERFORMING SOME OF THE FUNCTIONS FORMERLY PERFORMED BY TOGOGRAIN?

3. WHO ARE THE PRINCIPAL ACTORS IN TOGOLESE GRAIN MARKETS? HOW PREVALENT ARE NON-COMPETITIVE PRACTICES, SUCH AS COOPERATION AMONG TRADERS TO PAY LOW PRICES TO FARMERS? HAVE THEIR BEEN OTHER INTERFERENCES OR DISTORTIONS, EITHER GOVERNMENTAL OR PRIVATE IN NATURE, IN THE GRAIN MARKETS?

E. COUNTERPART FUNDS AND OPTIONS

1. HAVE THE COUNTERPART FUNDS BEEN APPROPRIATELY HANDLED TO DATE? HAS A SPECIAL ACCOUNT BEEN ESTABLISHED IN THE CNCA? WHAT HAVE BEEN THE CONSTRAINTS TO SPENDING THESE FUNDS? HAS MDR PREPARED PROPOSALS FOR POSSIBLE FUTURE USES OF THE FUND? IF SO, WHAT ARE THEY?

2. GIVEN THE CURRENT ECONOMIC SITUATION OF TOGO, IS THE COUNTERPART FUND A SOUND CONCEPT? IS IT PRACTICAL? IS IT NECESSARY? ARE THERE APPROPRIATE ALTERNATIVES OR ADJUSTMENTS THAT SHOULD BE MADE IN THE AEPRP PROGRAM GRANT AGREEMENT REGARDING THE COUNTERPART FUND? WHAT ARE THE GOVERNMENT'S VIEWS? WHAT SHOULD AID DO? IS THE COUNTERPART FUND CONSISTENT WITH THE 1988 GOT BUDGET? HOW DOES IT COMPARE WITH THE WAY PROCEEDS GENERATED FROM THE SALE OF IMPORTS ARE MANAGED UNDER PROGRAMS OF OTHER DONORS? HOW IT IS RELATED TO UNDERSTANDINGS CONCERNING BUDGET LIMITS WITH THE IMF AND THE WORLD BANK? ARE THERE BETTER USES FOR THE FUNDS THAN THOSE CURRENTLY IDENTIFIED? HOW DOES TOGO'S MEMBERSHIP IN THE WEST AFRICAN MONETARY UNION (FRANC ZONE) AFFECT THE MANAGEMENT OF THE COUNTERPART FUNDS?

3. ARE THERE PRACTICAL ALTERNATIVES IN TOGO, SUCH AS,

OTHER SPENDING ALTERNATIVES, GENERAL BUDGETARY SUPPORT, OR BETTER PLACEMENT OF THE FUNDS?

F. GENERAL PROGRAM ENVIRONMENT

1. OVERALL PERFORMANCE OF THE TOGOLESE ECONOMY AND FULFILLMENT OF ECONOMIC PROGRAMMING OBJECTIVES WITH THE IMF, WORLD BANK.

2. RETROSPECTIVE ON TOGOLESE AGRICULTURE.

3. THE GOT HAS FORMULATED A COMPREHENSIVE, MEDIUM-TERM REFORM, INVOLVING COMPLEX MEASURES IN MANY SECTORS OF THE ECONOMY. WHAT ARE THE GOVERNMENT'S INTENTIONS REGARDING THE SEQUENCING AND PACE OF REFORMS? (WE ARE PARTICULARLY INTERESTED IN KNOWING HOW THE LIBERALIZATION OF FOOD MARKETING, IN THE HOME MARKET AND FOREIGN SECTOR, FITS INTO THE OVERALL REFORM SCENARIO OF THE GOVERNMENT).

HOW HAS THE FARM AND BUSINESS SECTOR RESPONDED TO REFORMS TAKEN SO FAR? HOW HAVE GRAIN PRODUCERS AND TRADERS RESPONDED TO INCREASED OPPORTUNITIES TO EXPORT?

4. IS IT LIKELY THAT ECONOMIC REFORMS WILL LEAD TO WIDER USE OF NEW TECHNOLOGIES IN TOGOLESE AGRICULTURE?

UNCLAS SECTION 03 OF 03 LOME 01103

WHAT ARE THE PROMISING TECHNOLOGIES DEVELOPED BY INTERNATIONAL INSTITUTIONS (IITA, IFDC), OR BY TOGOLESE INSTITUTIONS AND PROJECTS (IFAD, PARTNERSHIP FOR PRODUCTIVITY) OPERATING IN TOGO, WHICH APPEAR APPLICABLE TO TOGOLESE AGRICULTURE? WHAT IS THE CONNECTION BETWEEN THE ECONOMIC REFORMS AND ADOPTION OF THESE NEW TECHNOLOGIES BY FARMERS? WHAT ARE THE OTHER PROBLEMS AND CONSTRAINTS OF TOGOLESE AGRICULTURE, I.E. ADEQUATE EXTENSION, MANPOWER, INPUTS, ETC.?

5. THE PROSPECTS OF INTRA-REGIONAL TRADE NEED TO BE EXAMINED. TO WHAT EXTENT IS IT LIKELY THAT THE ISSUING OF LICENSES TO EXPORT CEREALS WILL LEAD TO ADDITIONAL EXPORTS? WHAT ARE THE MAJOR EXPORT OPPORTUNITIES? WHAT ARE TRANSPORT COSTS, AND ALTERNATIVES FOR REDUCING THEM? TO WHAT EXTENT IS CEREALS EXPORT TRADE INCLUDED IN THE NATIONAL STATISTICS?

6. WHAT ARE LIKELY FUTURE SCENARIOS FOR TOGOLESE AGRICULTURAL DEVELOPMENT?

G. RECOMMENDATIONS TO OAR. KORN
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ANNEX C

Agricultural Retrospective

The agricultural sector accounts for 27 percent of GDP in Togo and 80 percent of the active work force. Togo is largely self-sufficient in food crops excepting sugar, rice, wheat and animal products. Self-sufficiency in certain products hovers near being complete but as in the case of maize may fall short in a bad harvest year.. Other crops, millet, sorghum, ignames, seem in permanent surplus. Agriculture is also an important export earner accounting for 31 percent of earnings in 1986. Principal export crops are cotton, cocoa and coffee in that order.

Production

Crop production accounts for nearly 85 percent of agricultural production; livestock, fishing and forestry representing the other 15 percent. Cereal production grew rapidly from the early 1970's (1972 - 74 period) to 1982 - 84. Maize production rose at a rate of 3.4 percent per annum, while millet and sorghum production increased by a full 5.3 percent. Both groundnut (4.3 percent per annum) and paddy rice (3.1 percent per annum) increased rapidly, while root crops either rose slightly, manioc (0.7 percent per annum) or fell, yams (-0.6 percent per annum) (see Table C.1.).

Growth in total food production by weight increased at a rate of only 1.2 percent per annum or from 1,071,000 MT to 1,230,000 MT, an increase of 159,000 MT over the period 1972-74 to 1984-86. When considering food production in terms of its nutritional component; however, this rate of growth is biased downward, due to the preponderant role of tubers, whose production declined over the period, but whose food value per kilogram is considerably less than that of cereals.

Converting all food crops to a wheat equivalent basis shows a somewhat higher rate of growth of 2.7 percent per annum from 401,000 tons to 535,000 tons, an increase of 152,000 tons.

This growth compares with population growth for the period of about 2.8 percent per annum and a growth in rural population estimated at 2.5 percent per annum, the difference representing rural urban migration. If we assume that the rural labor force grew at the same rate as rural population in general and that additional acreage was brought into cultivation, keeping the man/land ratio constant, we observe a slight growth in productivity in Togolese agriculture of 0.2 percent per annum.

Togolese agriculture still has abundant land resources available to it, of quality commensurate with that now being farmed. Total acreage farmed to food crops excluding fonio and niebe and some minor crops amounted to 652,861 hectares in the 1984-86 period. A rough estimate of the area for excluded crops would approximate 20 - 25,000 additional hectares. Cotton, cocoa and coffee together accounted for 162,00 ha..

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Table: C.1. Production of Basic Food Crops 1972-74 to 1984-86, Average Annual Production

	1972-74	1978-80	1984-86	Growth per annum 1984-86/1972-74
		-- 1,000 MT --		-- % --
Maize	119	145	177	3.4
Cassava	410	403	443	0.7
Millet/Sorghum	103	130	192	5.3
Yams	395	493	371	-0.6
Groundnuts	18	22	30	4.3
Paddy Rice	12	15	17	3.1
Total (MT)	1,071	1,223	1,230	1.2
Total (WE)	401	531	535	2.7

Area Cultivated Basic Food Crops, 1979-81 & 1984-86

	1979 - 81	1984 - 86	Growth per annum
	-- ha --		-- % --
Maize	146,667	211,267	7.5
Cassava	42,700	65,825	9.0
Millet/Sorghum	244,500	264,215	1.6
Yams	56,100	35,655	-8.7
Groundnuts	57,733	55,896	-0.7
Paddy Rice	18,267	20,003	1.8
Total	565,967	652,861	2.9

Source: Direction des Enquetes et des Statistiques Agricoles, MDR.

Total cultivated acreage amounted to about 15 percent of Togo's land surface, much of which is capable of cultivation under conditions similar to those presently employed. Examining the sub-period 1979-1981 to 1984-86, for which we have some data with a degree of reliability, total agricultural area expanded by 2.9 percent per annum or at a slightly more rapid rate than our estimate of the growth in the agricultural labor force.

A number of factors point to an acceleration in the rate of land use from that of an earlier period. Increasing use of animal traction, introduced systematically after 1979, may well be the principal factor in increasing the farmer's ability to bring acres under cultivation. Demographics or farming sociology may also have played a roled.

Type of Farming by Region

Togo is divided into two climatic zones by a range of very old and not very high mountains across the bottom third of the country from Kpalime in the West to Atakpame in the central Plateaux region.

To the north of this chain, climate is Soudano-Guinean with one rainy season. To the south the climate is Guinean with two rainy seasons. The rainiest areas are on the South Western slopes the chain where rainfall averages 1,500 mm per year and where cocoa and coffee are grown.

The coastal region receives considerably less rain, 600-900 mm annually, due to the climatic anomaly found in the Guinean Gulf from Accra to Lagos. The concave shape of this coast results in it being bypassed by the normal patterns of precipitation. Rainfall is also about 1,000 mm annually in the north of the country, but the higher temperatures there result in higher evaporation rates, and the progressive desertification that is affecting regions of Africa with Sahelian climate.

Rainfall at Atakpame average between 1,200-1,300 mm per year at the northern most limit of the areas with two rainy seasons. Average rainfall decreases both moving north and south as one moves onto the high plateau to the north and the sandy plateau around the coast. Corresponding roughly to these climatic zones, several different types of agriculture can be practiced.

The Maritime region along the coast is composed of sandy soil, not particularly rich in nutrientss but easy to work. To the north of the coastal areas soil becomes the heavy clay ferruginous soils, typical of most of the country. While not particularly rich, these soils can support a large number of different crops. The maritime region also possess a significant surface of low swampy areas, ideal for rice or sugar cane cultivation. River basins, especially along the Mono river but also along the Haho and Sio rivers possess rich alluvial soils. These, especially along the Mono river, are only marginally cultivated at present. Population is very dense in the rest of the Maritime region at 150 inhabitants km_2 except for the northwest. This has left little acreage unfarmed and consequently fallowing is not practiced.

Manioc and corn are the most important crops of the region, while vegetable gardening is practiced around the capital Lome. Cattle is little used in the southern part of the country, because odd disease problems in the more humid climate there. Ethnies inhabiting these regions are also little accustomed to the care and handling of cattle. Some pig and poultry breeding occurs around the cities and in exception to the general rule, which has more large animal husbandry being practiced in the North, feed lots exist around Lome and one large cattle ranch, as part of project activity, is being tried in the region of Kpalime just to the North of the Maritime region in the West.

The Plateaux can be divided into three zones from south to north. The southern plateaux, including part of the northern areas of the Maritime district (Prefectures Haho and Yoto) is not very densely populated (30-50 inhabitants/km_2) and land is not a limiting factor. Soils throughout the Plateaux region are largely of the ferruginous type, characteristic of the country, although a significant amount of unfarmable land exists, the result of milleniums of human habitation. The two rainy seasons are pronounced; significant cotton extension work has popularized the crop in this region. Ignames, corn and manioc are also grown.

The high plateau to the north of Atakpame (Prefectures Kloto, Wawa) still has two pronounced seasons. Rainfall is somewhat higher (1,200 - 1,500 mm) than on the rest of the plateaux. Land is relatively densely populated (40-60 inhabitants/km_2) with little additional land available. A complex land tenure system is combined with an involved pattern of share cropping. Oil palm plantations have been established recently and maize and cassava are the main food crops.

The Northern Plateaux (Prefecture Ogou) drained by the Ogou, Anie and Mono rivers, is a transitional zone from two to one rainy season. Maize, ignames and sorghum are the principal crops with some cotton being cultivated. Animal traction is being introduced pro-agressively into the areas. Area annual rainfall rages from 1,100 to 1,200 mm. Population density of 20-30 inhabitants/km_2 is rather low and arable land abundant.

The Central region Prefectures Sotobua, Tchaoudjo, Nyala) is limited to one rainy season from June to November. Rainfall averages from 1,200 mm in the south to as much as 1,600 mm in the north. Population density from 10-30 inhabitants/km_2 is among the lowest in the country, especially in eastern Nyala. Ferruginous soils dominate with an important percentage, about 25 percent, of unworkable soil. Sorghum, maize and yams are the main crops, while some cotton is also grown.

The administrative district of Kara can be divided into two agro-climatic zones. Lower Kara (Prefectures Bassar, Keran) has a very pronounced dry season with irregularly rainfall during the rest of the year. Bassar is an important production center for millet and sorghum. Cattle breeding though not largely practiced has potential.

Upper Kara (Prefectures Doufelgo, Binah, Kozah, Assoli) is higher in altitude and has more rainfall (averaging from 1,300 - 1,400 mm). Sorghum production and small cattle breeding are the principal agricultural activities. Population density is rather high from 50-100 inhabitants/km_2.

The Savannah region (Prefectures Tone, Oti) is Sahelian in climate and culture. Cattle grazing is practiced, sorghum, maize and millet are the principal cropping activities. Soil is almost exclusively of the ferruginous type found in abundance in the rest of the country. Area annual rainfall of 1,000 mm is offset by high temperatures and evaporation rates, as well as by the effects of the dry hot wind known as the Harmattan blowing down from the desert. Average population density of 50 inhabitants/km_2 has been stabilized by the implementation of the large game reserve. Land is generally scarce in areas which can be farmed.

Farming Systems

Although the greatest part of agricultural farming in Togo is still done using traditional techniques, most farmers have had contact with extension workers and have upgraded some of their practices. Planting dates, cultivation practices, crop rotation, and other techniques which can be mastered by the individual farmer, mirror recommended practices, where these have been demonstrated to improve the crop results.

Because the hoe is the traditional implement in this kind of cultivation, the quantity of land which can be brought under cultivation by any one farmer depends on the quantity of labor he can contract. Family structure is organized around creating a large labor pool to support the family. Polygamy is consequently the dominant family pattern, women and, to a lesser extent young men, working in the fields. Increasing scolarity of children in recent years has reduced the traditional family labor pool somewhat and has provided an additional attraction for animal tillage, which is systematically being introduced in many regions.

Because labor, especially during key periods of planting and harvest, as well as operational credit, are major constraints in terms of farm area worked. The average farm is still small, from 1 1/2 to 3 hectares. Usually animal traction is required for the farm to go beyond this size.

A detailed study by the Gesellschaft fuer Agrarprojecte Uebersee, entitled Assessment of Togo's Agricultural Production Potential, examined on a detailed basis for the different farm types in the principal agro-climatic regions of the country, the results of changes in farm technology in terms of costs, production and total returns.1/

These changes ranged from modest increases in fertilizer use, and plant protectants, to the full introduction of animal tillage. Only 30 percent of all farms will have adopted these new technologies by the year 2000. Tables C.2.- C.4. show the forecast evolution for farm production under present technology and that under the improved package recommended by the year 2000.

An additional 57,516 hectares is brought under cultivation, only 14/100 of a hectare per farm under the scenario with improved technology. Total farm income increases by $65.5 million or $154 per farm. This brings average net farm income to $894 per annum compared to $740 per annum without improvements.

Table C.5. shows the percent increases in crop production under improved technology with prevalent technology.

1/ Gesellschaft fuer Agrarprojecte in Ubersee, mbh., Assessment of Togo's Agricultural Production Potential, World Bank 1985.

TABLE C.2.: AGGREGATED DATA OF FARM MODELS 1 - 10

SCENARIO ONE: PRESENT TECHNOLOGY, GOWTH RATE OF FARMS ACCORDING TO MODELS

MODEL 1 - 10	1985	1990	1995	2000
Farm Number	275337	310522	351101	398013
Area Cultivated (ha)	563170	634347	716049	809998
Total Production (tons)				
- Maize	118523	135073	154019	175725
- Sorghum + Millet	103557	117130	132862	151152
- Groundnuts	16472	18658	21136	23945
- Cowpeas	17446	19922	22809	26183
- Cassava	256339	289355	326845	369423
- Yams	230717	279349	317833	374944
- Coffee	7830	8766	9824	11019
- Cotton	43892	49786	56473	64058
- Cocoa	10800	11112	11465	11863
- Oilpalm	403	460	524	597
Value of Crop Prod. (FCFA Mio)				
- Maize	6831	7783	8871	10117
- Sorghum + Millet	7521	8508	9647	10966
- Groundnuts	1760	1993	2256	2555
- Cowpeas	2553	2924	3359	3869
- Cassava	9831	11113	12568	14222
- Yams	11536	13517	15892	18747
- Coffee	2466	2761	3094	3471
- Cotton	3950	4481	5083	5765
- Cocoa	3240	3334	3439	3559
- Oilpalm	242	276	314	358
Livestock Prod. (FCFA Mio)	5448	6132	6912	7801
Input Requirements				
- Improved Seed (tons)	0	0	0	0
- Mineral Fertilizer (tons)	9116	10342	11734	13314
- Labour (ME)	721893	814344	920595	1042955
- Labour (1000 Mandays)	67785	76717	86994	98845
Value Added (FCFC Mio)	48563	55032	62518	71199
Net Farm Income (FCFA Mio)	47644	54005	61356	69887

Note: Area Cultivated in 1985 includes: Cocoa: 36.000 ha
Coffee: 52.000 ha
Cotton: 47.000 ha
Oilpalm Plant. not included

Improved Seed Requirements exclude Cotton

TABLE C.3.: AGGREGATED DATA OF FARM MODELS 1 - 10

SCENARIO TWO: IMPROVED TECHNOLOGY, GROWTH RATE OF FARMS ACCORDING TO MODELS
ADOPTION RATES: 1990-10%, 1995-20%, 2000-30%

Model 1-10	1985	1990	1995	2000
Farm Number	275337	310522	351101	398013
Area Cultivated (ha)	563170	649422	750046	867513
Total Production (tons)				
- Maize	118523	148532	184270	226802
- Sorghum + Millet	103557	122972	145873	172837
- Groundnuts	16472	26142	38071	52706
- Cowpeas	17446	24613	33398	44133
- Cassava	256339	317083	391908	484320
- Yams	230717	282475	344953	420529
- Coffee	7830	10235	13144	16646
- Cotton	43892	54736	67761	83384
- Cocoa	10800	11364	11949	12619
- Oilpalm	403	460	524	597
Value of Crop Prod. (FCFA Mio)				
- Maize	6831	8593	10694	13197
- Sorghum + Millet	7521	8930	10590	12543
- Groundnuts	1760	2760	3994	5510
- Cowpeas	2553	3493	4645	6053
- Cassava	9831	11970	14590	17814
- Yams	11536	14124	17248	21026
- Coffee	2466	3224	4140	5244
- Cotton	3950	4926	6098	7505
- Cocoa	3240	3409	3591	3786
- Oilpalm	242	276	314	358
Livestock Prod. (FCFA Mio)	5448	6132	6912	7800
Input Requirements				
- Improved Seed (tons)	0	2318	5244	8910
- Mineral Fertilizer (tons)	9116	21011	35879	54350
- Labour (ME)	721893	814344	920595	1042955
- Labour (1000 Mandays)	67786	78344	90709	105217
Value Added (FCFA Mio)	48563	60428	74175	90148
Net Farm Income (FCFA Mio)	47654	59266	72710	88322

Note: Area cultivated in 1985 includes: Cocoa: 36.000 ha
Coffee: 52.200 ha
Cotton: 47.000 ha
Oilpalm Plant. not included

Improved Seed Requirement exclude Cotton

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TABLE C.4.: AGGREGATED DATA OF FARM MODELS 1 - 10

SCENARIO THREE: IMPROVED TECHNOLOGY, GROWTH RATE OF FARMS ACCORDING TO MODELS
ADOPTION RATES: 1990-20%, 1995-40%, 2000-60%

Model 1 - 10	1985	1990	1995	2000
Farm Number	275337	310522	351101	398013
Area Cultivated (ha)	563170	664497	784044	925029
Total Production (tons)				
- Maize	118523	161990	214522	277880
- Sorghum + Millet	103557	128813	158884	194523
- Groundnuts	16472	33626	55006	81467
- Cowpeas	17446	29303	43987	62083
- Cassava	256339	344811	456972	599218
- Yams	230717	294601	372073	466115
- Coffee	7830	11704	16464	22273
- Cotton	43892	59686	79049	102709
- Cocoa	10800	11616	12473	13375
- Oilpalm	403	460	524	597
Value of Crop Prod. (FCFA Mio)				
- Maize	6831	9402	12516	16277
- Sorghum + Millet	7521	9353	11533	14119
- Groundnuts	1760	3527	5732	8465
- Cowpeas	2553	4063	5932	8237
- Cassava	9831	12826	16612	21405
- Yams	11536	14730	18604	23306
- Coffee	2466	3687	5186	7016
- Cotton	3950	5372	7114	9244
- Cocoa	3240	3485	3742	4012
- Oilpam	242	276	314	358
Livestock Prod. (FCFA Mio)	5448	6132	6911	7800
Input Requirements				
- Improved Seed (tons)	0	4635	10488	17820
- Mineral Fertilizer (tons)	9116	31680	60024	95386
- Labour (ME)	721893	814344	920595	1042955
- Labour (Mandays)	67786	79971	94423	
589				
Value Added (FCFA Mio)	48563	65824	85832	109096
Net Farm Income (FCFA Mio)	47654	64527	84064	106757

Note: Area cultivated in 1985 includes:
Cocoa: 36.000 ha
Coffee: 52.200 ha
Cotton: 47.000 ha
Oilpalm Plant. not included

Improved Seed Requirement exclude Cotton

Table C.5: Increase in Forecast Crop Production Under Improved Technology, 1985 - 2000.

Crop: (Year 2000)	Improved Technology: Present Technology: -- MT --	Improved Technology: Present Technology: -- % --	Crop: (Year 2000)	Improved Technology: Present Technology: -- MT --	Improved Technology: Present Technology: -- % --
Maize	51,078	22.5	Yams	45,586	10.8
Sorghum/ Millet	21,686	12.5	Coffee	5,627	33.8
			Cotton	19,325	23.2
Groundnuts	28,761	54.6	Cocoa	756	5.9
Cowpeas	17,950	40.6	Oil Palm	0	0
Cassava	114,898	23.7			

According to the projections of the study, value added under Togolese agriculture grows at the rate of 2.6 percent per annum under present technology from 1985 - 2000. Under improved technology, this rate of growth is increased to 4.2 percent per annum. Such a rate of growth would allow Togolese agriculture not only to feed its rapidly growing population which is forecast to continue growth of about 3 percent per annum but produce surpluses for export.

Under a system where the same technology improvements are adopted but at a faster rate, so that 60 percent of all farmers are using the new technology by the year 2000, area under cultivation is increased by 115,031 hectares as compared to the base scenario (Table C.4.). Number of farmers remains constant. As this scenario effectively doubles rates of adoption, with no loss in terms of the quality of farmers or farm land adopting the new technology, surplus quantities produced double as compared with the lower rate of adoption, i.e. an additional 102,156 MT of maize is produced as compared with the base scenario and 51,078 MT additional under an adoption rate of 30 percent -- half as fast. Rate of growth in value added is raised from 4.2 percent with the slower rate of adoption to 5.5 percent at 60 percent adoption.

Changes under both rates of adoption of new technologies occur with only a modest growth in area cultivated and no additional growth in the agricultural labor force over that forecast with existing technology. The entire growth, therefore, results from improved productivity.

Major constraints in the ability of farmers to apply the technologies advised under the alternative technology, given the modest nature of the changes proposed, would appear to be adequate extension and credit facilities.

In terms of the first constraint, that of adequate extension, government services appear to have been upgraded in close coordination with rural projects, in a manner to begin to systematically address the needs of the rural population. This achievement is already quite remarkable in the context of rural Africa. Continued improvements already underway will extend extension services both in area and quality and if the process continues at the present rate, should result in a quality national extension service with an adequate research backstop, well before the end of the 15 year period examined in the forecast scenario.

In terms of the other major obstacle, adequate rural credit more remains to be done. The recent difficulties of the CNCA (see above) and the limited role it has always played in production credits, have left the farmers with little formal credit support. Informal credit, given the inadequate levels of rural incomes, has not been sufficient to allow farmers in most areas to adopt the optimum technical packages available. By addressing the problems of rural incomes indirectly and that of rural credit directly, the Togo AEPRP can help address this important constraint and allow the country to develop its agricultural potential.

ANNEX D

Economic Overview

Togo's economy has resumed a pattern of growth after several years of fairly severe economic recession. Gross Domestic Product (GDP) declined by a full 5.4 percent in 1983 and 3.7 percent in 1982, averaging a decline of 3.3 percent per annum from 1980-84, a decline of 13.8 percent for the total period. Growth resumed in 1984 after implementation of a Structural Adjustment Program with the World Bank. Growth accelerated slowly from 1.3 percent in 1984, to 3.3 percent in 1985 and 3.8 percent in 1986 and 1987 (estimate).

While growth appears to have resumed, it can not be said to be clearly established. Sharp declines in the international prices of cocoa, coffee, and cotton, beginning in 1985 (see chart), as well as phosphate, and an equally sharp fall in the value of the dollar, in which sales for these commodities are made, has meant a sharp deterioration in Togo's terms of trade. Export value fell by more than 13 percent in both 1985 and 1986 and is estimated to have fallen an additional 6.5 percent in 1987 (Table D.1.).

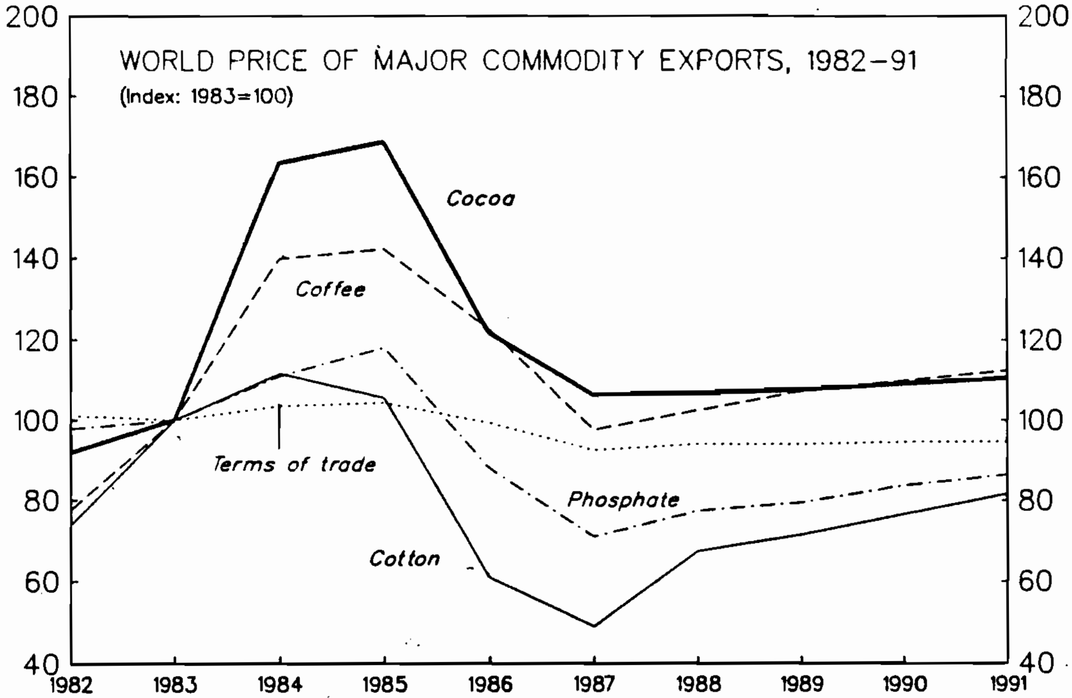
Table D.1.: Togo's Exports and Imports, recent years

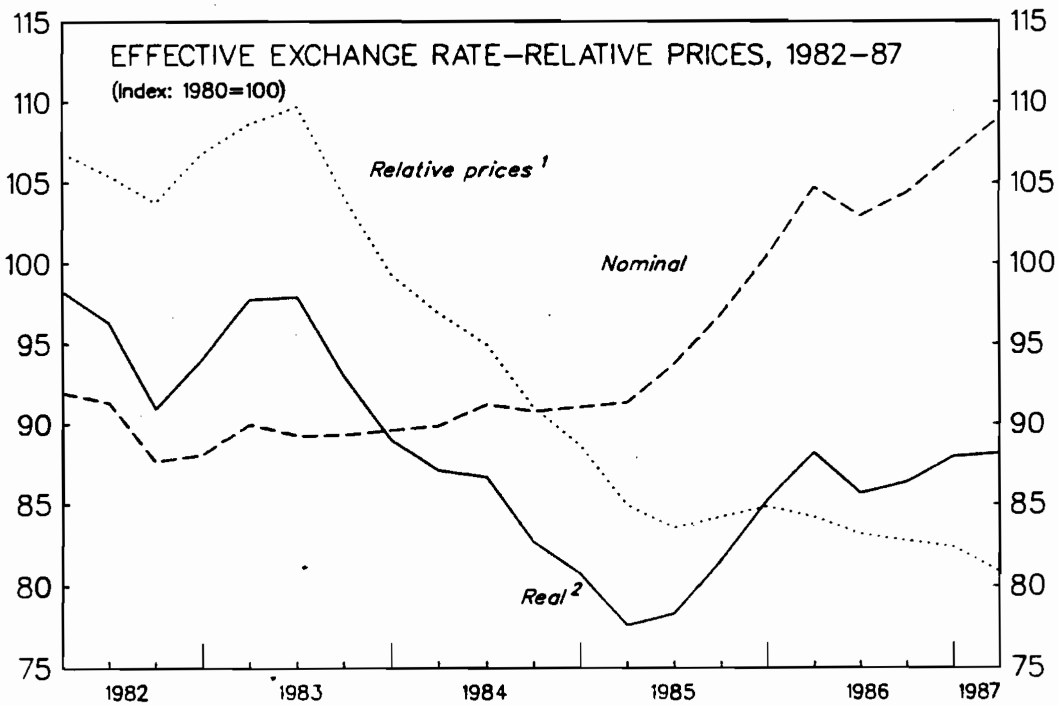
	1982	1983	1984	1985	1986	1987 (e)
	-- billions of F CFA --					
Exports	113.2	104.2	127.1	109.8	95.2	89.2
of which						
Coffee	6.2	4.9	3.0	11.9	9.1	7.8
Cocoa	5.6	5.5	21.0	6.8	9.5	9.8
Cotton	4.9	6.6	7.4	11.6	10.3	8.3
Phosphate	29.0	28.3	45.9	41.6	28.7	24.5
Clinker	8.3	11.8	2.6	0	0	0
Other	24.8	24.7	32.3	12.2	11.0	11.1
Re-exports	34.5	22.4	14.9	25.6	26.6	27.7
Imports	134.1	111.2	115.0	113.2	124.2	117.6
Consumer goods	83.5	67.6	63.6	60.3	60.5	64.2
Capital & Intermediate goods	38.5	35.1	40.1	45.4	58.0	47.8
Petroleum Products	12.1	8.5	11.3	7.5	5.7	5.6

The growth in domestic production has not been remarkable either when it is considered that the labor force is growing at somewhat more that 3.0 percent per annum, making the growth in productivity and per capita income about 0.8 percent in 1986 and 1987.

64x

CHART
TOGO
EXTERNAL FACTORS





Sources: For the top chart Appendix V, Table 2, and for the bottom chart Information Notice System.
1 Seasonally adjusted relative consumer prices (local currency); increase indicates higher domestic inflation.
2 Trade–weighted index of nominal effective exchange rate deflated by seasonally adjusted consumer prices; increase indicates an appreciation.

Much of the growth, moreover, would appear to result from heavy expenditures falling in 1986 for the joint Togolese-Beninese hydro-electric project at Nangbeto. These expenses, which have proceeded according to schedule would, nevertheless, have a short term effect in increasing economic activity which may not be sustainable.

This appears to be all the more so, as the major economic sectors, agriculture, trade and tourism, and mineral extraction, are all suffering from difficulties. While the infrastructure for sustained agricultural growth has been put in place, agricultural growth has been put in place, agricultural production suffered from the weather failures of 1985 and 1986. A general deteriorate in weather patterns has been plaguing the country over the last decade.

Regional trade services through the port of Lome have also declined as many of Togo's neighboring countries are experiencing slow growth. The extraction industry is also plagued by low international prices and problems particular to Togo, notably the high cost of electricity in the extraction of clinker.

The GOT has recently decided to placed its development emphasis on agriculture. A large shift in investment priorities has occurred in recent years as the government has closed industrial parastatals in favor of the private sector. In agriculture also the private sector will be the dominant development force, as new government investment is concentrated in extension, rural roads and support services. The government has taken care to withdraw from its role as principal marketing agent for food crops, and privatization is slowly extending into other agricultural areas still under government aegis, although in some areas open private sector competition has produced government withdrawal.

Origins of Current Economic Problems

Togo is faced with economic problems of two types, those external to Togolese economic and political management and those resulting from recent economic and policy decisions. The former are several in number and restrain significantly the ability of the GOT to manage the current crisis. These are (1) low world commodity prices, (2) an exceedingly low dollar/FCFA exchange rate, and (3) problems among Togo's West African trading partners which restrain the development of this market. Among the problems of local provenance we will underline (1) excessive non-performing government investment, and (2) failure to restrain current fiscal expenditures. We shall examine, herewith, the origin of these problems and how they are being dealt with.

Togo experienced a first development stage from 1969 to 1974, with annual growth averaging 7 percent per annum. This auspicious first stage ran into the difficulties of the economic turmoil of the 1970's, from which the economy was to emerge with significant structural problems.

The 1974 rise in petroleum prices were accompanied by a rise in other commodity prices, and, notably, by a steep rise in phosphate

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prices, which account for 27 percent of Togolese exports. Unfortunately the rise in phosphate was to be short lived, prices declining sharply by 1975 while petroleum prices remained elevated throughout the decade and, though below their 1979 peak, remain high today.

Initial optimism resulting from the increased phosphate revenues, and projections for continuing high prices by most international observers, led the government to embark on an overly ambitious investment program. Failure of many of these investments to prove profitable in an increasingly competitive international environment, as well as internal management problems in many of these state run enterprises, left the government with large debts to service and declining revenues by the early 1980's. Indeed external debt service rose to 21.1 percent of GDP in 1980 from only 3.2 percent in 1977. Faced with this situation the government appealed to the international community. Both the World Bank and the IMF responded with a first Structural Adjustment Loan in 1983 from the Bank and several credit purchases under stand-by agreements with the Funds. As counterpart for these enhanced loan flows, the GOT was asked to undertake a number of reforms, to improve the government's investment portfolio, by privatizing non-performing public enterprises, and to bring the current fiscal expenditures into line with revenues.

The IMF's review of the December 1986 performance criteria under the Fund's stand-by agreement with the GOT, found the performance criteria relating to credit and to external payments, not to have been observed. This resulted largely from a rapid deterioration in the fiscal situation in the last quarter of the year. This deterioration came about through extra-budgetary expenditures of F CFA 10.5 bln ($35 mil), 26 bln F CFA for the November 1986 summit meeting of the Francophone heads of state, 3.5 bln F CFA for the construction of a new market place in Lome, and 5.0 bln F CFA for the purchase of a presidential airplane. As few recurrent expenditures are involved with these purchases, the deterioration in the fiscal balance will remain limited. Nevertheless, the failure of the government to deal with the fiscal problems in a stringent manner conforming to international commitments is perhaps instructive. Further actions of this type will make the situation even more intractable.

It is noteworthy, though, that these investments came after civil strike, resulting from cross border attacks by externally sponsored rebels. As such they may represent no more than a timely response to an unforeseeable political event and have no further long term implications. Before then, Togo had been largely in compliance with the terms of the standby agreement. In May 1987 Fund staff reached understandings with the Togolese authorities on a revised program proposed for 1987.

Togo has been a recipient of two Structural Adjustment Loans, the first in 1983 and a second in 1986. Performance has generally been good with privatization and closure of public parastatals moving forward on a broad base. Reform of public administrations, at least in the area of agricultural support services, seems to have been very effective, leaving Togo with one of the better extension services and agriculture input distribution services in Africa. State promoted small co-operative movements called "groupements" have also developed rapidly.

Agriculture is also one area where privatization and commercial activities has moved forward on schedule with the withdrawal of TOGOGRAIN from most of its marketing activities. We shall deal with privatization of agricultural marketing further, because of its importance to the AEPRP.

Privatization efforts under the 1986 Structural Adjustment Program have been accelerated in 1987 for the remaining enterprises targeted. Continuing performance problems in respect to monetary and fiscal policy have, however, slowed donor disbursement and led to the postponement of a planned third Structural Adjustment Loan in 1988.

Togo remains, in spite of its recently problematic economic and fiscal policies, one of the brighter poles of development in Africa. Infrastructure is good and well maintained, government services effective, and relatively free of corruption, and private enterprise activity is energetic and effective. The country has enjoyed a long period of political stability, which, while recently threatened from without, shows every sign of continuing. Resources in Togo are not superabundant but adequate for the level of population and able to sustain a much higher standard of living that that achieved at present. Because of its role as regional port and transit center, Togo can also serve as a regional pole of development. It would be unfortunate, indeed, if Togo were to drag itself into the morass of difficulties affecting the rest of West Africa.

Annex E

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N.B. Due to the brief period the evaluation team spent in the field, we relied heavily on secondary sources in dealing with background issues to the evaluation. Adequate reference is not always given in the text but where possible observations resulting from these sources are cited. This biliography supplements those citations, while in addition providing reference to additional source material on some of the subjects treated, even though these sources themselves may have been only cursorialy used.

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