
TOGO

2024

January

Component: Revenue

Module: RM I – Tax Policy

PROJECT SUMMARY**COUNTRY:** Togo**LEAD DEPARTMENT:** Fiscal Affairs Department**REGION:** Africa**PROGRAM ID:** (To be filled out by Secretariat)**PLANNED DATES:** February 2024 – April 2027**FUNDING PROGRAM TITLE:** GPFP Togo**PROJECT MANAGERS:** Thomas Benninger**RM I / TAX POLICY:** Thomas Benninger – T1**PROJECT LEAD MANAGER:** Thomas Benninger – T1**BUDGET FOR ENDORSEMENT:** \$ 166,920

Contents

Project Summary	2
I. Project Purpose	4
II. Background	5
III. Project Level Description	6
A. Project Scope	6
Table 1. Summary of Objectives covered by the Proposal	6
B. Country Engagement	6
C. Delivery Modalities	6
D. Coordination / Cooperation	6
IV. Risk Assessment and Mitigation	7
V. CD Delivery Plan Country Level	7
Table 2. Summary of Indicative CD Delivery	7
VI. Program Financials	7

*Togo***I. PROJECT PURPOSE**

The country's authorities have expressed interest in a new CD project to strengthen revenue mobilization. The overall fiscal deficit widened to 7.1 percent of GDP in 2020 due to COVID-related current spending, revenue shortfalls, and higher capital spending, before moderating in 2021 thanks to a rebound in tax revenue. However, the tax-to-GDP remains low at 14 percent of GDP. The authorities are in the process of negotiating an IMF program, which envisages ambitious increases of revenues of 0.5 percent of GDP per year.

This initial project proposal focuses on scoping a full tax policy project. The last tax policy engagement with the Togolese authorities dates back to 2017. The authorities have requested support in developing a revenue mobilization strategy and capacity development support for the newly established tax policy unit. This project proposal only covers an initial diagnostic mission to scope a full 3-year tax policy project. It is expected that a full project proposal will be developed and presented to the GPFP in FY25.

The diagnostic mission and the scoping for a full project has been discussed with the authorities. The estimated budget for this project is \$166,920 and endorsement is requested for the full amount.

II. BACKGROUND

Macro-fiscal situation

Macroeconomic performance is expected to remain robust over the medium term. Growth is expected to remain at 5.8 percent per year despite the gradual withdrawal of fiscal stimulus, thanks to the substantial structural reforms conducted in recent years. However, food insecurity is on the rise, and terrorist attacks in the country's North persist.

Due to the supportive fiscal policy stance, deficits and public debt rose sharply over 2020–22. The overall fiscal deficit widened to 7.1 percent of GDP in 2020 due to COVID-related current spending, revenue shortfalls, and higher capital spending. After a temporary consolidation in 2021, the deficit ballooned to 8.3 percent of GDP in 2022 primarily driven by higher expenditure – raising the debt level to 67 percent of GDP.

The authorities intend to raise revenue by 0.5 percent of GDP per year. Tax revenue have bounced back to the pre-covid level of 13.5-14.0 percent of GDP. At present, tax revenue appears to suffer from administrative challenges policy challenges such as weak capacity to tax property, the granting of exemptions leading to large tax expenditures, loopholes in the personal income tax, and international tax issues. Authorities plan to achieve the growth of tax revenue through the implementation of a new revenue mobilization strategy.

IMF priority areas / cross-cutting themes

The project will assess how tax policy could support climate change mitigation. In preliminary discussions, the authorities have emphasized the importance of addressing environmental taxation. It is expected that this will also look into the role of tax policy in support of climate change mitigation.

Country engagement and alignment to reform priorities

The authorities have requested an ECF program with the IMF which would anchor the fiscal consolidation and accelerate fiscal structural reforms. Key structural reforms include ending fuel subsidies, evaluating social safety nets, developing a tax policy agenda, modernizing revenue administration, and improving the monitoring of fiscal risks and fiscal reporting.

III. PROJECT LEVEL DESCRIPTION

A. Project Scope

This project is aligned with the government's priorities and supports the requested IMF program which envisages a revenue-led consolidation. The authorities have requested tax policy support at the Spring Meetings 2023. FAD already actively supports the ECF program negotiation, but the authorities need substantial support to define and implement a credible revenue mobilization agenda.

While this project proposal is developed by tax policy, the scoping mission will incorporate revenue administration aspects. The authorities receive revenue administration support through the regional advisor at AFRITAC West 2. It is envisaged that revenue administration will join the scoping mission to assess if a full tax policy and revenue administration project is required.

Table 1. Summary of Objectives covered by the Proposal

Component	Module	Objective
Revenue	RM I / Tax Policy	• Improve tax policy design • Strengthen policy monitoring and evaluation and build institution capacity for tax policy

B. Country Engagement

The Tax Policy Unit is expected to be the key counterpart. In 2017, the authorities have created a tax policy unit (TPU). The TPU reports directly to the Minister of Economy and Finance and is responsible for all tax policy aspects including the development of legislative proposals and the evaluation of tax expenditures. The project will closely coordinate with the Togolese Revenue Office.

C. Delivery Modalities

The initial diagnostic is done through a HQ-led in-person mission. The diagnostic will assess the best delivery modality for the full project proposal.

D. Coordination / Cooperation

The authorities receive IMF fiscal CD in revenue administration and PFM. AFRITAC West 2 provides support in tax and customs administration, public finance management and macro-fiscal management. PFM support is also provided through an HQ-led project including a resident advisor. The diagnostic mission will identify other development partners providing support in revenue mobilization and discuss with them how IMF CD could best provide complementary assistance.

IV. RISK ASSESSMENT AND MITIGATION

No material risks are envisaged for the scoping mission. A full risk matrix will be developed for the full project proposal after the diagnostic mission.

V. CD DELIVERY PLAN COUNTRY LEVEL

Table 2. Summary of Indicative CD Delivery

CD Modalities (Remote or Field-based CD)	FY24	FY25	FY26	Grand Total
RM I / Tax Policy				
HQ-led CD mission (incl. LTX)	1	-	-	1

VI. PROGRAM FINANCIALS

	FY24 Q4	TOTAL (USD)
Direct Delivery	156,000	156,000
Module RM I - Tax Policy	156,000	156,000
Module RM II - Revenue Administration	0	0
Module SM I - Spending Policy	0	0
Module SM II - Managing Public Finances	0	0
Subtotal	156,000	156,000
Trust fund management fee (7%)	10,920	10,920
TOTAL	166,920	166,920

The estimated budget for this project is \$166,920 and endorsement is requested for the full amount.