Document of
The World Bank

Report No: ICR00003979

IMPLEMENTATION COMPLETION AND RESULTS REPORT
(IDA-H4540)

ON A GRANT

IN THE AMOUNT OF SDR 8 MILLION
(US$12 MILLION EQUIVALENT)

TO THE

REPUBLIC OF TOGO

FOR A

FINANCIAL SECTOR AND GOVERNANCE PROJECT

March 28, 2017

Finance and Private Sector Development
Western and Central Africa
Africa Region

CURRENCY EQUIVALENTS

(Exchange Rate Effective December 30, 2016
Currency Unit = CFAF
US$ 1 = CFAF 621.2

FISCAL YEAR
January 1 – December 31

ABBREVIATIONS AND ACRONYMS

APIM	*Association Professionnelle des Institutions de Microfinance* Microfinance Institutions Professional Association
BCEAO	*Banque Centrale des Etats de l'Afrique de l'Ouest* West African States Central Bank
BIA	*Banque Internationale pour l'Afrique* International Bank for Africa
BTCI	*Banque Togolaise pour le Commerce et l'Industrie* Togolese Trade and Industry Bank
BTD	*Banque Togolaise de Développement* Togolese Development Bank
CAS-IMEC	*Cellule d'Appui et de Suivi des Institutions Mutualistes ou Coopératives d'Epargne et de Crédit* Support and Monitoring Unit for Mutuals or Credit and Savings Cooperatives
CNSS	*Caisse Nationale de Sécurité Sociale* National Social Security Institution
CRT	*Caisse de Retraite du Togo* Togolese Pension Fund
DPO	Development Policy Operation
FM	Financial Management
FSGP	Financial Sector and Governance Project
IDA	International Development Association
FNFI	National Fund for Inclusive Financing
IMF	International Monetary Fund
M&E	Monitoring and Evaluation
MFI	Microfinance Institution
NPLs	Non-Performing Loans
PAR	Portfolio at Risk
PARMEC	*Projet d'Appui à la Réglementation des Mutuelles d'Epargne et de Crédit* Support Project for Savings and Credit Cooperatives Regulation
PASNAM	*Programme d'Appui à la Stratégie Nationale de Microfinance* Support Program to the National Microfinance Strategy
PIU	Project Implementing Unit
PRGF	Poverty Reduction and Growth Facility
I-PRSP	Interim Poverty Reduction Strategy Paper

SCD	Systematic Country Diagnostic
SCAPE	Strategy for Accelerated Growth and Promotion of Employment
SP-PRPF	*Secrétariat Permanent pour le Suivi des Politiques de Réformes et des Programmes Financiers* Permanent Secretariat for the monitoring of reform policies and financial programs
UNDP	United Nations Development Programme
UTB	*Union Togolaise de Banque* Togolese Banking Union
WAEMU	West African Economic and Monetary Union
WAMU	West African Monetary Union

Regional Vice President:	Makhtar Diop
Senior Global Practice Director:	Ceyla Pazarbasioglu
Practice Manager:	Alejandro Alvarez de la Campa
Project Team Leader:	Philippe Marie Aguera
ICR Team Leader:	Philippe Marie Aguera
ICR Primary Author:	Ana Lucia Armijos

REPUBLIC OF TOGO
Financial Sector and Governance Project

CONTENTS

A. Basic Information			
Country:	Togo	Project Name:	Togo - Financial Sector and Governance Project
Project ID:	P111064	L/C/TF Number(s):	IDA-H4540
ICR Date:	01/02/2017	ICR Type:	Core ICR
Lending Instrument:	SIL	Borrower:	MINISTRY OF FINANCE
Original Total Commitment:	XDR 8.00M	Disbursed Amount:	XDR 7.70M
Revised Amount:	XDR 8.00M		
Environmental Category: C			
Implementing Agencies: Ministry of Finance			
Co-financiers and Other External Partners:			

B. Key Dates				
Process	**Date**	**Process**	**Original Date**	**Revised / Actual Date(s)**
Concept Review:	07/24/2008	Effectiveness:	08/11/2009	08/11/2009
Appraisal:	12/01/2008	Restructuring(s):		01/31/2013 12/03/2014 08/11/2015
Approval:	03/31/2009	Mid-term Review:	03/01/2012	05/29/2012
		Closing:	12/31/2014	06/30/2016

C. Ratings Summary	
C.1 Performance Rating by ICR	
Outcomes:	Moderately Unsatisfactory
Risk to Development Outcome:	Substantial
Bank Performance:	Moderately Satisfactory
Borrower Performance:	Moderately Unsatisfactory

C.2 Detailed Ratings of Bank and Borrower Performance (by ICR)			
Bank	**Ratings**	**Borrower**	**Ratings**
Quality at Entry:	Moderately Satisfactory	Government:	Moderately Unsatisfactory
Quality of Supervision:	Satisfactory	Implementing Agency/Agencies:	Moderately Satisfactory
Overall Bank Performance:	Moderately Satisfactory	**Overall Borrower Performance:**	Moderately Unsatisfactory

C.3 Quality at Entry and Implementation Performance Indicators			
Implementation Performance	**Indicators**	**QAG Assessments (if any)**	**Rating**
Potential Problem Project at any time (Yes/No):	No	Quality at Entry (QEA):	None
Problem Project at any time (Yes/No):	Yes	Quality of Supervision (QSA):	None
DO rating before Closing/Inactive status:	Moderately Unsatisfactory		

D. Sector and Theme Codes		
	Original	**Actual**
Sector Code (as % of total Bank financing)		
Public administration - Financial Sector	14	14
Compulsory pension and unemployment insurance	10	10
Microfinance	32	32
Banking Institutions	44	44

Theme Code (as % of total Bank financing)		
Corporate governance	20	20
Other Financial Sector Development	20	20
Regulation and competition policy	20	20
State-owned enterprise restructuring and privatization	40	40

E. Bank Staff		
Positions	**At ICR**	**At Approval**
Vice President:	Makhtar Diop	Obiageli Katryn Ezekwesili
Country Director:	Pierre Frank Laporte	Madani M. Tall
Practice Manager/Manager:	Alejandro Alvarez de la Campa	Iradj A. Alikhani
Project Team Leader:	Philippe Marie Aguera	Guillemette Sidonie Jaffrin
ICR Team Leader:	Philippe Marie Aguera	
ICR Primary Author:	Ana Lucia Armijos	

F. Results Framework Analysis

Project Development Objectives (from Project Appraisal Document**)**
The project development objective is to improve the financial sector stability by supporting the Government financial sector reform program. Financial sector restructuring will lead to more efficient resource allocation towards poverty reducing and growth inducing sectors. The project will provide technical assistance to various stakeholders to support the financial sector reform program of the Government of Togo.

Revised Project Development Objectives (as approved by original approving authority)
The revised Project Development Objective is to improve the stability of specific segments of the Recipient's financial sector to support the Recipient's financial sector reform program.

(a) PDO Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	After the recapitalization of Togolese commercial banks (BTCI, UTB and BIA), the Government will no longer contribute to the absorption of losses, recapitalization and liquidity of commercial banks.			
Value quantitative or Qualitative)	Banks were not recapitalized	True		True
Date achieved	03/31/2009	12/31/2014		06/30/2016
Comments (incl. % achievement)	Achieved. Since 2011 no budgetary support was granted by the State to the commercial banks (BTCI, UTB and BIA)			
Indicator 2 :	BTCI and UTB meet key prudential norms (solvency) by 2009 and every year until the end of the project			
Value quantitative or Qualitative)	Not available	Yes		BTCI: -42.9% UTB: -13.5%
Date achieved	03/31/2009	12/31/2014	08/11/2015	06/30/2016
Comments (incl. % achievement)	Not Achieved. This indicator was revised in the 3rd restructure (Aug 2015) whereby BIA was dropped. BTCI & UTB have not been privatized. BTCI remains with high negative equity. The Banking Commission has evaluated UTB within the perspective of a merger			
Indicator 3 :	Percentage of MFIs (with outstanding loans over 1 billion CFAF) meet key prudential ratio (liquidity ratio and long-medium term asset/liability ratios) by end of project			

Value quantitative or Qualitative)	No prudential ratios have been defined by BCEO	100%	80%	42%
Date achieved	03/31/2009	12/31/2014	01/31/2013	06/30/2016
Comments (incl. % achievement)	Partially achieved. Fifty five percent of compliance rate. This indicator was revised in the 1st restructure (Jan 2013). The prudential standard ratios have been met by 42% (5/12) of targeted Institutions.			
Indicator 4 :	Project direct beneficiaries			
Value quantitative or Qualitative)	None	None	2000	3785
Date achieved	03/31/2009	12/31/2014	01/31/2013	06/30/2016
Comments (incl. % achievement)	Achieved. This indicator was added in the 1st restructure (Jan 2013)in reference to direct beneficiaries of training, workshops, conference attendance and study tours, carried out on the basis of annual training and activities plan. The number of beneficiaries reached 3785, far exceeding its original target.			
Indicator 5 :	Percentage of female beneficiaries			
Value quantitative or Qualitative)	None	None	30%	15%
Date achieved	03/31/2009	12/31/2014	01/31/2013	06/30/2016
Comments (incl. % achievement)	Not achieved. This indicator was added in the 1st restructure (Jan 2013) and refers to the female participation on training, workshops, conference attendance and study tours carried out according to the training and activities Plan.			

(b) Intermediate Outcome Indicator(s)

Indicator	Baseline Value	Original Target Values (from approval documents)	Formally Revised Target Values	Actual Value Achieved at Completion or Target Years
Indicator 1 :	BTCI and UTB have new gross NPLs below 5 % of total loans each year (starting in 2009)			
Value (quantitative or Qualitative)	> 5%	< 5%		BTCI 51.25% UTB 5.27%
Date achieved	03/31/2009	12/31/2014		06/30/2016
Comments (incl. % achievement)	Not Achieved. At present, the Togolese banking sector is very competitive. In the case of BTCI the strategy of the Directors has not favored the recovery of the Bank.			

Indicator 2 :	BTCI and UTB meet liquidity norm by 2009 and every year until the end of the project.			
Value (quantitative or Qualitative)	<75%	>75%	BIA was dropped	BTCI 52.11% UTB 39.47%
Date achieved	03/31/2009	12/31/2014	08/11/2015	06/30/2016
Comments (incl. % achievement)	Not Achieved. This indicator was revised in the 3rd restructure (Aug 2015) whereby BIA was dropped. The liquidity ratio is calculated following the BCEO norms.			
Indicator 3 :	Two out of the four targeted banks (BTCI, UTB, BIA , BTD) have entered into partnerships with strategic banking investors by June 20110, the third bank, by 2012			
Value (quantitative or Qualitative)	None	2 out of 3 (BTCI,UTB,BIA)	2 out of 4 (BTCI, UTB, BIA , BTD)	2 (BIA,BTD)
Date achieved	03/31/2009	12/31/2014	01/31/2013	06/30/2016
Comments (incl. % achievement)	Achieved. Two contracts were signed for the transfer of the BTD and the BIA-Togo. The transactions were fully completed in 2013.			
Indicator 4 :	The agency in charge of loan recovery and of creating a secondary market for government securities is established by end 2009 and is operational from 2013			
Value (quantitative or Qualitative)	Not created	Operational by 2010	Operational by 2013	Operational
Date achieved	03/31/2009	12/31/2014	01/31/2015	06/30/2016
Comments (incl. % achievement)	Achieved. The Collection Agency of Togo (SRT) was created by Decree of September 8, 2011 and became operational in May 2012. At end 2015, it had recovered CFAF 1.038 billion against CFAF 810 million recovered at end 2014			
Indicator 5 :	At least 75% of MFIs transmit statistical data in compliance with new accounting plan			
Value (quantitative or Qualitative)	None	None	75%	100%
Date achieved	03/31/2009	12/31/2014	01/31/2013	06/30/2016
Comments (incl. % achievement)	Achieved. This indicator was added in the 1st. restructure (Jan 2013). The target was exceeded at project's closure			
Indicator 6 :	At least 75% of Microfinance Institutions with outstanding loans over 1 billion			

	CFAF, have Portfolio at Risk over 90 days (PAR>90) below 5 % by the end of the project			
Value (quantitative or Qualitative)	67%	>75%	At least 75%	25%
Date achieved	03/31/2009	12/31/2014	01/31/2013	06/30/2016
Comments (incl. % achievement)	Partially Achieved. Thirty three percent compliance rate. This indicator was added in the 1st restructure (Jan 2013). Three out of twelve (25%) of the targeted institutions have complied with this key prudential ratio.			
Indicator 7 :	All Microfinance Institutions (MFIs) with outstanding loans over 1 billion CFAF have their financial statements audited and certified yearly by BCEAO registered auditors			
Value (quantitative or Qualitative)	Not yet audited or certified	100%		50%
Date achieved	03/31/2009	12/31/2014		06/30/2016
Comments (incl. % achievement)	Partially Achieved. Six out of twelve (50%) targeted institutions have complied with this requirement			
Indicator 8 :	At least 75% Microfinance Institutions (MFIs) with outstanding loans over 1 billion CFAF have undergone at least one transparency exercise between 2009 and 2016			
Value (quantitative or Qualitative)	50%	>75%	75%	91%
Date achieved	03/31/2009	12/31/2014	08/11/2015	06/30/2016
Comments (incl. % achievement)	Achieved. This indicator was revised in the 3rd restructure (Aug 2015). The transparency exercise comprises publication of information on products, customers, financial information and/or ratings			
Indicator 9 :	At least 75% Microfinance Institutions (MFIs) with outstanding loans over 1 billion CFAF report their financial information on Mix Market (www.mixmarket.org), starting in 2009			
Value (quantitative or Qualitative)	Not available	>75%	75%	75%
Date achieved	03/31/2009	12/31/2014	08/11/2015	06/30/2016
Comments (incl. % achievement)	Achieved. 9 out of 12 MFIs (75%) have published on the web, at least one of their financial statements of the last four fiscal years (2012-2015).			
Indicator 10 :	CAS-IMEC (Support and Monitoring Unit for Mutual or Credit and Savings			

	Cooperatives) adopts a code of ethics by the end of the project			
Value (quantitative or Qualitative)	None	None	Yes	Yes
Date achieved	03/31/2009	12/31/2014	08/11/2015	06/30/2016
Comments (incl. % achievement)	Achieved. This indicator was added in the 3rd restructure (Aug 2015). CAS-IMEC has adopted the code of ethics that establishes the values, ethics and the principles of supervision			
Indicator 11 :	Volume of World Bank Support to Institutional Development of the Microfinance Sector			
Value (quantitative or Qualitative)	Not applicable	None	US$2500.000	US$2758.000
Date achieved	03/31/2009	12/31/2014	01/31/2013	06/30/2016
Comments (incl. % achievement)	Achieved. This indicator was added in the 1st restructure (Jan 2013). The actual value exceeded the target by 10 percent.			
Indicator 12 :	The legal framework for CRT (Togolese Pension Fund) is modified according to established best practices by 2016. In particular, parameters for contribution and payments are established through decrees			
Value (quantitative or Qualitative)	Not modified	By 2011	By 2016	Not adjusted
Date achieved	03/31/2009	12/31/2014	08/11/2015	06/30/2016
Comments (incl. % achievement)	Not Achieved. This indicator was revised in the 3rd. restructure (August 2015). The legal framework of the CRT could not be changed due to the complexity of the reforms and the unfavorable social and economic context			
Indicator 13 :	The legal framework for CNSS (National Social Security Institution) is modified according to established best practices by 2011. In particular, parameters for contribution and payments are established through decrees			
Value (quantitative or Qualitative)	Not modified	By 2011		Modified
Date achieved	03/31/2009	12/31/2014		06/30/2016
Comments (incl. % achievement)	Achieved. Law No. 2011-006 adopted February 21, 2011 established a new social security Code.			
Indicator 14 :	The parameters for CRT have been adjusted through decrees, according to the findings of the actuarial study by 2016.			

Value (quantitative or Qualitative)	Not adjusted	By 2011	By 2016	Not Adjusted
Date achieved	03/31/2009	12/31/2014	08/11/2015	06/30/2016
Comments (incl. % achievement)	Not Achieved. This indicator was revised in the 3rd restructure (August 2015). The 2010 actuarial study was updated in 2016. The new reforms are more flexible, however, they have not been implemented due to the complexity of the Togolese social and economic context.			
Indicator 15:	The parameters for CNSS have been adjusted through decrees, according to the findings of the actuarial studies by 2011			
Value (quantitative or Qualitative)	Not adjusted	By 2011		Adjusted
Date achieved	03/31/2009	12/31/2014		06/30/2016
Comments (incl. % achievement)	Achieved. Decree No. 2012-038/PR of June 27, 2012 revised the contribution & payments parameters to the various branches of social security			
Indicator 16:	The Reform Secretariat is fully operational and demonstrates the ability to identify and steer key reforms in the financial and private sectors			
Value (quantitative or Qualitative)	Established but not fully operational	Fully operational		Fully operational
Date achieved	03/31/2009	12/31/2014		06/30/2016
Comments (incl. % achievement)	Achieved			
Indicator 17:	At least one recommendation of the Corporate Governance Assessment is implemented within 6 months following the validation workshop			
Value (quantitative or Qualitative)	Not applicable	Not applicable	At least one	Yes
Date achieved	03/31/2009	12/31/2014	08/11/2015	06/30/2016
Comments (incl. % achievement)	Achieved. This indicator was added in the 3rd. restructure (Aug 2015). The validation workshop was held on June 13-14, 2016 followed by training on corporate governance. MEF plans to implement at least one recommendation in due time.			

G. Ratings of Project Performance in ISRs

No.	Date ISR Archived	DO	IP	Actual Disbursements (USD millions)
1	06/28/2009	Satisfactory	Satisfactory	0.00
2	12/22/2009	Satisfactory	Satisfactory	1.38
3	06/29/2010	Satisfactory	Satisfactory	2.27
4	03/25/2011	Satisfactory	Satisfactory	4.17
5	12/27/2011	Satisfactory	Satisfactory	6.52
6	07/10/2012	Moderately Satisfactory	Moderately Satisfactory	6.94
7	01/01/2013	Moderately Satisfactory	Moderately Satisfactory	7.39
8	06/29/2013	Moderately Satisfactory	Moderately Satisfactory	8.45
9	07/20/2013	Moderately Unsatisfactory	Moderately Unsatisfactory	8.45
10	12/14/2013	Moderately Unsatisfactory	Moderately Unsatisfactory	9.16
11	06/08/2014	Moderately Satisfactory	Moderately Satisfactory	9.78
12	12/16/2014	Moderately Satisfactory	Moderately Satisfactory	10.51
13	06/15/2015	Moderately Unsatisfactory	Moderately Satisfactory	10.99
14	12/22/2015	Moderately Unsatisfactory	Moderately Satisfactory	11.32
15	06/15/2016	Moderately Unsatisfactory	Moderately Satisfactory	11.59

H. Restructuring (if any)

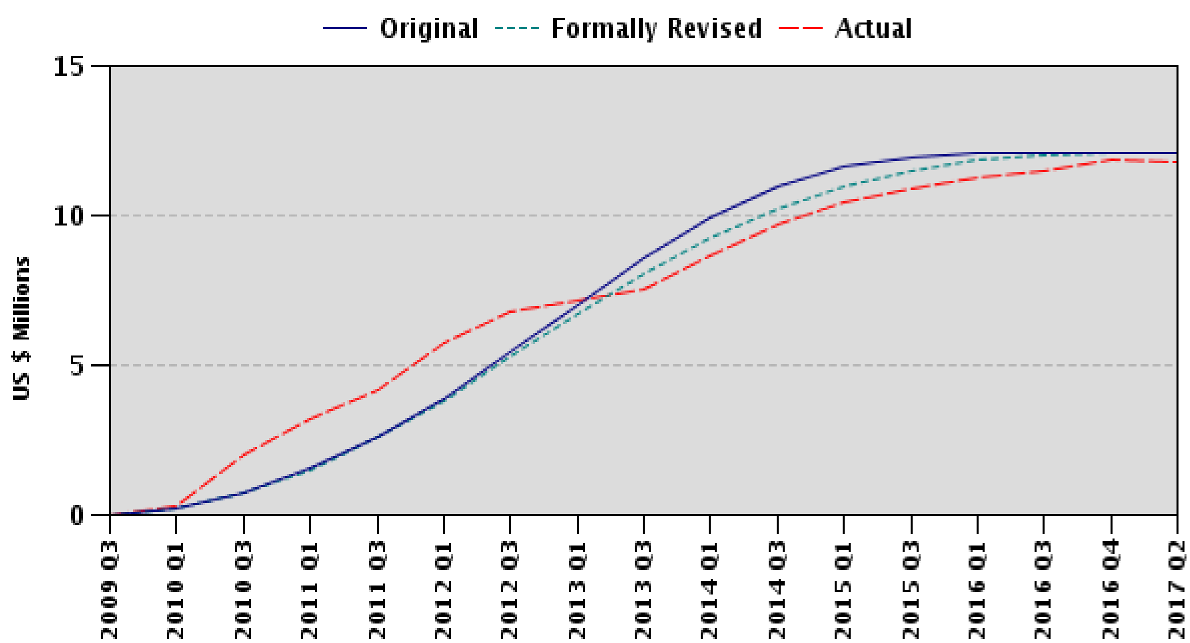
Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		
01/31/2013	Y	MS	MS	7.45	Redefine PDO, refocus activities in two components, reallocate funds & revise the Results Framework
12/03/2014		MS	MS	10.51	The extension for 18 months was approved from December 31, 2014 to June 30, 2016.
08/11/2015		MU	MS	10.99	Reallocation between disbursements categories and

Restructuring Date(s)	Board Approved PDO Change	ISR Ratings at Restructuring		Amount Disbursed at Restructuring in USD millions	Reason for Restructuring & Key Changes Made
		DO	IP		
					revision of Results Framework

If PDO and/or Key Outcome Targets were formally revised (approved by the original approving body) enter ratings below:

	Outcome Ratings
Against Original PDO/Targets	Moderately Unsatisfactory
Against Formally Revised PDO/Targets	Moderately Satisfactory
Overall (weighted) rating	Moderately Unsatisfactory

I. Disbursement Profile



1. Project Context, Development Objectives and Design

1. This Implementation Completion and Results Report (ICR) is prepared following the closing of the Financial Sector and Governance Project (FSGP). A grant for a total amount of SDR 8 million (US$12 million equivalent) was provided to the Republic of Togo for its implementation. The project was approved by the World Bank's Board of Directors on March 31, 2009 and became effective on August 11, 2009. As such, the project has been in implementation for approximately seven years. This operation was designed as a stand-alone operation, to be consistent with the approach in the Bank's Interim Strategy Note (ISN) covering the period FY08-10 presented to the International Development Association (IDA) Board on May 29 2008. The project would provide the required technical assistance to the Government to undertake the financial sector reforms agreed to within the framework of the IMF supported Poverty Reduction and Growth Facility (PRGF) and the World Bank DPOs.

2. The FSGP was intended to support the Government of Togo financial sector reform program aimed at improving the financial sector stability through: (i) Restructuring of the banking sector; (ii) Strengthening of the microfinance sector; (iii) Reforming the pension sector; and (iv) Supporting the implementation of reforms in financial and private sectors.

1.1 Context at Appraisal

3. Togo is a small country of 7 million people, nearly 100 kilometers (km) wide and situated between Ghana and Benin. Togo is comprised of over 30 ethnic groups and numerous local languages. The country's geography is diverse, and its natural assets include land resources and rainfall patterns favorable to agriculture, significant phosphate and other mineral resources, and a natural deep-water port that is unique in the sub-region. Soon after independence in 1960, Togo was able to achieve economic progress by building an effective public administration and pursuing open, market-oriented economic policies. However, since 1990 Togo has known a long period of political and economic instability. Development partners had very few relationships with the country for over a 10 year-period, due to the political instability, while governance shortfalls and poor performance of public enterprises, including state-owned banks, contributed to poor economic performance until early 2000s.

4. Following the death of President Eyadema Gnassimbe a comprehensive political agreement was reached in 2006, and a transitional government of national unity organized legislative elections in October 2007. The new Government had committed to pursue political and economic reforms and to re-engage with the international community. The positive political environment and improved macroeconomic management enabled a rebound in economic growth in 2006 and 2007. Real Gross Domestic Product (GDP) grew by about 4 percent in 2006, while Gross Net Income (GNI) per capita increased from US$270 in 2000 to US$350 in 2006.

5. At appraisal, Togo faced several challenges in its efforts to strengthen economic performance and boost growth which required addressing issues that would help restore productive capacity in the short term in the cotton and phosphate sectors, and at the same time, lay the basis for medium-term growth by improving public financial management, restructuring

its financial sector, and meeting urgent infrastructure needs working with its Economic Community of West African States (ECOWAS) and West African Economic and Monetary Union (WAEMU)[1] neighbors. Growth would be strongly influenced by Togo's regional connection, notably exploiting its transit corridor and using its deep sea port facilities at Lomé, leveraging its past reputation as a strong regional financial center, and promoting the services sectors.

6. In light of the growing evidence that financial sector development can boost economic growth whereas financial instability can harm growth, Togo needed to restore private sector confidence in the economy and in particular improve the investment climate by restoring the banking system's ability to finance economic activity. To that end the Bank prepared a Financial Sector Review (2005-2006) that gave a better knowledge of the sector through the diagnostic of the financial institutions in operation. Additionally, Government and Bank strategies were set out in the Government Interim Poverty Reduction Strategy Paper (I-PRSP) completed in March 2008, in the aftermath of the reengagement in Togo, and the Bank Interim Strategy Note (ISN), covering the period 2008-2010, both of which targeted at improving political and economic governance, promoting economic recovery and sustainable development (including the financial sector) and developing social sectors, human resources and employment.

Sector Context.

7. **A troubled banking sector**. At the time of appraisal, it was noted that the banking sector in Togo had been in a precarious situation for several years. Commercial banks have been having difficulties in meeting prudential norms, many of them had negative equity, non-performing loans were significant, due, to a large extent, to arrears from public and private enterprises, and corporate governance was weak. The banking sector presented the following features:

- The Government had directly and indirectly (through public enterprises) an important stake in six[2] out of the 11 banks in operation as of December 2007. The assets of these institutions represented 67 percent of total banks' assets. The Togolese banking sector was quite concentrated with the three largest banks, representing 61 percent of the market (as of December 2007).
- Several banks have difficulties meeting prudential ratios. In particular, the three banks with negative net worth have respectively NPLs of 70, 60 and 23 percent for BTCI, BIA and UTB, putting the total NPL of Togolese banks as the highest in the West African Monetary Union (WAMU) region.

[1] The West African Economic and Monetary Union (WAEMU) is a regional organization of eight West African countries (Benin, Burkina Faso, Cote d'Ivoire, Guinea Bissau, Mali, Niger, Senegal and Togo). They share the same money, West African francs (CFA francs), monetary policies, and French as an official language. The objective of the union is to promote regional economic integration and create a common market.

[2] BTCI, BIA, UTB, SIAB, BTD and BPEC.

- To a large extent, almost 60 percent of the amount of bank credit outstanding and close to 70 percent of bank deposits were short term at end 2007. They were either sight deposits or savings deposits, both of which were redeemable on demand. Banks in Togo did not raise funds on the financial market.
- With over 50 percent of the banking sector in disarray, as stated in the 2006 Financial Sector Review, the attention of the Government, the IMF and the World Bank was focused on the three public banks in difficulty: Togolese Trade and Industry Bank (BTCI), International Bank for Africa (BIA) and Togolese Banking Union (UTB).

8. **A relatively strong microfinance sector.** While the banking sector in Togo was facing serious difficulties, the microfinance, at appraisal, was considered relatively well developed and strong in the sense that microfinance was playing an important role in providing access to financial services to the Togolese population[3]. But, the assessment was not cautious enough to advert the risks in the lending environment due to the inadequate supervision of the microfinance sector which raised systemic risks.

9. Outstanding loans and deposits of the Togolese microfinance sector represented respectively 16.3 percent and 15.3 percent of bank loans and deposits (as of end 2007). Considering the rapid growth of the microfinance sector and the amount of deposits collected, it was crucial to ensure the stability of the sector and to prevent potential crises. To that end, it was noted that:

- The 2008-2012 National Microfinance Strategy highlighted the need to ensure a sound development of the microfinance sector and in this regard, concerns were raised about the need to strengthen external and internal supervision of the sector.
- Supervision of the microfinance sector was handled by the Ministry of Economy and Finance (MEF), through the Support and Monitoring Unit for Mutual or Credit and Savings Cooperatives (CAS-IMEC) in accordance with the existing "PARMEC" law[4] which governs microfinance regulation in the WAMU countries.
- A new microfinance law stipulated that the largest Microfinance Institutions (MFIs) would be jointly supervised by the BCEAO and the Ministry of Finance, which should lead to improved supervision (smaller institutions remained the responsibility of the ministries in charge of finance). Hence, the project emphasized the need to strengthen the supervisory capacities of the national supervisor, CAS-IMEC.

10. **A fragile social security sector.** Togo has two social security institutions: the Togolese Pension Fund (CRT) for the civil servants and the National Social Security Institution (CNSS)

---

[3] Togo's microfinance sector, was considered relatively well developed. It served the informal and agricultural sectors, through about 85 licensed MFI's, but it also had an estimated 137 MFIs operating without a license, on which no information was available, according to CASIMEC.

[4] Togo ratified the so called PARMEC Law for microfinance in 1995. PARMEC stands for Support Project for Savings and Credit Cooperatives Regulation.

for private sector employees and other categories of Government-employed personnel. Both systems were unfunded defined benefit schemes, whereby contributions from active employees finance current benefits entitlements. At appraisal the situation of the sector presented the following situation:

- Both institutions (CRT and CNSS) faced financial difficulties and structural challenges that would become critical in the short to medium term.
- CRT financial condition is more dire (since 1999, the contributions do not cover the amount of pensions to be paid) and required a Government subsidy of around US$16 million in 2006-2008 to ensure timely payment of pensions.
- The weight of the Government debt to the CNSS is threatening the institution's survival. The financial debt of the Government to CNSS was estimated at US$166 million, while the social debt (i.e. contributions arrears owed by the Government) needed to be further analyzed, but CNSS estimated this debt at around US$73 million.
- Both pension funds needed reforms to allow the Government of Togo to reduce the fiscal liability it was facing. In addition, restructuring the pension system would not only ensure income security for retirees and other beneficiaries but would also release much needed longer term funds for the development of the economy.

11. **A weak legal and judicial environment for financial and private sector development.** In 2009, Togo ranked 163 out of 181 in the Doing Business Report. This report analyses business regulations through 10 indicators. Improving these indicators could have a direct impact on financial sector development. A number of these indicators are not under the direct control of the Togolese Government, but depend on regional institutions, such as WAEMU (with regards to credit bureau, for example) and the Organization for Harmonization of Business Law in Africa (OHADA), with regards to starting a business, enforcing contracts and collateral law for example. At appraisal, the following facts were present:

- Countries belonging to WAEMU and OHADA had the opportunity to undertake a number of reforms at the national level to improve their business environment (i.e., cutting the number of procedures and days required to start a business; improving its performance for across border trading; cutting the time it takes to import and export a container).
- In 2009, the private sector representative body (*Patronat*) was particularly concerned with the commercial debt owed by the Government which was estimated at end 2006 at around US$120 million. However, a strategy to deal with this debt had been agreed between the Government and the IMF that would provide some relief to private sector operators
- The private sector was also concerned with the near collapse of key banks in Togo. The banking sector restructuring proposed under the FSGP would also provide relief to the business sector.
- Following these two actions (internal debt settlement and banking restructuring), it will be important that the Government develops, in partnership with the private sector, an understanding of the key reforms to implement in order to allow for financial and private sector development.

Rationale for Bank involvement.

12. At the time of project appraisal, the WB had ample knowledge of the situation of the Togolese banking sector, as the Financial Sector Review (FSR) prepared by the Bank three years earlier (2006) provided a sound analytical base. As mentioned before, the banking sector restructuring had been part of the dialogue between the authorities, the World Bank and the IMF since then. Moreover, restructuring the banking sector – so that it can play its critical role in the development of the Togolese economy – was one of the key priorities of the reform oriented Government that had been recently appointed. In effect, the Government had demonstrated a strong willingness to undertake the critical reforms required in Togo, in particular in the financial sector. The momentum for reform was supported by the re-engagement of the international community.

13. The FSR had identified three key issues in the financial sector that needed to be addressed in priority: (i) banking restructuring; (ii) microfinance supervision; and (iii) pension sector reform. The report noted that weaknesses in these three sectors were threatening the stability of the financial sector and therefore also limiting its development. The situation in 2009, three years after the FSR, had not changed. Therefore, the Bank Interim Strategy Note (ISN), proposed the Financial Sector and Governance Project to provide the required technical assistance to the Government, to undertake the financial sector reforms agreed to within the framework of the IMF supported Poverty Reduction and Growth Facility (PRGF) and the World Bank Development Policy Operations (DPOs).

1.2 Original Project Development Objectives (PDO) and Key Indicators

14. The project development objective, as stated in the project appraisal document (PAD) is to "improve financial sector stability by supporting the Government financial sector reform program. Financial sector restructuring will lead to more efficient resource allocation towards poverty reducing and growth inducing sectors. The project will provide technical assistance to various stakeholders to support the financial sector reform program of the Government of Togo". .

15. Key expected result, as specified in the PAD included: (i) completion of the financial and institutional restructuring of BTCI, UTB and BIA; (ii) strengthening of internal and external supervision of microfinance institutions; (iii) restoring the financial equilibrium of the pension branch of CRT and CNSS; and (iv) increased capacity of the Government to implement reforms in the financial and private sectors.

16. The PDO would be achieved by supporting the Government's reform program under four components:

(i) Restructuring the Banking sector
(ii) Strengthening of microfinance sector
(iii) Reforming the pension sector
(iv) Supporting the implementation of reforms in the financial and private sectors.

17. The expected results under the four components of the project, are summarized below:

Component 1: Banking sector restructuring[5]
The project under this component would support the Government's banking restructuring strategy and provide technical assistance to ensure that the financial and institutional restructuring of three public banks (BTCI, BIA and UTB) is completed.

Component 2: Strengthening of microfinance sector
This component would focus on strengthening the microfinance sector through improved external supervision and strengthened internal controls within microfinance institutions

Component 3: Reforming the pension sector[6]
This component would focus on reforming the pension arm of the two social security institutions (CRT and CNSS) to restore their financial viability.

C*omponent 4: Supporting the reforms in the financial and private sectors.*
This component would provide technical assistance to the Reform Secretariat and the Economy Directorate within the Ministry of Economy and Finance to strengthen their capacity to formulate policies in the financial and private sectors; and would aim at improving public private sector dialogue.

1.3 Revised PDO (as approved by original approving authority) and Key Indicators, and reasons/justification

18. During the project life, three restructurings took place. In the first restructuring (January 2013), the PDO was refined in order to make it more specific and better aligned with the four components of the operation and to bring clarity in its formulation since the original PDO was quite broad, giving the impression that project activities would address poverty reduction and support real sectors, inducing economic growth. Therefore, the original PDO "to improve financial sector stability by supporting the Government financial sector reform program. Financial sector restructuring will lead to more efficient resource allocation towards poverty reducing and growth inducing sectors" was modified to "to improve the stability of specific segments of the Recipient's financial sector to support the financial sector reform program." Hence, the references to poverty reduction and growth inducing sectors were eliminated.

19. As a consequence, some modifications were introduced to the Results Framework (RF) to better measure achievements under the project objectives and reflect the activities undertaken under the different components. Changes in the results framework included an additional indicator on the pension reform added to the PDO-level indicators to show all components'

[5] The funding to recapitalize the banks would come from exchanging the banks' non-performing loans with government-issued bonds.
[6]Reforms are needed for both pension funds to allow the Government of Togo to eliminate the increasing fiscal liability that it is facing. Restructuring the pension system would not only ensure income security for retirees but would also unleash much needed longer term funds for the development of the economy.

contribution to the revised PDO; refining the formulation of some intermediate outcomes to enhance measurability of project outcomes; and, removing intermediate indicators whose measurement proved difficult within the project timeframe.

20. In order to measure all aspects of the PDO, new intermediate indicators were introduced and redundant indicators related to the private sector were dropped. The new indicators that were added are the following: (i) core sector indicators relevant to microfinance and the percentage of the project's female beneficiaries, (ii) an indicator to measure improvement in microfinance institutions 'supervision; (iii) an indicator to reflect pension sector reform; and, (iv) an indicator to allow the monitoring of the reforms undertaken by the Reform Secretariat in a way that facilitates data collection. With less than one year until closing, the Authorities requested on April 28, 2014 a first extension of the project closing date. The extension for 18 months was approved by the Bank on December 3, 2014 from December 31, 2014 to June 30, 2016. The extension of the closing date allowed more time and the reallocation of funds in support of two main priorities: (i) Strengthening of the microfinance sector through more intensive supervision of the microfinance sector and orderly restructuring/resolution of the weakest institutions; and, (ii) Completion of the public sector pension reform.

21. In August 2015 a third restructuring took place. Under this restructuring, a reallocation of funds amongst expenditures categories was implemented as well as a revision and update of the results framework to avoid inconsistency given that some of the changes introduced during the first restructuring had not been comprehensively reflected in the RF. Under this restructure The PDO-level indicator on pension's reforms introduced during the first restructuring was dropped since this indicator was considered overly ambitious, especially for the civil servants Pension Fund (CRT). The progress on the pension reform would be monitored through the existing intermediate indicators which follow the institutional changes related to CRT and CNSS. As a result of the restructurings, the final PDO-level indicators and intermediate outcome indicators, by component, remained as follows:

Project Development Objective Indicators

1. After the recapitalization of Togolese commercial banks (BTCI, UTB and BIA), the Government will no longer contribute to the absorption of losses, recapitalization and liquidity of commercial banks.
2. BTCI and UTB meet key prudential norms (solvency) by 2009 and every year until the end of the project
3. Percentage of MFIs (with outstanding loans over 1 billion CFAF) meet key prudential ratios (liquidity ratio and long-medium term asset/liability ratio) by end of project.
   Target 80%
4. Project direct beneficiaries from training, workshops, conference attendance and study tours, carried out on the basis of approved annual training and activities plan.
   Target 2000 beneficiaries
5. Percentage of female beneficiaries
   Target 30% of total beneficiaries

Intermediate Outcome Indicators

Component 1. Restructuring the Banking Sector

6. BTCI and UTB have new gross NPLs below 5 % of total loans each year (starting in 2009) (Target <5%)
7. BTCI and UTB meet liquidity norm by 2009 and every year until the end of the project (Target >75%)
8. Two out of the four targeted banks (BTCI, UTB, BIA , BTD) have entered into partnerships with strategic banking investors by June 2010, the third bank, by 2012
9. The agency in charge of loan recovery and of creating a secondary market for government securities is created by end 2009 and operational from 2013

Component 2. Strengthening the Microfinance Sector

10. At least 75% of MFIs transmit statistical data in compliance with new accounting plan
11. At least 75% of MFIs (with outstanding loans over 1 billion CFAF) have Portfolio at Risk over 90 days (PAR>90) below 5 % by the end of the project
12. All MFIs with outstanding loans over 1 billion CFAF have their financial statements audited and certified yearly by BCEAO registered auditors
13. At least 75% MFIs with outstanding loans over 1 billion CFAF have undergone at least one "transparency exercise"[7] between 2009 and 2016
14. All MFIs with outstanding loans over 1 billion CFAF report their financial information on the Mix Market (www.mixmarket.org) starting in 2009
15. CAS-IMEC adopts a code of ethics by the end of the project
16. Volume of Bank Support: Institutional Development – Microfinance (Target US$2500000)

Component 3: Reforming the Pension Sector

17. The legal framework for CRT is modified according to established best practices by 2016. In particular, parameters for contribution and payments are established through decrees
18. The legal framework for CNSS is modified according to established best practices by 2011. In particular, parameters for contribution and payments are established through decrees
19. The parameters for CRT have been adjusted through decrees, according to the findings of the actuarial study by 2016
20. The parameters for CNSS have been adjusted through decrees, according to the findings of the actuarial studies by 2011

Component 4: Supporting the implementation of reforms in financial and private sectors

[7] The transparency exercise comprises publication of information on products, customers, financial information and/or ratings

21. Reform Secretariat is fully operational and demonstrates the ability to identify and steer key reforms in the financial and private sectors
22. At least one recommendation of the Corporate Governance Assessment is implemented within 6 months following the validation workshop

The full and final Results Framework: Outputs by Component is provided in Annex 2.

1.4 Main Beneficiaries

22. The project development objective was to improve the financial sector stability by supporting the Government's financial sector reform program. The project would therefore provide technical assistance to various stakeholders to support the financial sector reform program of the Government. The technical assistance comprised training and capacity building (including training material and support), workshops, conference attendance and study tours, that would be carried out on the basis of approved annual training and similar activities plan. The detailed training plan establishing the nature of training/workshop, number of trainees/participants, duration, staff months, timing and estimated cost was submitted to IDA for review and approval prior to initiating the process. As a rule, it was agreed that after the training, the beneficiaries would be requested to submit a brief report indicating what skill have been acquired and how these skills will contribute to enhance their performance and contribute to the attainment of the project objective.

23. To better measure achievements under the project objectives and reflect the training and capacity building activities undertaken under the different components, the results framework was revised during the first project restructuring that took place in 2013. The revision included the introduction of two specific PDO level indicators − the "number of beneficiaries" and "percentage of female beneficiaries" − that would be the direct beneficiaries of training, workshops, and conference attendance.

24. The training and capacity building activities included capacity strengthening of commercial banks personnel offered on a cost sharing basis to all interested banks; general training offered to the microfinance sector as a whole, comprising strengthening of the microfinance supervision capacity of the Ministry of Economy and Finance and strengthening of internal controls within microfinance institutions; developing and implementing human resources training plans to improve staff capacities of the pension institutions CRT and CNSS; and finally technical assistance and training provided to strengthen the capacity of the Reform Secretariat and the Directorate of Economy within the Ministry of Economy and Finance so that they support the Ministry of Economy and Finance in formulating policies in the financial and private sectors. The specified end-of-project target, was 2000 beneficiaries of which 30 percent were female beneficiaries. By the end of the project (June 2016), the number of beneficiaries reached 3785 exceeding its original target. However, the end-of-project target related to the percentage of female beneficiaries reached only 15 percent, below the original target.

1.5 Original Components (*as approved*)

25. The FSGP comprised the following four technical components

Component 1: Restructuring the banking sector. At appraisal the Togolese banking sector was facing a crisis due to lack of governance and very high levels of non-performing loans (NPLs). Under this component, technical assistance supported: (i) The Institutional strengthening of banks under restructuring (i.e. BTCI, UTB BIA and BPEC[8]) to improve their governance and find private banking partners; (ii) Capacity strengthening of commercial banks personnel through the development of a training program aimed at upgrading staff skills; and (iii) Setting up a mechanism for loan recovery of low cost and flexible structure, and a mechanism for the development of a secondary market for the securities issued from the bank restructuring process

Component 2: Strengthening of microfinance sector. Contrary to the banking sector, the microfinance sector was relatively healthy and played an important role in providing access to financial services. Nevertheless, there was a need to strengthen the internal and external supervision of the sector to prevent eventual crises. Under this component, the project supported: (i) Strengthening of the microfinance supervision capacity of the MEF by providing technical assistance and equipment to the Microfinance Supervision Unit to disseminate the new microfinance law elaborated by BCEAO, improving the capacity of the MEF to undertake field supervision, developing a database for off-site microfinance supervision, financing inspectors under fixed term contracts, implementing a training plan for supervisors, and funding inspection missions; (ii) Strengthening of internal controls within microfinance institutions involving activities such as development and dissemination of an internal control and inspection manual; training for internal inspectors and external auditors, technical assistance to improve internal control procedures and Management Information Systems (MIS), development of external inspection services, support to sector rationalization, and partial funding of external audits; and, (iii) Improving financial information transparency given that the availability of reliable financial information plays an important role in the development of a sound microfinance sector. Additionally it supported the co-financing of ratings with the condition that the rating will be publicly available, and the development of regional rating firms to increase availability and affordability of rating services in the region.

Component 3: Reforming the pension sector. The pension system for civil servants (CRT) was facing a deep financial deficit, which required important Government subsidies (around US$16 million annually) to ensure timely payment of pensions. The pension branch of CNSS would also face a deficit in the coming years. Therefore, the project offered technical assistance to help restructure these two institutions. With regards to CRT, support was provided to (i) update its employer, employee and beneficiary rosters; (ii) undertake a financial and organizational audit; (iii) undertake an actuarial study; (iv) develop an information and technology master plan; (v) improve information systems; and (vi) develop and implement a human resources training plan to improve staff capacities. With regards to CNSS, support was provided to (i) conduct a financial and organizational audit; (ii) undertake an actuarial study; (iii) analyze CNSS investment options with a view of diversification; (iv) analyze the possibility of adding a

[8]The Government had already completed the financial restructuring of BPEC. However, BPEC needed technical assistance to complete its institutional restructuring.

supplementary fully funded scheme; and (v) develop and implement a human resources training plan to improve staff capacities.

Component 4: Supporting the implementation of reforms in the financial and private sectors. Under this component, the project support would be provided to increase the capacity of the Government to lead reforms in the financial and private sectors and to improve the dialogue between the public and private sectors. The component would aim at (i) Strengthening the Reform Secretariat and Directorate of Economy within the Ministry of Economy and Finance through technical assistance, training and equipment. The improved capacity of these two structures would allow them to support the MEF in formulating policies in the financial and private sectors. Financing the recruitment of fixed-term contract staff for the Reform Secretariat would allow this structure to fulfill its mandate, and providing technical assistance to support the on-going financial sector reforms by addressing legal and judicial constraints to financial and private sectors development. The component would also (ii) support public private dialogue through the organization of exchanges between both sectors to ensure that the views of the private sector are taken into consideration when the Government designs reform programs and to ensure a wide consensus and support on the reform agenda. Annex 2 includes a detailed analysis of the achievements observed under each component of the Project.

1.6 Revised Components

26. The main objective of each of the four project components remained consistent throughout the life of the Project. However, under the two project restructures (2013 and 2015) two outcome indicators linked to PDO were added while several intermediate outcome indicators under the four components were modified and the relevant indicator targets were revised accordingly, as detailed under section 1.3 of this ICR. Additionally in the first restructuring a reallocation of funds took place to adequately finance those components where resources were needed to complete activities and achieve the PDO. Meanwhile, during the third restructuring a reallocation of disbursement categories was done in response to the Government's official request.

1.7 Other significant changes

27. During seven years of project implementation, the FSGP was restructured three times as follows:

28. **First Restructuring**: The first restructuring and reallocation of funds was approved on January 31, 2013. This restructuring was in response to the Government's request made through letter of July 2012, to allow the authorities to undertake a faster realization of the project development objective and improve financial sector stability and governance. This decision was made in response to the relatively slow pace in implementation in the banking sector restructuring, the low disbursement and the unsatisfactory implementation rate in the strengthening of the microfinance sector. This first project restructuring: (i) addressed certain inconsistencies in the PDO formulation in the Project Appraisal Document (PAD), the Financing Agreement (FA) and the Results Framework (RF) and harmonized the PDO in all documents; (ii) refocused activities in two components (Banking Sector and Microfinance Sector); (iii)

reallocated funds to components where further support was needed to complete activities and achieve the PDO; and, (iv) revised the results framework accordingly.

29. **Second Restructuring.** On December 3, 2014, a second restructuring was approved in response to the request of the Government made in April 2014. The requested restructuring seek the approval to extend the closing date of the project from December 31, 2014 to June 30, 2016. The extension was deemed necessary to the achievement of the PDO. Mainly (i) complete the work program; and (ii) focus new activities on component 2 (microfinance) and component 3 (Public Pension Fund) through reallocation of remaining project funds. The PDO remained unchanged.

30. **Third Restructuring.** On August 11, 2015, a third restructuring was approved in response to a Government's request made in May 2015. This time the restructure included a reallocation of disbursement categories, requiring an amendment to the Project Financial Agreement, so as to increase the allocation for consulting services including auditing and training from an original 71.2 percent (SDR 5.7 million) of the SDR 8 million grant to SDR 6.6 million (82.5 percent). Additionally, the PDO indicator on pensions reforms ("the two social security institutions are financially viable by the end of the project") was canceled, as it proved to be too ambitious, especially for the Civil Servants Pension Fund (CRT) reform. As a result, the monitoring of the reform progress on the latter and on the National Social Security Institution (CNSS) for private sector employees, would be done through the intermediate indicators, which track institutional changes related to both agencies.

2. Key Factors Affecting Implementation and Outcomes

2.1 Project Preparation, Design and Quality at Entry

31. The project's objectives were strongly aligned with the Government's financial sector reform program aimed at restoring the stability of the financial sector so that it can efficiently contribute to economic growth and private sector development. It is also in line with the 2011 FIRST funded Financial Sector Development Strategy (FSDS), a long term comprehensive Financial Sector Strategy that includes a detail implementation action plan (2012-2017) which was adopted by the Council of ministers. The project was also responsive to higher level objectives derived from the conviction that an efficient banking sector would permit enterprises to finance their growth; a strong microfinance sector would allow low income households and micro enterprises to access financial services and therefore develop income generating activities; and a restructured pension sector would provide reliable pension coverage to employees from the formal economy and also generate long term financial resources that could be recycled in the financial sector. In the context of the preparation of the project, the authorities issued a Letter of Sector Policy which highlighted the key elements of their financial sector reform program. In particular, it spelled out their banking restructuring strategy. Thus, the project was intended to provide the Government with the required technical assistance that would support the implementation of the banking restructuring strategy, the strengthening of the microfinance sector, the reform of the pension sector and the implementation of reforms in the financial and private sectors.

32. **Project Preparation**. Project preparation was based on a participatory process, with government counterparts and other development partners. Close interaction with the IMF on financial sector reform has been maintained during project implementation, while the microfinance component was undertaken in collaboration with UNDP and UNCDF[9]. In effect, UNDP and UNCDF financed the first phase of the Support Program to the National Microfinance Strategy (PASNAM) upon which the microfinance component builds. While the FSGP focused on strengthening internal and external supervision of the sector, UNDP/UNCDF has been focusing on providing support to microfinance institutions to help them develop a broader range of financial products and hence increase their clients.

33. **Project Design**. The project design was linked to the shared goals of the IMF Poverty Reduction and Growth Facility (PRGF) and the World Bank Development Policy Operations (DPOs) – Economy Recovery and Governance Grant (ERGG) 1 and 2 (2008&2009) – supporting, in particular, the banking sector restructuring strategy, which was backup by a number of prior actions such as a new interim administrator for BTCI to manage the implementation of the restructuring measures, achievement of satisfactory progress in the implementation of the restructuring measures for BTCI, BIA and UTB, raise of the net worth of the three banks under restructuring (BTCI, UTB and BIA), launch the call for bids for the sale of Government shares in the four (4) state-owned banks (BTCI, BIA, UTB and BTD). The project involved BCEAO in the implementation of bank restructuring and strengthening of the microfinance sector. In effect, in order to improve the chances of success of the financial reform, a risk mitigation and burden reduction strategy had been developed with the authorities and the IMF. This strategy was based on several pillars, among which BCEAO had to ensure the refinancing of at least a portion of the securitization bonds issued to address the problematic banks. Furthermore, the new microfinance law stipulated that the largest Microfinance Institutions (MFIs) would be jointly supervised by the BCEAO and the Ministry of Finance, which should lead to improved supervision. Although it was acknowledged that strong analytical underpinnings were essential, the project did not emphasize enough that a genuine stakeholder participation in the design of policy reform was critical.

34. **Quality at entry.** The project was based on recommendations provided from the Financial Sector Review completed in 2006, which was followed by continued policy dialogue between the World Bank, the IMF and the Government on financial sector reform. The banking sector in Togo had been in a precarious situation for several years as highlighted by the FSR. Commercial banks have been having difficulties in meeting prudential norms, many of them had negative equity, non-performing loans were significant due, to a large extent, to arrears from public and private enterprises and to weak corporate governance. With this backdrop, one weakness of Quality at entry was the limited consideration of the potential difficulties of supporting a financial reform in a country which often faced political challenges. Although it was also adverted that banking sector restructuring should build on a continued and constructive dialogue with the authorities and should focus on results, the project did not ensure that the

[9] AFRITAC is a technical assistance facility financed by the IMF that provides selected technical assistance to the microfinance supervision unit within the Ministry of Economy and Finance.

recommendations of the various studies financed were implemented in order to lead to practical reforms.

35. Notwithstanding the above, one of the factors affecting implementation of the project, was the lack of clarity of the original PDO given that in the financing agreement and the results framework, the PDO gave the impression that project activities would address poverty reduction and support real sectors inducing economic growth in the country. Hence, the references to poverty reduction and growth inducing sectors were misleading and did not correspond with the project's components, since most of the activities in the project were designed to improve stability issues and bring better governance in the banking, microfinance and pension sectors. Therefore, under the first restructuring (January 2013) the PDO had to be re-defined to enhance clarity and remove aspects that were not directly related to the project activities and would prove difficult to achieve. Based on the information above the Quality at Entry is rated as Moderately Satisfactory.

2.2 Implementation

36. The implementation arrangements lied on the Economy Directorate within the Ministry of Economy and Finance (MEF) and its Director acted as project Coordinator. To ensure maximum ownership, a Project Implementation Unit (PIU) with full time staff was created within the Directorate of Economy. Additionally, due to the shortage of staff within the MEF due to the recruitment freeze in the Togolese Government, a Project Officer and Microfinance Specialist were recruited. The latter was responsible exclusively for the implementation of the microfinance component given the complexity of dealing with several microfinance institutions. But, due to the lack of results in the microfinance component, the specialist of microfinance was not renewed after December 31, 2012. This would partially explain the stalemate in the performance observed at the level of this component.

37. The Project Officer was in charge of day to day management of the project and liaised with the different partner institutions – BTCI, UTB, BIA, BTD, social security institutions (CRT, CNSS), CAS-IMEC, and the Permanent Secretariat for Reforms and Economy Directorate (SP-PRPF). The Project Officer was also responsible for communicating with IDA (sending request for No Objections) and for overseeing Monitoring and Evaluation (M&E). A Steering Committee, responsible for setting the strategic direction of the project was established, chaired by the Permanent Secretary in charge of the Monitoring of Reform Policies and Financial Programs. This Committee is composed of representatives of the partner institutions (BTCI, UTB, BIA, BTD, BPEC, CRT, CNSS, ministries in charge of social security, CAS-IMEC, APIM, Reform Secretariat and Economy Directorate), the banking association, the BCEAO and the private sector representative body. The steering committee met at least twice a year: once, to approve the work plans prepared by the various partner institutions; and a second time to review progress of work plans implementation and provide recommendations to accelerate implementation, if needed.

Actual project implementation

38. Project implementation can be viewed in three phases: from project approval to the first restructuring (March 31, 2009–January 31, 2013); from the first to the second restructuring (January 31, 2013- December 2014) date of the initial closure and extension for 18 months; and from the third restructuring to project closing (August 11, 2015-June 30, 2016), as described below

Phase 1. March 2009 to January 2013. The Project was approved by the Bank's Board of Directors on March 31, 2009, and once the conditions of effectiveness were accomplished by the Togolese Authorities, the project became effective on August 11, 2009. These actions comprised: (i) the adoption of the Project Implementation Manual and the Accounting, Financial and Administrative Manual, in each case in form and substance satisfactory to IDA; (ii) the establishment of a Steering Committee under terms of reference and conditions satisfactory to IDA; and (iii) the establishment of the Project Implementation Unit within the MEF. As the project implementation evolved there were other additional conditions to be complied with. The table below summarizes these conditions/covenants.

Table 1. Financial Sector and Governance Project Conditions

Conditions	Status
The Ministry of Economy and Finance has established, within 30 days of the date of the Financing Agreement, and is maintaining throughout project implementation, a Steering Committee under terms of reference and conditions satisfactory to IDA, responsible for setting the strategic direction of the project and the approval of the work plans prepared by the various partner institutions on an annual basis. The Steering Committee will be composed of representatives of (a) the partner institutions; (b) banking association; (c) the ministries in charge of social security institutions; (d) BCEAO; and (e) the private sector representative body (*Patronat*	Complied
The Project Implementation Unit is established and maintained in form and substance and with resources satisfactory to IDA [*Note:the PIU was established in Dec. 2008*].	Complied
The annual work plans prepared by each partner institution and approved by the Steering Committee are shared with IDA no later than 30 days after the first annual meeting of the Steering Committee; the first meeting of the Steering Committee should take place by 31 December 2009.	Complied
The DEC 2000 (with selected annexes) and the new NPLs ratio are provided to IDA on a quarterly basis for BTCI, UTB and BIA until their privatization, starting by December 31, 2009.	Complied
The annual reports of all commercial banks active in Togo are provided to IDA, no later than eight months after the end of each fiscal year.	Complied
Every six months (on July 31st and January 31st of each year), a monitoring summary of the on-site supervision activities carried out by the Microfinance Supervision Unit is provided to IDA.	Complied
A six monthly report will be prepared by the Project Implementing Unit within the Ministry of Economy and Finance, which integrates the results of monitoring and evaluation activities in the implementation of the project and achievements of project objectives	Complied
In collaboration with IDA, the Ministry of Economy and Finance will conduct a mid-term review of the project no later than 30 months following effectiveness of the grant. The Mid-term review took place in May 2012.	Complied
A report on the execution of the Project and related plan required pursuant to that Section shall be furnished to the Association no later than six months after the Closing Date	Complied
The MEF will have contracted by December 31, 2009, the privatization advisers for the four selected state owned banks (BTCI, UTB, and BIA &BTD).	Complied

The Ministry of Economy and Finance will prepare, if necessary, by December 31, 2009, the necessary draft laws, regulations and procedures for the establishment of a mechanism in charge of loan recovery and/or a secondary market for securities issued in the context of banking restructuring	Complied

All along the three years and a half of project implementation since it became effective, there were eight supervision missions [10] , including the Mid-term review (May-June 2012). Regarding implementation, at the midterm-review it was clear that the microfinance sector was fragile: three large microfinance institutions were on the edge of bankruptcy, many others needed to be closely monitored given an uncertain health, and several MFIs (about sixty) operated without a license. At that moment it was agreed that the main priority was to return the sector to good health and increase the supervision to a level commensurate with the size of the sector. The mid-term review concluded that the performance of the project management unit was moderately satisfactory; that the institutional setting of the project, with a team that is integrated into the MEF and with a hierarchical structure, had affected the ability of the project manager to introduce certain changes; that despite the fact that the Steering Committee was functional, its meetings were delayed having an impact on the time of validation of the procurement plan; and finally, that a better dialogue was needed between the PIU and IDA on annual work plans, before submission for approval to the Steering Committee. Following the mid-term review, the Government requested a first restructuring, involving a harmonization of the PDO, refocus of activities, reallocation of funds, and the adjustment of the results framework. The restructuring was approved in January 2013.

Phase 2. January 2013- December 2014. The supervision mission after the firs restructuring, occurred in mid-May, 2013 and concluded that progress towards meeting the PDO remained MS. Nonetheless, regarding the privatization of public banks, two of which entered strategic partnerships with private investors (BTD and BIA) and two other two still state-owned, the Bank stressed the importance of a brainstorming exercise to understand better the situation of the two non-privatized banks before moving forward. With respect to the microfinance sector component, implementation had slightly improved despite the recruitment of an international consultant. The impact of the consultancy was not satisfactory given that the consultant did not report directly to the Microfinance authorities or to the Permanent Secretariat for the monitoring of reform policies (SP-PRPF). As a result, the consultancy was shorten to 18 months. Finally, in the pension sector reform component, new parameters[11] were adopted by decree for the private sector social security institution (CNSS) following the approval of the law in the Parliament. But, no progress had been made for the public sector pension fund (CRT).

[10] This ICR takes into account 12 Implementation Supervision Reports (ISRs) that were filed for FSGP and 10 Aide-Memoires of supervision missions to Togo. During Phase 1, the first mission prior to project effectiveness (May 2009) was followed by seven missions including the Mid-term review that took place in May-June 2012.

[11] The parameters for CNSS were adjusted through decrees according to the findings of the actuarial studies which comprised parameters for contribution and payments. CNSS entered into a process of adjustment of pensions from 20.50 to 21. 50%, with a rate of 16.5% for the eldest; 2.5% for family benefits and 2% for the coverage of risks.

As a result, in July 2013, following recommendations of the Bank's internal committee, the Authorities were informed that without further improvement in the pension and microfinance sectors in the next six months, the PDO and IP ratings would be downgraded to MU. The authorities explained that the political atmosphere in Togo (postponement of parliamentary elections, public strikes and protests) did not favor unpopular decisions in the public pension and the microfinance sectors such as the closing of illegal institutions operating in the sector. At the end of year 2013, a Bank mission identified and agreed with the authorities on new targets in order to bring the project back on track. As of April 2014, the disbursement rate improved to 78.9 percent and due to the progress made in components 1, 3 and 4, the project rating was upgraded from MU to MS.

At that moment, the authorities requested a second restructuring, approved in December 2014, which extended the closing date of the project by eighteen months from December 31, 2014 to June 30, 2016. This extension provided the Authorities with additional time to ensure the completion of project activities and the achievement of PDO. This restructuring did not make any changes in the scope of the project activities but reallocated remaining funds to support two main priorities: strengthening of the microfinance sector through more intensive supervision and orderly restructuring/resolution of the ailing institutions; and completion of the public sector pension reform.

Phase 3. August 2015-June 2016. In May 2015, the overall rating of the FSGP was downgraded to Moderately Unsatisfactory due to delays in the implementation of activities supporting the strengthening of the microfinance sector and the public sector pension fund reform. The supervision mission confirmed that two state-owned banks (BTD and BIA) out of four public banks were successfully privatized and that BTCI, one of the remaining banks to be privatized was under provisional management; that the microfinance sector remained vulnerable; that whereas the CNSS (private sector pensions) was successfully reformed, the CRT reform (public sector pensions) needed to be completed (pending decisions by the Council of ministers); and finally that the Ministry of Finance Permanent Reform Secretariat was fully operational. The disbursement rate had reached almost 90 percent.

Following the Bank supervision mission and assessment of May 2015, the Government requested a third restructuring, which was approved in August 2015, less than a year before the closing date. The purpose of the restructuring was twofold: reallocation between disbursements categories according to the Government request and revision of the results framework. As a result, a number of indicators and targets were revised, though the baseline was often maintained in order to track the historic progression of the original project and to have a better understanding of achievements during the project life.

In February 2016, the Bank carried out a last assessment before the closing date, and concluded that the progress towards achievement of PDO remained moderately unsatisfactory. Although the disbursement rate was satisfactory (95 percent) and significant achievements have been met the impact of the Project remained at fault due to the following: Component 1: privatization of 2 out 4 public banks took place but the privatization process of the two remaining public banks (UTB and BTCI) has not progressed; Component 2: the microfinance sector remained vulnerable as no resolution measures have been taken to address distressed MFIs, and so far CAS-IMEC has not been able to significantly and permanently strengthen its supervisory capacity; Component 3: Completion of the reform of the private sector social security institution (CNSS) has occurred but the civil servants Pension Fund (CRT) reform would not be completed by the end of the Project; and, Component 4: The Reform Secretariat at the Ministry of Finance was operational, but its concrete action on financial and private sector reforms remained somewhat limited.

At the closing of the project (June 30, 2016), the operation was 96 percent disbursed. That is SDR 7.70 million (US$11.55 million) out of SDR 8 million (US$12 million). The remaining funds will be reimbursed to IDA. Progress towards achievement of PDO continued to be Moderately Unsatisfactory as it is explained in detail in section 3.2 (Achievement of Program Development Objectives). The Overall Implementation Progress (IP), was rated MS for the banking sector restructuring and the reform of the pension sector; while the strengthening of the Microfinance sector remains as MU. Finally, the support to the implementation of reforms in financial and private sectors is Satisfactory.

2.3 Monitoring and Evaluation (M&E) Design, Implementation and Utilization

39. The PDO was re-defined in the first restructuring, in order to bring clarity in its formulation. As explained in detail in section 1.3 in this ICR, the explanatory sentences in the original PDO were quite broad, and gave the impression that project activities would address poverty reduction and support real sectors inducing economic growth in the country. Once the PDO was appropriately redefined, some of the core components were adjusted, which helped in the selection of appropriate indicators to follow up on the achievement of the objectives. The design of the M&E, as reflected in the results framework, did establish clear links between the objectives, indicators and outcomes. Specific comments on the design, implementation and utilization of M&E arrangements are summarized below.

40. **M&E Design**. The original results framework was internally coherent and was intended to measure progress towards achievement of PDO as well as the PDO-level outcome indicators and intermediate outcome indicators envisaged under the Project. The indicators were apparently properly linked to each of the four components of the operation. However, it should be highlighted that the project restructurings, particularly the first and third, responded to some shortcomings in the RF, among other reasons. It should also be highlighted that indicators such as meeting key prudential norms (liquidity ratio and long and medium term asset/liability ratios) under Component 1 (Restructuring the Banking Sector), cannot be fully attributed to project implementation, as these ratios respond to the country's management of the economy and the evolution of economic growth.
Monitoring and evaluation of project activities were carried out by the PIU within the Economy Directorate of the Ministry of Economy and Finance on a regular basis. Progress towards achievement of the PDO was tracked via PIU's semiannual progress reports discussed during Steering Committee meetings, financial reports, and external audit reports.

41. **Revised M&E Design.** Under the original RF, there were 3 PDO-level indicators and 12 intermediate-level indicators. The first project restructuring (2013), detailed in section 1.7, addressed certain inconsistencies in the PDO formulation; reformulated one PDO-level indicator (percentage of MFIs meeting key prudential ratios of liquidity and asset/liability) and added two

PDO-level indicators required by the Bank (number of direct project beneficiaries and percent of whom were female). The restructure also refocused activities in two components (Banking Sector and Microfinance Sector) resulting in the removal of certain intermediate indicators whose measurement was difficult within the project timeframe, the introduction of new intermediate indicators, and the revision of certain indicators to include a percentage of the MFIs rather than all MFIs. Under the third restructuring (2015), one indicator on pensions reform (the two social security institutions are financially viable by the end of the project) was canceled, as it proved to be too ambitious, especially with regards to the CRT reform. As a result of the restructurings the adjusted RF include five PDO-level indicators and 17 intermediate-level indicators (See Annex 2 for details)

42. **M&E Implementation.** The project implementation was monitored through a continuous dialogue with the government counterparts aimed at assessing progress and addressing potential bottlenecks. Project implementation was the responsibility of the Ministry of Economy and Finance and to that end a PIU was created within the Directorate of Economy. Monitoring was conducted on an on-going basis and was supported by technical assistance and several studies. The Bank teams worked closely with the PIU and the Togolese authorities to move forward with implementation of the project. The Bank's task team undertook periodic and regular joint supervisions throughout the project life. The status of outputs and outcome indicators were reported in the PIU's reports, the joint-supervision aide-memoires and the implementation status reports (ISRs).

43. The approach to M&E collaboration and reporting was a complement to the in-depth evaluation of project results undertaken at the Mid-Term Review (MTR) that took place of in June 2012. The objective of the review was to assess progress and recommend the changes needed based on the realities on the ground. With regard to progress in the implementation of activities under each component the MTR noted that: (i) the process of privatization of four public banks was delayed;(ii) the implementation of activities under the microfinance sector component had remained slow; (iii) the studies for the reform of the CRT (Civil Servants Pension Fund) and CNSS (National Social Security) although being completed, require the implementation of the recommendations; (iv) the activities under component 4 have been completed; and (v) new activities were suggested. All of which triggered the request of the authorities for a project restructuring as mentioned earlier in this report.

44. **M&E Utilization.** Monitoring and reporting on progress on each of the indicators was included in the Aide-memoires and ISRs. Regular monitoring and data collection facilitated discussions with the Government regarding outcomes. The work of the Steering Committee, composed of the representatives of the partner institutions (BTCI, UTB, BIA, BTD, BPEC, CRT, CNSS, CAS-IMEC, APIM, and Economy Directorate) and chaired by the Permanent Secretary for the monitoring of reform policies and financial programs (SP-PRPF) and the reports generated as a part of these activities, helped to determine whether agreed measures were on track.

2.4 Safeguard and Fiduciary Compliance

45. **Safeguards:** The project focused primarily on technical assistance to the government financial sector reform program, and as such, did not trigger any safeguard policies. Funding was mostly for consultants and, to a lesser extent, equipment and refurbishment (i.e. painting, installing air conditioner; and no civil works was undertaken).

46. **Financial management:** The overall performance of the project financial management (from the latest PRIMA assessment) is rated Satisfactory. A financial management mission was carried out in Dec. 2015. The project complied overall with the covenants stated in the loan agreement. The financial audits were submitted on time and issues raised by auditors were properly addressed by project management. The financial management system was deemed adequate to provide reasonable assurance that the Bank loan proceeds were being used for the intended purposes.

47. **Procurement:** The overall performance of the project procurement management is rated Satisfactory despite delays on the microfinance sector activities and some delays in the follow-up of supervision mission's recommendations. The procurement function was overseen in situ by the procurement specialist assigned to the project, from the procurement office at headquarters. The latest procurement report is dated March 11, 2015.

2.5 Post-completion Operation/Next Phase

48. During the last supervision mission to Togo (15-22 February 2016) it was agreed that discussions would continue with WB/GMFDR and IMF about the rationale to introduce banks restructuring and microfinance reform in their respective potential next program/activity. Therefore, it was expected that following the closing of the FSGP (June 2016), the Government of Togo would request a new project aimed at, among other things, (i) follow-up with the final phase of the Banking sector restructuring, that is, the merging of the two public banks that were not privatized (UTB and BTCI); (ii) continuing with the strengthening of the Microfinance sector consisting on: resolution measures to address distressed MFIs; enforcement of supervision activities on the part of the supervisory body (CAS-IMEC); and (iii) completing the reform of the Civil Servants Pension Fund (CRT). It can be anticipated that in the preparation of the new DPO, aside of fitting in the SCD / CPF, the design of the new project will incorporate the lessons learnt from this project to avoid that it does not achieve the stated objectives. A clear understanding of why this project did not achieve its objectives in these areas and the definition of measures to address any previous shortcomings is an important condition for a new project.

49. The Bank rationale to continue supporting the financial sector reform program is clearly depicted in the recently finalized Systematic Country Diagnostic (SCD) of September 2016, which notes that although Togo's financial sector is sound overall, parts of the system still exhibit significant fragility. The two banks that remain wholly state-owned and that were not able to be privatized under the FSGP, still face solvency issues. Moreover, the financial condition of some banks has weakened since 2012–2013, and therefore, average capital adequacy ratios are lower and the nonperforming loan ratio higher than the WAEMU average. With regards to the Microfinance sector the SCD notes that the sector is expanding and serves more clients as a percentage of the population (37 percent) than in any other WAEMU country, but inadequate supervision of the microfinance sector raise systemic risks.

3. Assessment of Outcomes

3.1 Relevance of Objectives, Design and Implementation

(a) Relevance of Objectives: Significant

50. **The relevance of the overall objective of the project was and remains significant.** The project development objective to improve the stability of specific segments of Togo's financial sector by supporting the Government's financial sector reform program, continues to be as relevant today as it was when the FSGP was designed. The PDO objective was streamlined through a First Restructuring (Jan. 2013), but the overall PDO objective remained the same. The PDO and the main components of the project were fully consistent with the 2006 Financial Sector Review (FSR) that identified three key issues in the financial sector that needed to be addressed in priority: (i) restructuring of the banking sector; (ii) strengthening of the supervision of the microfinance sector; and (iii) reforming the pension sector. The FSR noted that weaknesses in these three sectors were threatening the stability of the financial sector and therefore limiting its development and sustainability.

51. The project objective was also consistent with the Interim Strategy Note (ISN) covering the period FY08-10 that was presented to IDA's Board on May 29 2008. The ISN supported implementation of selected interventions under the three inter-related pillars of Togo's I-PRSP. The ISN proposed the Financial Sector and Governance Project to provide the required technical assistance to the Government to undertake the financial sector reform agreed to within the framework of the IMF supported PRGF and the World Bank DPOs.

52. Moreover, the PDO objective has remained so relevant that in the current Government strategy "Strategy for Accelerated Growth and Promotion of Employment" (SCAPE 2013-2017) one of the goals is to achieve a financial sector that is healthy, successful, effective, and inclusive. The strategy for achieving this goal include: (i) increasing the stability and transparency of the financial sector; (ii) deepening the financial sector; (iii) improving the legal and judicial framework; and, (iv) developing a culture of savings and loans. Linked to this strategy, the operational objectives include: Commercial Banks: (i) reinforce the solidity of the banking sector by reducing risk in banks' portfolios—measures that will allow prudential rules to be respected, reduce the number of impaired loans in their portfolios, and lighten the load of bad debts, and privatization; (ii) improve bank account penetration and the performance of banks in terms of resource mobilization and credit management; and Microfinance: (i) improve the enforcement of the new regulatory framework and supervision; (ii) straighten out and clean up the sector; (iii) assist in the diversification and professionalization of the range of microfinance services offered; and (iv) improve the protection for beneficiaries through better training and education in finance.

53. The relevance of the PDO is further highlighted by the fact that challenges in the financial sector remain, as Togo continues to have important weaknesses in the sector despite overall improved soundness[12].

(b) Relevance of Design: High

54. **The relevance of the original design is rated as high.** The design of the operation was linked to the IMF Poverty Reduction and Growth Facility (PRGF) and the World Bank Development Policy Operations (DPOs) that supported, in particular, the banking sector restructuring strategy and established prior actions which sat the ground for this project as mentioned in section 2.1 above. The FSGP was also designed on the basis of past experiences in financial sector reform technical assistance projects in other countries. It followed recommendations provided in the 2006 FSR, and recommendations that emerged from the dialogue with the Togolese authorities on the banking restructuring. The project supported activities that were strongly linked to the objectives of the operation and this was reflected, to a great extent, in the selected PDO- level and intermediate outcome indicators. It also supported areas where the Bank was well-positioned to contribute with analytical and advisory services.

(c) Relevance of Implementation: High

55. Implementation arrangements were and continue to be highly relevant. The Economy Directorate within the Ministry of Economy and Finance was charged with the implementation of the project. A Project Implementation Unit (PIU) was established within the Economy Directorate and the Director acted as the Coordinator of the project. In addition a full time Project Officer was appointed, and to complement the technical team, a Deputy Project Officer and a Microfinance Specialist were hired. After The MTR, progress in achieving results indicators was assessed, resulting in a first restructuring request on the part of the authorities (January 2013). Almost two years later, a second request for restructuring was approved (December 2014), and in August 2015 a third restructure took place. Moreover, in July 2016, after the closing of the project, a final report on the progress in achieving the results indicators was prepared by the project coordination unit. This report was updated in October 2016. Further updates were provided by the authorities in situ, during the preparation of this ICR.

3.2 Achievement of Project Development Objectives

Efficacy Rating: Modest

56. The overall project development objective of improving the stability of specific segments of the financial sector by supporting the country's financial sector reform program was not fully met as evidenced by the achievement of key quantitative and qualitative results under the

[12] See World Bank Systematic Country Diagnostic (SCD) of September 2016

Project's objectives and under each component, identified as essential in achieving the project's overall development objective.

57. The available evidence indicate that the project progress towards achieving the PDO is moderately unsatisfactory. The FSGP monitored the achievement of five PDO-level indicators and seventeen intermediate outcome indicators under four components: (1) Restructuring the Banking Sector; (2) Strengthening the Microfinance Sector; (3) Reforming the Pension Sector; and (4) Supporting the implementation of reforms in the financial and private sector. That is, the PDO of the Project was evaluated through twenty two results indicators. As described in detail below, out of the twenty two indicators, thirteen were fully achieved (Indicators#1, #4, #8, #9, #10, #13, #14, #15, #16, #18, #20, #12 and #22); three indicators were partially achieved (#3, #11 and #12); and six were not achieved (#2,#5,#6,#7,#17 and #19). In summary, 59 percent of the results indicators were met; 14 percent were partially met, and 27 were not met. The following section provides a detailed overview of achievements and non-achievement, which shows the link between inputs, and outcomes and impacts and visualize the chain of results of the Project.

Project Development Objective Indicators

Outcome Indicator 1: After the recapitalization of Togolese commercial banks (BTCI, UTB and BIA), the Government will no longer contribute to the absorption of losses, recapitalization and liquidity of commercial banks – Achieved

58. At project approval, three banks, two of them belonging to the State (BTCI and UTB), which accounted for about 60 percent of the banking sector had a negative net worth and a high ratio of non-performing loans. These banks required recapitalization of CFAF 88.141 billion (around US$176 million). Under the FSGP, technical assistance supported the financial and institutional restructuring of these banks as well as mechanisms to recover non-performing loans. The restructuring included recapitalization and the participation of strategic private banking partners in the capital, so that they would be able to perform satisfactorily over the long term. The process to attract strategic investors for the state owned banks was delayed until mid-2011 reflecting lags in completing prior actions such as the recruitment of the privatization advisers for the four banks, the adoption of a Privatization Law and the setting up of the Privatization Committee. Technical and financial proposals were received in 2012 for the two non-privatized (three offers for UTB and a single offer for BTCI). Finally, both banks were not privatized. The situation of BTCI remains a concern with negative solvency ratios along the period 2009-2016, while UTB did meet the prudential norms during (2012-2014) but in 2015 the solvency rate became negative. Currently, Authorities are working towards the merging of both banks. *Since 2011, no budgetary support has been granted by the State to the commercial banks (BTCI, UTB and BIA) and despite the difficult financial situation of the BTCI, no support has been planned in 2017 budget.*

Outcome Indicator 2: BTCI and UTB meet key prudential norms (solvency) by 2009 and every year until the end of the project – Not Achieved

59. The situation of BTCI, under an interim administration since 2008, remains a concern with a negative equity of CFAF 29.4 billion while UTB shows an equity of -13.5. However, the Authorities are seriously working towards the merger of BTCI with UTB. The Banking Commission has already done the evaluation of the situation of the UTB in the perspective of this merger. The Director General of the UTB has been removed from office and replaced by the former Director General of Orabank Togo, which absorbed former BTD. The new DG has put in place an action plan towards the merger/absorption of the two banks, which would be finalized before July 1, 2017 as at that date the BCEAO requirement of a minimum capital of 10 billion will be enforced. If no merger has taken place the cost for the Government would be double. This fact is putting a lot of pressure over the authorities to proceed with the merging of the two banks. Previously, to raise the net worth of the two banks under restructuring (BTCI, UTB) to a prudential ratio, the non-performing loans would be exchanged with government-issued bonds. *The two public banks, BTCI and UTB that were not privatized as originally sought under the project, do not meet the solvency standard norm at the closing of the operation*.

Outcome Indicator 3: Percentage of MFIs (with outstanding loans over 1 billion CFAF) meet key prudential ratio (liquidity ratio and long-medium term asset/liability ratios) by end of project (Target 80%) – Partially Achieved

60. At project appraisal, the microfinance sector played an important role in providing access to financial services. There was however a need to strengthen its internal and external supervision to prevent crisis. During project implementation there has been a few advances, but the MFIs continue to be exposed to the classic risks (liquidity, credit, financial) and remain in a potential crisis situation. Actions such as the reorganization of the CAS-IMEC, the closure of institutions which operate without authorization and withdrawal of accreditation for those who are out of business have not been completed. Indeed, some of these actions remained at the stage of good wishes in the absence of an action plan and implementation strategies in the context of the technical assistance. Furthermore, the Authorities have insisted on additional funding needed to complete the liquidation of the MFIs whose withdrawal of accreditation has been done since end 2014; and the need to find funding for depositors ‘reimbursements following the closure of the illegal structures which has already begun.

61. As of June 2016, about 100 out of 187 microfinance institutions operated without license. The sector still suffer from governance problems and weak information systems. Three microfinance institutions under provisional administration have showed little progress in their financial situation; and currently 12 microfinance institutions are under special vigilance as they are facing financial difficulties. The microfinance supervisor, CAS-IMEC, within MEF, continue to be understaffed and still needs significant institutional strengthening, despite the technical assistance given under the project aimed at strengthening the capacities of supervision. *At the closing of the project, only 42 percent (5 out of 12) of the micro-finance institutions with outstanding loans over 1 billion CFAF met the prudential ratios (liquidity ratio and long-medium term asset/liability ratio)*

Outcome Indicator 4: Project direct beneficiaries (Target 2000) – Achieved

62. The first project restructuring done in January 2013 added two PDO level outcome indicators to measure achievements of the project through the training and capacity building activities undertaken by the four different components. The new indicators included − the "number of beneficiaries" and "percentage of female beneficiaries within the total beneficiaries" − that would benefit from the training, workshops, conference attendance and study tours. The specified end-of-project target was 2.000 additional beneficiaries. *At the closing of the project, the number of beneficiaries reached 3785 far exceeding its original target.*

Outcome Indicator 5: Percentage of female beneficiaries (Target 30%) – Not Achieved

63. As mentioned above, the main beneficiaries of the Project's training and capacity building plan were individuals in all the sectors covered by the project, among which female beneficiaries would be a percentage of the total beneficiaries. Despite the fact the Government implemented a program to support development at the Base (PRADEB) to promote empowerment of women, the number of female beneficiaries is low because there are few females within the management staff that monitor policies in the overall financial sector. *The end-of-project target was that from the 2000 beneficiaries of the training and capacity building plan, 30 percent would be female. However, at the closing of the operation, the percentage of female beneficiaries reached only 15 percent, half the original target*

Component 1. Restructuring the Banking Sector

Outcome Indicator 6: BTCI and UTB have new gross NPLs below 5 % of total loans each year (starting in 2009) (Target <5%) – Not Achieved

64. As of March 2009, several banks had a high level of Non-Performing Loans (NPL), contributing to put the total NPL of Togolese banks at the top in the West African Monetary Union (WAMU) region. In this regard, the three public banks with negative net worth (BTCI, BIA and UTB) had NPLs of 70, 60 and 23 percent, respectively. Progress has been made in preparing the exchange of nonperforming loans (NPLs) held by three state-owned banks for government securities. A mechanism for recovering, settling, and restructuring NPLs has also been set up with the support of the IMF and the Bank. *Nonetheless, at the closing of the project, the percentage of NPLs for the two public banks remained significantly over the target of less than 5 percent. In particular BTCI had NPLs of 51.25 percent and UTB 5.27 percent, of total loans. The situation of BTCI is of greater concern, as it has a negative equity of CFAF 29.4 billion.*

Outcome Indicator 7: BTCI and UTB meet liquidity norm by 2009 and every year until the end of the project. (Target >75%) – Not Achieved

65. As of December 2015, the Togolese banking system as a whole was sound, it complied with the solvency ratio (8%) but three out of thirteen banks were under-capitalized, particularly BTCI and UTB. As a result, solvency indicators and profitability and liquidity suffered. The implementation of the project has contributed to the restructuring of the financial sector and the

liquidity ratio in the sector rose from 63.7 percent in 2008 to 80.4 in June 2016[13]. However, as *of June 2016, both public banks (BTCI and UTB) present a liquidity ratio of less than 75 percent, failing to meet the target (>75%). BTCI has a ratio of 52.11 percent and UTB of 39.47 percent, respectively. In the case of UTB, one of the explanations for not meeting the target, is that in the last three years it has been increasing the loans to companies performing public works that is, it has been funding government infrastructure investments.*

Outcome Indicator 8: Two out of the four targeted banks (BTCI, UTB, BIA, and BTD) have entered into partnerships with strategic banking investors by June 2010, the third bank, by 2012 – Achieved

66. As recommended in the Financial Sector Review, the restructuring of the banking sector included organizational/institutional as well as the cession of Government shares in public banks to private banking partners. The process to attract strategic investors was delayed until 2013 reflecting deferrals in completing preliminary actions such as the recruitment of the privatization advisers for the four banks, the adoption of a Privatization Law by the Parliament and the setting up of the Privatization Committee. Once the final technical and financial proposals for two of the four banks were received (end of 2012), the privatization process followed its course until completion one year later. *As of May 2014, two out of the four targeted banks (BTD, and BIA) entered into partnerships with strategic banking investors. The privatized banks were the BTD that became ORABANK and the BIA Togo now BIA ATTIJARIWAFA Bank*

Outcome Indicator 9. The agency in charge of loan recovery and of creating a secondary market for government securities is created by end 2009 and operational from 2013 – Achieved

67. At project appraisal the Togolese banking sector was facing a crisis due to lack of governance and very high levels of non-performing loans (NPLs). Hence, an important aspect of the banking restructuring process was the recovery of NPLs. To that end, the project supported the creation of an agency in charge of loan recovery, which would also handle the securities secondary market for the securities issued for the bank restructuring process. *The Collection Agency of Togo (SRT) was created by Decree on September 8, 2011, previously approved by the Ministerial Cabinet and by the Parliament. The SRT became operational in May 2012[14]. The first Board of Directors met in March 2013 and the staff is complete since May 19, 2015. As of December 2015 nearly CFAF 1.126 billion has been recovered against CFAF 810 million recovered one year earlier (2014). No new figures were available at the closing of the project.*

Component 2. Strengthening the Microfinance Sector

---

[13] The liquidity and solvency indicators follow the BCEAO methodology.

[14] The agency in charge of loan recovery (SRT) was created in 2011 and became operational from 2013. This is a permanent structure

Outcome Indicator 10: At least 75% of MFIs transmit statistical data in compliance with new accounting plan – Achieved

68. The availability of reliable financial information plays an important role in the development of a sound microfinance sector. Hence the technical assistance provided by the project to the Microfinance Supervision Unit at the Ministry of Economy and Finance (CAS-IMEC) included the development of a program to collect periodic (monthly and quarterly) statistics and financial statements in accordance with the regulations of the BCEAO instructions and accounting standards. *As of June 2016, all the MFIs transmit financial statements in compliance with the latest accounting standards. However, difficulties remain on the quality of transmitted data.*

Outcome Indicator 11: At least 75% MFIs (with outstanding loans over 1 billion CFAF) have Portfolio at Risk over 90 days (PAR>90) below 5 % by the end of the project – Partially Achieved

69. While the Government launched new initiatives to promote microfinance activities such as the creation in 2014 of the National Fund for financial inclusion (FNFI) to reach most vulnerable population, the microfinance sector remains vulnerable as no resolution measures have been taken to address distressed MFIs. The reported MFIs portfolio at risk over 90 days is at 6.9 percent as of June 2016, despite the fact that the head of the CAS-IMEC, in office since the 1990's, was replaced at the beginning of 2016 and therefore improvements in CAS-IMEC supervisory activities implementation and enforcement measures have taken place. It was expected that this situation would improve given that an action plan to reduce the level of the Portfolio at risk (PAR) has been developed and adopted by the Microfinance Institutions Professional Association. Moreover, the results of the measures adopted are assessed during quarterly consultations held with stockholders under the sponsorship of the BCEAO. The last meeting took place on September 20, 2016.

At the closing of the project, only three out of twelve (25%) MFIs with outstanding loans over 1 billion CFAF have a Portfolio at Risk over 90 day below 5 percent.

Outcome Indicator 12: All MFIs with outstanding loans over 1 billion CFAF have their financial statements audited and certified yearly by BCEAO registered auditors – Partially Achieved

70. At project appraisal a new microfinance law had been approved by the West African Monetary Union (WAMU) Council of Ministers but needed to be ratified by Togo. This new microfinance law stipulated that the largest Microfinance Institutions (MFIs) would be jointly supervised by the BCEAO and the Ministry of Finance, which should lead to improved supervision, while the smaller institutions remained the responsibility of the ministry of finance. Therefore, there was an urgent need to strengthen the supervisory capacities of the national supervisor, CAS-IMEC, and the project gave the technical assistance to that end, including financing seminars to raise awareness of the MFIs on the new law of microfinance ratified by Togo on May 2011. At the closing of the project, out of 12 MFIs that have the 1 billion threshold set for the audit, six have their financial statements audited and certified by BCEAO, two have financial statements audited, but the audit firm has not been recognized by the National Experts Accountants (ONECCA), and the other four MFIs do not have audited financial statements. *As of*

June 30, 2016, not all MFIs, but fifty percent of them with outstanding loans over 1 million CFAF have their financial statements audited and certified yearly by BCEAO registered auditors.

Outcome Indicator 13: At least 75% MFIs with outstanding loans over 1 billion CFAF have undergone at least one transparency exercise between 2009 and 2016 – Achieved

71. Improving financial information transparency was one of the objectives of the project under the component aimed at strengthening the microfinance sector. At appraisal the authorities were aware that the availability of reliable financial information plays an important role in the development of a sound microfinance sector. Hence, the project had agreed to support the co-financing of ratings with the condition that the ratings would be publicly available and also agreed to support the development of regional rating firms to increase availability of rating services in the region. Within this approach the Results Framework established as one of its intermediate indicators the need that the institutions with outstanding loans over 1 billion CFAF undergo a transparency exercise on a yearly basis comprising visibility actions, publication of information on products, customers, financial information and ratings. *By closing of the project, 91 percent of all MFIs with outstanding loans over 1 billion CFAF, have undergone at least one transparency exercise between year 2009 and June 2016.*

Outcome Indicator 14: At least 75% of the MFIs with outstanding loans over 1 billion CFAF report their financial information on the Mix Market (www.mixmarket.org) starting in 2009 – Achieved

72. Making public information related to the financial management of the MFIs was a priority for the country, given that the microfinance sector had greater reach in Togo than in other WAEMU countries. At appraisal a considerable number (>60%) of microfinance institutions operated without license, hence the objective of the project to strengthen the sector was a priority and comprised the improvement of supervision and establishing a strategy to either incorporate illegal decentralized financial institutions into the regulatory system or closing them. But the sector suffered also from lack of transparency and weak information systems. As mentioned in the previous indicator, the availability of information is vital for the development of the microfinance sector. At appraisal it was even agreed that if there was a lack of cooperation from MFIs, the authorities should consider tying financial support with publication of information. *As of June 2016 nine out of twelve MFIs (75%) with outstanding loans over 1 billion CFAF have published in the web, at least one of their financial statements of the last four fiscal years (2012-2015).*

Outcome Indicator 15: CAS-IMEC adopts a code of ethics by the end of the project – Achieved

73. When the second restructuring of the project (August 2015) was approved, the disbursement rate had reached almost 90 percent and significant achievements have been observed: privatization of two out of four public banks and reform of the private sector pension fund (CNSS). Nevertheless, specific structures, such as the supervisory body of the microfinance institutions, CAS-IMEC, was still very fragile and had not yet implemented a risk based supervisory approach, including enforcement practices in line with international best practice, thus the sector remained vulnerable. It was then agreed that the CAS-IMEC should perform

further on-site inspection missions and that the code of ethics for CAS-IMEC that has been drafted should be approved by the end of the project. *Importantly enough, at the closing of the project, CAS-IMEC has adopted the code of ethics that establishes the values, ethics and the principles of supervision*.

Outcome Indicator 16: Volume of Bank Support: Institutional Development – Microfinance (Target US$2500000) – Achieved

74. As part of the first restructuring (January 2013) and in order to reduce the Microfinance's sector fragility and promote transparency, the content of this component was refocused with a particular emphasis on restructuring the supervisory authority and its ability to regulate the sector, while strengthening microfinance institutions. This included, among other things, improving the microfinance supervision authority's capacity to undertake field supervision and deal with failing and illegal MFIs. Given the changes proposed, activities were reevaluated and resources have been projected to adequately fund the restructured component. Thus, it was established that the Bank funding for the institutional development of the sector would be US$2500.000. *As of June 2016, more than 2 758 000 dollars have been dedicated to microfinance Institutional Development under the project.*

Component 3. Reforming the Pension Sector

Outcome Indicator 17: The legal framework for CRT is modified according to established best practices by 2016. In particular, parameters for contribution and payments are established through decrees – Not Achieved

75. There is a delay with regards to the approval of the law that would allow making the parametric changes agreed upon in the PAD. During the implementation of the project, numerous activities, including technical assistance to the CRT manager, have been implemented to put the CRT reform on track. In several occasions changes were introduced in the timeline of the reform and parameters to make them more realistic, but the legal framework of the CRT could not be changed due to the complexity of the reforms, and the unfavorable social and economic context. The project has been supporting these objectives through the recruitment of a consultant to support the overall reform process of the CRT public pension structure and through the up-date of the actuarial study carried out in 2010. Finally, the Government has an outstanding debt with CRT of about 43 billion CFAF, which despite the financial audits paid by the project with recommendation on debt repayment, effective reimbursement has not taken place. *As of June 2016, the Togolese Pension Fund (CRT) reform has not been completed.*

Outcome Indicator 18: The legal framework for CNSS is modified according to established best practices by 2011. In particular, parameters for contribution and payments are established through decrees – Achieved

76. The social security sector comprises also the National Social Security Institution (CNSS) for private sector employees and other categories of Government-employed personnel, which under the project engaged in administrative, organizational and good governance reforms through the adoption of standards and good practices. During the project implementation the

CNSS was successfully reformed by Law No. 2011-006 adopted February 21, 2011 that established a new social security Code. Fifteen months later, the Decree No. 2012-038/PR of June 27, 2012 revised the contribution and payments parameters to the various branches of social security. Similar to CRT, the Government has outstanding debt with CNSS. The weight of this debt is threatening the institution's survival. The financial debt of the Government to CNSS is estimated at CFAF 140 billion. *Under the project, the legal framework for CNSS has been modified according to established best practices since 2011 and the parameters for contribution and payments have been established through decree.*

Outcome Indicator 19: The parameters for CRT have been adjusted through decrees, according to the findings of the actuarial study by 2016 – Not Achieved

77. According to a late September meeting with CRT management in Togo, the reform will take more time, probably until April 2017, as it requires the completion of two complementary keys actions: (i) adoption of the law that would allow the parameters modification by decree and (ii) agreement on the modification of the parameters. According to the authorities of the CRT, the main reason why the parametric reforms could not be implemented is the complexity of the reforms and the social and economic context that Togo is going through. *The 2010 actuarial study was updated in 2016 and the new reforms to be implemented are more flexible*. *Hence the authorities are optimistic that the reform will be approved by April-May 2017.*

Outcome Indicator 20: The parameters for CNSS have been adjusted through decrees, according to the findings of the actuarial studies by 2011 – Achieved

Law No. 2011-006 approved February 21, 2011 established a new social security Code and Decree No. 2012-038/PR of June 27, 2012 revised the parameters for contribution and payments for the various branches of the CNSS. As a result of this reform, the retiree branch presents a surplus, which is a great achievement. In effect, on the basis of the implementation of the recommendations of a financial and organizational audit and an actuarial study, the CNSS has grown from a cumulative deficit of about 5 billion CFAF as of 2012 to a surplus balance of 5 billion CFAF in 2014.

Component 4. Supporting the implementation of reforms in the financial and private sectors

Outcome Indicator 21: Reform Secretariat is fully operational and demonstrates the ability to identify and steer key reforms in the financial and private sectors – Achieved

78. As part of the Institutional and implementation arrangements, the Permanent Secretary in charge of the Monitoring of Reform Policies and Financial Programs (SP-PRPF) has been chairing the Steering Committee, which has been responsible for setting the strategic direction of the project. The Steering Committee composed of the representatives of the partner institutions (BTCI, UTB, BIA, BTD, BPEC, CRT, CNSS, CAS-IMEC, APIM, and Economy Directorate), the banking association, BCEAO and the private sector representative body met twice a year. The first meeting approved the work plans prepared by the various partner institutions and a second meeting reviewed progress of the implementation of the work plans and provide recommendations to accelerate implementation when needed. Regarding the implementation of reforms in the financial and private sectors, the Permanent Secretariat have acquired better knowledge of public policies and programs, as well as the strategies for reform, but its concrete action remains overall limited. *The Permanent Reform Secretariat is fully operational and has been able to drive the reform process through the organization of two review workshops each year: an annual review in March and a semi-annual reviews in August/September.*

Outcome Indicator 22: At least one recommendation of the Corporate Governance Assessment is implemented within 6 months following the validation workshop – Achieved

79. The validation workshop was held on June 13 and 14, 2016 at Lomé, followed by training on corporate governance. The availability of consultants from the World Bank has delayed the Organization of the workshop and the implementation of the recommendations. *However, the Ministry of Economy and Finance has plans to implement at least one of the recommendations within the time frame of six months after the workshops.*

3.3 Efficiency

Efficiency Rating: Modest

80. At appraisal, a quantitative economic and financial analysis was not undertaken given the capacity building and reform-oriented character of the Project. Instead of a standard economic analysis, the approach was to focus on the expected benefits of institutional capacity building in the Banking, Microfinance and Pension sectors, as well as in the Economy Directorate within the Ministry of Economy and Finance, all of which were supported by the Project. The project aimed at restoring the stability of the Togolese financial sector as an essential first step for the development of the financial sector so that it can efficiently contribute to economic growth and private sector development. The underlying principles were that an efficient banking sector would allow Togolese enterprises to finance their growth; a strong microfinance sector would permit low income households and micro enterprises to access financial services and therefore develop income generating activities; and a restructured pension sector would provide reliable pension coverage to employees from the formal economy and also generate long term financial resources that can be recycled in the financial sector.

81. However, given that vulnerabilities in the sectors covered by the Project remain, the efficiency rating of the Project is Modest, especially as far as the microfinance and pension sectors are concerned and given the long time it took to execute the project. A brief explanation follows:

Component 1. Restructuring the Banking Sector. The two public banks that have not been privatized, merged or liquidated, do not meet key prudential norms of solvency remaining a concern as they are impacting negatively in the overall soundness of the banking sector.

Component 2. Strengthening the microfinance sector. The microfinance sector remains vulnerable as no practical resolution measures have been taken to address distressed MFIs. However, legal actions have been taken against managers operating several MFIs that have no licenses since the change in the Head of the CAS-IMEC took place in February 2016. This action has had a positive effect in the supervisory activities and the implementation and enforcement of measures, but the supervisory entity continue to be understaffed and still needs institutional strengthening.

Component 3: Reforming the Pension sector. With regards to the pension system, the Government has undertaken specific actions in the two social security institutions. It undertook actuarial studies for the public and private pension system, after the employee, employer and beneficiary roasters of the two institutions were updated. Based on the results of these studies, changes in the parameters of the National Social Security Institution (CNSS) were proposed in consultation with the different stakeholders. Law No. 2011-006 adopted February 21, 2011 established a new social security Code and Decree No. 2012-038/PR of June 27, 2012 revised the contribution and payments parameters to the various branches of social security, which resulted in a surplus situation for the retiree branch. Contrary to this positive result, the legal framework of the CRT could not be changed due to the complexity of the reforms and the unfavorable social and economic context. It should be noted, though, that an action plan has been developed to allow an improvement of the legal framework and the 2010 actuarial study, updated in 2016, made the reforms to be implemented more flexible, consequently a new timeline and more realistic parametric changes have been prepared. Optimistically, the draft law needed for the reform sent to Parliament end 2016 would be approved around April-May 2017. Once the approval takes place, the parametric reform would proceed.

Component 4: Supporting the implementation of reforms in financial and private sectors. This component has provided technical assistance to the Reform Secretariat and the Economy Directorate within the Ministry of Economy and Finance to strengthen their capacity to formulate policies in the financial and private sectors aiming at improving public private sector dialogue Under this component, the project has funded activities related to the finalization of the new investment Code as well as consultancy services to assist the Ministry of Industry in drafting new free zone legislation and undertaking partial environmental studies for the free zone. These activities were carried out when there was no IDA-funded private sector project in Togo and no operational framework to build public-private dialogue. After the IDA Private Sector Development Support project was declared effective in December 2011, it took over these aspects of public private dialogue. The Permanent Reform Secretariat continued to monitor the reform policies in the financial and private sector, albeit in a limited fashion.

Cost Effectiveness

82. Notwithstanding the above, the analysis of the quality and quantity of outcomes according to the volume of budget used allows to conclude that the project has not only been effective but also efficient as a whole. That is:

83. The restructuring of two public banks (BTD and BIA) was very relevant and even fundamental. The result of privatizing the two banks in addition to the implementation of good governance tools (i.e., operations manuals) and the capacity building of 1753 officers of 11 banks are significant results for a total cost of US$2.9 million over 5 years. Moreover, from 2005 to 2007 the Togolese banking system was overall insolvent. In fact, the equity/weighted

assets ratio was negative because of the negative own capital related to the accumulation of non-performing loans. Under the Project, the solvency of the Togolese banking sector improved significantly from -4.1% in 2008 to 8.9% in 2015, although this result cannot only be attributed to the project implementation.

84. With regards to the micro-finance sector, today, approximately 2 million people (nearly one third of the total population, living mainly in rural areas and excluded from the conventional banking system) use the MFIs' services. The acquisition of vehicles, computer equipment helped to improve control in situ for a larger number of MFIs and actually reduced delays in reporting. The technical assistance has helped strengthening the capacities of supervision of the CAS-IMEC, alas not as much it would have been expected. The sector has used US$ 2.6 million over 5 years.

85. With an expenditure of US$ 2 million, the impact of the achievements of the Project regarding the CNSS, in particular, is very positive. On the basis of the implementation of the recommendations of a financial audit and an actuarial study, the CNSS has grown from a cumulative deficit of about $16 million by 2012 to a surplus balance of $24 million in 2015. Moreover, both social security institutions have benefited from the knowledge of the real financial situation of the two institutions (CRT and CNSS) thanks to the financial audits done under the Project; from the knowledge of the conditions of equilibrium of pensions through actuarial studies of the two funds; from the capacity-building of the staff members of the CRT and the CNSS; and from the study on the investment policy of the CNSS.

86. The implementation of reforms in the private and financial sector, has created a new institutional environment, improving the confidence of technical and financial partners and investors. The creation of local skills in the Permanent Secretary for the monitoring of reform policies and financial programs (SP-PRPF) is a long-term investment for the mobilization of resources that could widely exceed the sum of US$ 1 million invested. Finally, the administrative efficiency of the project was modest. The cost of project implementation amounted to US$1.3 million which is equivalent to about 10.1 percent of the overall resources committed for the project.

3.4 Justification of Overall Outcome Rating

Rating: Moderately Unsatisfactory

87. The rating for the achievement of overall outcome of the project is Moderately Unsatisfactory. The available evidence indicate that: two PDO level indicators related to public banks and project direct beneficiaries were achieved (no government contribution to absorption of losses, capitalization or liquidity took place after the recapitalization of commercial banks (BTCI, UTB and BIA) and the number of beneficiaries reached 3785 far exceeding its original target; a third PDO level indicator related to prudential norm (solvency) compliance for public banks was not achieved; a fourth PDO level indicator related to prudential ratio compliance for microfinance institutions (liquidity ratio and long-medium term asset/liability ratio) was partially achieved (42% of targeted Institutions complied); and finally the last PDO level indicator related

to the percentage of female beneficiaries was not met (the number reached 50% of the target). All in all, significant progress has been achieved with thirteen targets, substantial progress achieved in meeting other three targets, while six intermediate targets were not achieved due sometimes to factors beyond the control of the authorities. These shortcomings have had an adverse impact on the more important overall development objective of the project which is improving the stability of specific segments of the financial sector.

3.5 Overarching Themes, Other Outcomes and Impacts

(a) Poverty Impacts, Gender Aspects, and Social Development

88. Although the PDO was refined through a first restructuring of the project as it was perceived as quite broad, and gave the impression that project activities would address poverty reduction, the project has had an impact on promoting the inclusion of women as beneficiaries of training and capacity building activities. The proportion of female beneficiaries reached 15 percent as opposed to the target of 30 percent. The shortfall in regard to female beneficiaries was probably due the fact that there are few females within the management staff that monitor policies in the financial sector. The non-achievement of some planned activities affected the efficiency

89. No clear evidence exists on poverty reduction other than the a priori reality that activities benefitting the microfinance sector plays a key role in providing access to financial services to the Togolese population, in particular to poor households, developing income generating activities that have a poverty reducing impact. As of today, approximately 2 million people (nearly one third of the total population, living mainly in rural areas and excluded from the conventional banking system) use the MFIs services; then the audit, control and supervision functions are intended to improve the quality of these services for the benefit of the poorest.

(b) Institutional Change/Strengthening

90. The FSGP was built on a strong analytical base given by the Financial Sector Review completed in 2006, which was followed by continued policy dialogue between the World Bank, the IMF and the Government on financial sector reform. The project design emphasized institutional capacity strengthening providing technical assistance to support the establishment of a strong governance structure. Recognizing the shortage of capacity across some of the partner institutions the project focused on strengthening capacity of key stakeholders of the financial sector and explicitly included capacity building in all of its components. Regarding the banking sector, the FSGP allowed the privatization of two banks: the BTD that became Orabank and the BIA Togo now BIA Attijariwafa Bank. Additionally, 3785 bank agencies have been established and procedures manuals have been updated for the two banks. The implementation of the FSGP contributed to the improvement of the solvency of the Togolese banking sector from -4.1% in 2008 to 8.9% in 2015. In addition, near 1.126 million CFAF has been recovered thanks to the administration of the e SRT. Though this amount is still low compared to the overall amount of non-performing loans, the process of recuperation of bank debts has been initiated. Regarding the implementation of reforms in the financial and private sectors, managers of the Permanent Secretariat for the follow-up of policies of reforms and financial programs (SP-PRPF) have

acquired better knowledge of public policies/programs, tools and strategies for the reform process. The analysis on the quality and quantity of results against the volume of budget used in each component allows to conclude that the project has not only been effective but also efficient as a whole.

(c) Other Unintended Outcomes and Impacts (positive or negative)

91. Unintended negative effects have been identified by the Government[15] that should be mentioned. At the level of the micro finance sector, despite the advances observed, the MFIs continue to be exposed to the classic risks (liquidity, credit, financial) and remain in a potential crisis situation. Technical assistance, which was intended to strengthen the capacity of supervision of the CAS-IMEC has proved to be not so effective. However, the acquisition of vehicles and computer equipment helped improve control, in situ, for a larger number of MFIs and reduce delays in reporting. The assessment also revealed the weak capacity of the CAS-IMEC to punish the illegal MFIs and/or weaknesses in the implementation of the recommendations of the Bank's supervision missions. The sector is complex. The number of MFIs operating without permits is bigger than the formal ones (137 and 87 respectively). The authorities have the power to impose standards but the decisions are political as could create social unrest. Other outcome that should be mentioned with regards to the micro-finance sector, is the positive impact that the MFIs services have, today, over approximately 2 million people (nearly one third of the total population, living mainly in rural areas and excluded from the conventional banking system). Hence, the audit, control and supervision functions are intended to improve the quality of these services for the benefit of the poorest.

3.6 Summary of Findings of Beneficiary Survey and/or Stakeholder Workshops

92. A summary of the Government's assessment of the results of the Financial Sector and Governance Project is provided in Annex 4. The full report is available in WBdocs. Meetings to share the findings and recommendations of this report took place in Lomé, Togo in late September 2016. The outcome of the discussions are reflected in this ICR.

4. Assessment of Risk to Development Outcome

Overall Rating: **Substantial**

93. The overall risk to sustain the development outcomes in the areas supported by the project is significant. These risks are two-fold: some changes may occur that are detrimental to the ultimate achievement of the operation's development outcome and the impact on the operation's development outcomes does not materialize. The reasons behind this overall rating are explained below:

[15] Evaluation Final Externe des Résultats du Projet Secteur Financier et Gouvernance (PSFG). Octobre 2016

94. **Macroeconomic management**: The risk of maintaining a stable macroeconomic environment against a backdrop of shocks in the global economy is substantial. The risk derives in part from the vulnerability of the Togolese economy to climatic or commodity price shocks, such as sharp increases in international food and oil prices. These shocks could result in, among others, a risk of falling back into arrears or exacerbating the already weak financial situation of public banks, with a possible adverse spillover to the rest of the system. These risks are mitigated to some extent by the IMF and the World Bank close monitor of the macroeconomic performance, including providing advisory assistance to the financial sector reform program, and supporting a coordinated regional response to the food and oil price increases. But, more important, is the mitigation derived from the surveillance and supervision of the BCEAO, not only of banking institutions but also of the largest MFIs.

95. **Political and Governance**. Despite progress in building consensus and the strong commitment to reform by the top political levels, the risk of political crisis presents a high sustainability risk. Political tensions could delay or stall implementation of the Government's reform program. A delay could jeopardize the attainment of all the project objectives. Togo remains a fragile state, vulnerable to episodes of violent conflict. The government therefore faces the difficult task of advancing reforms to broaden and accelerate economic opportunities, while also preserving the support of key vested interests. The slow progress in addressing the most pressing social problems could lead to instability in volatile areas and adversely affect security conditions, the business climate and macroeconomic management.

96. **Sector Strategies and Policies.** The risk that the current commitment to continue restructuring the banking sector and seeking a solution (merger/absorption) for the two state owned banks, is moderate, given the fact that currently there is a strong commitment to advance in the process of merging the two public banks (BTCI and UTB) before July 2017. The risk that microfinance sector remains vulnerable as no resolution measures have been undertaken to address distressed and illegal MFIs, is substantial. Technical assistance, training and funding provided by the Project and the activities supporting the supervisory body (CAS-IMEC) have not been able to significantly and permanently strengthen its supervisory capacity, as they lack the full backing of the political will and the financial resources to resolve the MFIs.

97. With this backdrop it is important to emphasize what was already mentioned under section 2.5 of this ICR. The Bank should continue supporting the financial sector reform program in Togo, given that parts of the financial system still exhibit significant fragility. The microfinance sector continues to expand and serves more clients as a percentage of the population (>30%) than in any other West African country, but weak supervision of the sector raise systemic risks. With regards to the two banks that remain state-owned and that were not able to be privatized under the FSGP, particularly, BTCI, still face solvency issues. Therefore, to assure the sustainability of the outcomes of the FSGP, a new operation should aim at following-up with the final phase of the banking sector restructuring, that is, the merging of the two public banks (UTB and BTCI); continue strengthening the microfinance sector through putting in place resolution measures to address distressed MFIs and enforcing supervision activities by (CAS-IMEC); and completing the reform of the Civil Servants Pension Fund (CRT). However, a new operation should incorporate the lessons learnt from this project in order to obtain the expected results.

5. Assessment of Bank and Borrower Performance

5.1 Bank Performance

(a) Bank Performance in Ensuring Quality at Entry

Rating**: Moderately Satisfactory**

98. **Bank performance in ensuring Quality at Entry is rated Moderately Satisfactory**. The Bank team ensured alignment of the Project objectives with the Government's Reform Program and with the objectives laid out in key strategic documents including the Financial Sector Review completed in 2006, the IMF Poverty Reduction and Growth Facility (PRGF) and the World Bank Development Policy Operations (DPOs) that supported, particularly, the banking sector restructuring strategy and the strengthening of the microfinance sector. Despite the project was also designed on the basis of past experiences in financial sector reform technical assistance projects in other countries, followed recommendations provided in the 2006 FSR and those derived from the dialogue with the Togolese authorities on the banking restructuring, there were moderate shortcomings in the identification of economic and political constraints and in the appraisal of institutional constraints.

99. Moreover, the project supported areas where the Bank was well-positioned to contribute with analytical and advisory services. The Bank team ensured that the design was strongly aligned with the country's overarching development strategy and other analytical work done on financial sector reform. However, the project was too ambitious in scope given the limited institutional capacity for program implementation. While effectiveness requirements took more time to fulfill than was initially anticipated, which delayed effectiveness, the Bank used this additional time to advance in the preparation for a expedite implementation.

(b) Quality of Supervision

Rating**: Satisfactory**

100. **Bank performance on quality of supervision is rated Satisfactory.** Bank supervision throughout the almost seven years of project life was consistent and efforts were made to coordinate Bank activities with those of other partners contributing to accelerate the implementation of the project. In addition to regular meetings held between the Bank and the Government, the Bank conducted multiple supervision missions and a mid-term review. The numerous Aide-Memoires and Implementation status reports (ISRs) included adequate detail on progress observed under each component as well as on bottlenecks encountered throughout implementation. Aide-Memoires and ISRs contain detailed information on progress made on each of the PDO-level and intermediate-level indicators. In light of the downgrade of project implementation progress due to the relatively slow pace in bank restructuring and unsatisfactory implementation rate in microfinance sector strengthening, the Government requested a first restructuring, involving a harmonization of the PDO, the refocus of activities, reallocation of funds, and the adjustment of the results framework. The restructuring was approved in January 2013. At that moment in time, the Bank introduced useful modifications to the results framework to better capture progress made towards achievement of the PDO.

101. The project financial and general management and the counterpart funding is rated satisfactory. With regard to the procurement management, the rating is also satisfactory for the overall implementation of the Project, despite delays on the microfinance sector activities. The Bank's fiduciary mechanisms were strong throughout the life of the project and the Bank team reviewed and approved all procurement documents. Furthermore, the Bank responded appropriately, at each stage of the process, to address some of the key challenges and constraints to implementation, developing strategies to accelerate activities through technical assistance, training and conference attendance.

(c) Justification of Rating for Overall Bank Performance
Rating**: Moderately Satisfactory**

102. **Overall Bank Performance is rated Moderately Satisfactory**. Overall Bank performance is rated moderately satisfactory on the basis of the moderate shortcomings in ensuring relevance of objectives and design; quality at entry, and on progress in supporting the Government in the implementation of their reform program. This rating is based on the combined rating of Bank Performance on quality at entry (Moderately Satisfactory) and Quality of supervision (Satisfactory).

5.2 Borrower Performance
(a) Government Performance
Rating: **Moderately Unsatisfactory**

103. **Borrower performance is rated Moderately Unsatisfactory.** Although the operation was strongly aligned with the Government's reform strategy, there were significant shortcomings in the performance as it did not take into account the limited capacity of the implementing entity to take on the scale of implementation. Despite early efforts developed to build the capacity of the implementing department within the Ministry of Finance through a Project Preparation Advance (PPA) and special attention given to strengthening capacity at different levels, project implementation has been affected by political disagreements and conflicting interests within the Administration, particularly in relation to the privatization of BTCI and UTB. Specifically, in the case of BTCI, with the exception of the Minister of Finance, the authorities were against the privatization of BTCI. In times, communication issues came up with the advisors and the Bank even had to reach out and ask more transparency in information exchange and greater communication. During project implementation, there were signs that the BTCI administrator between 2009-August 2014, did all he could to prevent the privatization of the bank (BTCI), such as retaining key information from the World Bank team, not allowing the team having a clear picture of the situation of BTCI.

104. With regards to the Microfinance and Pension sectors, more than a lack of determination in reforming CAS-IMEC or implementing CRT reforms, the political atmosphere (presidential and parliamentary elections, public strikes and protests) did not favor non popular decisions by the authorities, such as liquidating failing MFIs, adopting a strategy to bring MFIs operating without license to conformity, closing those that could not be regularized and adopting new parameters in the civil servants social security fund.

(b) Implementing Agency or Agencies Performance
Rating: **Moderately Satisfactory**

105. **The performance of the Implementing Agency is rated Moderately Satisfactory.** There were moderate shortcomings in the implementing agency' performance derived in part from the project institutional design (hybrid team integrated within the Ministry officials and contractors) which did not allow large flexibility in some cases due to hierarchical relations between the project unit and ministry officials. Thus the performance of the management unit is rated moderately satisfactory. Despite the Ministry of Finance demonstrated a strong interest in the project and was very reactive in appointing several staff of the Ministry in the project coordination unit and hired external staff to complement the team, project effectiveness was delayed for approximately five months as it relied on meeting a number of conditions of effectiveness including those related to adoption of the Project Implementation Manual and the Accounting, Financial and Administrative Manuals. This, in turn, led to delays in project implementation and the need for subsequent project restructurings.

(c) Justification of Rating for Overall Borrower Performance
Rating: **Moderately Unsatisfactory**

106. **Due to political and governance issues that limited borrower performance the overall rating is moderately unsatisfactory**. While the implementation of component four (support to the implementation of reforms in the financial and private sectors) is rated as satisfactory, the partial implementation of component 1 (banking sector restructuring) and component 3 (pension sector reform) are rated as moderately satisfactory, the governance and political challenges discussed above, affected the implementation of component 2 (microfinance sector strengthening), rated as moderately unsatisfactory, thus, an overall rating of Moderately Unsatisfactory is justified. It should be noted that while the rating for the implementing agency is (MS) and the rating for the government performance is (MU), the rating of the overall borrower performance is affected by the overall outcome rating (MU). Thus, overall Borrower Performance is rated Moderately Unsatisfactory.

6. Lessons Learned

107. **Political commitment remains a key driver for any process of reform.** The Project highlights the important role of such commitment from various political bodies. However, the problems derived from the lack of such commitment is reflected by the inactivity at the level of the social security institution for public servants (CRT) and the no resolution measures taken to address distressed MFIs/cooperatives and reported MFI portfolio at risk. The project has also suffered due to delays in Parliament approval, changes in Government priorities following elections, turnover of technical personnel, and a low capacity for implementation. For instance, the Microfinance Supervision Unit within the Ministry of Economy and Finance despite the technical assistance provided by the project remains weak and has not demonstrated its ability to adequately regulate the sector in terms of strategic decisions and staffing.

108. **Togo remains a difficult implementation environment for reforms and requires extensive consultations to attain expected results.** The Bank worked closely with the

Government to ensure a simple design and implementation arrangements of the reforms supported by the project, focusing on critical policy areas, and providing technical assistance to build capacity. Notwithstanding this fact, in sectors such as the public pension fund (CRT), the actual financial deficit requires important annual Government subsidies to ensure timely payment of pensions, hence new financing parameters have to be applied. To achieve this, there is a need to engage in a broad dialog between all stakeholders (Government, public servants, and labor unions) to reach agreements on the reforms that should be undertaken, and translate these reforms into new laws and regulatory frameworks. A WB staff at Lomé office in charge of the daily supervision of the Project would have probably improved Project implementation and results.

109. **A strong collaboration between implementing units is important for project success and to ensure long-term sustainability of project gains.** The good collaboration between the Coordination Unit (PIU) and the Steering Committee generated a real participation of all stakeholders of the project. The project led a participatory and inclusive way through the mobilization and participation of key players of each of the components within the Steering Committee. This has been an opportunity for agreement and compromise between structures. As a result, the Steering Committee became a place for exchange of ideas on the problems in each sector targeted by the project.

110. **A simple and clearly articulated PDO facilitates the identification of indicators which allow for effectively measuring progress towards achievement of the PDO.** Assessing progress towards achievement of an operation's overall objective is more difficult when the PDO is not simple or straightforward and if the result's indicators do not include indicator/s that can measure the performance of specific institutions, such as, an indicator that measures the performance of the main supervisor of the MFIs, CAS-IMEC, more so if one of the project's objectives was to strengthen the external supervision of the sector. After the first restructuring of the project, the relatively straightforward PDO facilitated the identification of measurable indicators. This, in turn, made progress towards achievement of the PDO and level of achievement of the PDO easier to assess.

111. **The scope of the project could have been less ambitious given the limited institutional capacity for program implementation.** It would have made more sense to design a narrower Project focused on one or two institutions of the financial sector rather than including banks, microfinance entities and pensions. With regards to the privatization of the four state-owned banks it would have been more efficient to establish a sequencing in the privatization reform, as opposed to wanting to tackle the divesture from all state-owned banks at once. In this regard, the Project might have been too ambitious. Finally, the activities for the microfinance sector component, given the constraints of the institutional capacity, were too many. The project needed to be less ambitious and more selective.

112. **Attention needed to be paid to the fact that Togo was a country coming out of a long period of isolation**. Since 1990 Togo has known a long period of political and economic instability. Development partners had very few relationships with the country for over a 10 year-period, due to the political instability, while governance shortfalls and poor performance of public enterprises, including state-owned banks, contributed to poor economic performance until

early 2000s. The break in dialogue and institutional memory that took place during this period of isolation had its consequences. The depth of political support for the reforms seems to have been misjudged, as this fell away in the face of public opposition. Building more political economy analysis into the structuring of future programs maybe a lesson which can be taken.

7. Comments on Issues Raised by Borrower/Implementing Agencies/Partners

(a) Borrower/implementing agencies

The Borrower's comments on the Bank ICR will be added once they are received. .

(b) Co-financiers

NA

(c) Other partners and stakeholders

NA

Annex 1. Project Costs and Financing

(a) Project Cost by Component (in USD Million equivalent)

Components	Appraisal Estimate (USD millions)	Reallocation Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Approved
Banking Sector Restructuring	4.4	3.4	2.9	85%
Microfinance Sector Strengthening	3.2	2.3	2.6	111%
Social Security Sector Restructuring	1.0	1.5	2.0	128%
Support to Implementation of Reforms in Private and Financial Sector	1.0	1.0	1.0	100%
Project Preparation Advance (PPA)	0.95	0.85	0.1	
Implementation of Project	0.85	1.2	1.3	109%
Unallocated	0.6	0.2	0.0	
Total Baseline Cost	12.00	10.5[16]	9.9	95%
Physical Contingencies	0.00		0.00	
Price Contingencies	0.00		0.00	
Total Project Costs	12.00	10.5	9.9	
	0.00	0.00	0.00	
	0.00	0.00	0.00	
Total Financing Required	0.00	0.00	0.00	

(b) Financing

Source of Funds	Type of Cofinancing	Appraisal Estimate (USD millions)	Actual/Latest Estimate (USD millions)	Percentage of Appraisal
Undisbursed amount to be reimbursed			0.55	
IDA Grant		12.00	11.45	95%

[16] The Grant of SDR8 million was estimated at UDS 12 million equivalent at negotiations, but was reduced by currency fluctuations to USD 10.5 million.

Annex 2. Outputs by Component

PDO	Outcome Indicators	Status as of June 2016	Explanation/Comments	Final Results
The project development objective was to improve the stability of specific segments of the financial sector by supporting the Government's financial sector reform program	**1.** After the recapitalization of Togolese commercial banks (BTCI, UTB and BIA), the Government will no longer contribute to the absorption of losses, recapitalization and liquidity of commercial banks.	True (Sept 2016)	Since 2011, no budgetary support was granted by the State to the commercial banks (BTCI, UTB and BIA). Notwithstanding the difficult financial situation of the BTCI, no support has been planned in 2016 budget. The 2017 budget is under preparation	Achieved
Responsible: Ministry of Economy and Finance, Directorate of Economy	**2.** BTCI and UTB meet key prudential norms (solvency) by 2009 and every year until the end of the project	BTCI: -42.9% UTB: -13.5% (Jun 30th , 2016)	BTCI & UTB have not been privatized. Authorities are considering merging with UTB. The Banking Commission has done the evaluation of UTB in the perspective of this merger. A new DG has been appointed since July 2016 to implement the merging.	Not Achieved
	3. Percentage of MFIs (with outstanding loans over 1 billion CFAF) meet key prudential ratio (liquidity ratio and long-medium term asset/liability ratios) by end of project (Target 80%)	42% (5/12) (Jun 2016)	The underperformance is explained by the noncompliance of key prudential ratios (liquidity ratio and long-medium term asset/liability ratio). This prudential standard is met by (5/12) of targeted Institutions.	Partially Achieved
	4. Project direct beneficiaries from training, workshops, conference attendance and study tours, carried out on the basis of approved annual training and activities plan. (Target 2000)	3785.00 (May 2016)	The number of beneficiaries reached 3785 far exceeding its original target.	Achieved
	5. Percentage of female beneficiaries (Target 30%)	15 % (May 2016)	The number of female's beneficiaries is lower because there are few females within the management staff that monitor policies in the financial sector.	Not achieved

PDO	Intermediate Outcome Indicators	Status as of June 2016	Explanation/Comments	Final Results
Component 1. Restructuring the Banking Sector				
This component's objective was to support the Government's banking restructuring strategy by providing technical assistance to ensure that the financial and institutional restructuring of 3 public banks (BTCI, BIA& UTB) as well as governance improvement of BTD is completed.	**6.** BTCI and UTB have new gross NPLs below 5 % of total loans each year (starting in 2009) (Target <5%)	> 5% for BTCI (51. 25%) UTB (5. 27 %) (June 2016)	The situation of BTCI despite being under provisional administration since 2008 remains of concern, with a negative equity of CFAF 29.4 billion. The Togolese banking sector has become very competitive, and the strategy of some of the Directors did not favor the recovery of the Bank	Not Achieved
	7. BTCI and UTB meet liquidity norm by 2009 and every year until the end of the project. (Target >75%)	< 75% for BTCI (52.11%) UTB (39.47%) (Jun 2016)	Both Banks, in particular UTB funded government infrastructure investments, reducing their liquidity.	Not Achieved
Responsible: Ministry of Economy and Finance, Directorate of Economy	**8.** Two out of the four targeted banks (BTCI, UTB, BIA , BTD) have entered into partnerships with strategic banking investors by June 2010, the third bank, by 2012	(June 2016)	Two contracts were signed for the transfer of the BTD and the BIA-Togo. The transactions were fully completed in 2013. The BTCI and the UTB have not been privatized.	Achieved
	9. The agency in charge of loan recovery and of creating a secondary market for government securities is created by end 2009 and operational from 2013	Operational (June 2016)	The Collection Agency of Togo (SRT) was created by Decree of September 8, 2011. At the end of 2015 nearly CFAF 1.038 billion was recovered against CFAF 810 million recovered at end 2014	Achieved

PDO	Intermediate Outcome Indicators	Status as of June 2016	Explanation/Comments	Final Results
Component 2. Strengthening the Microfinance Sector				
This component's objective was to strengthen the stability of the microfinance sector through improved external supervision and strengthened internal controls within microfinance institutions.	**10.** At least 75% of MFIs transmit statistical data in compliance with new accounting plan	100% (Dec 2015)	The MFIs transmit financial statements in compliance with new accounting standards. But, difficulties remain on quality of data.	Achieved
	11. At least 75% of MFIs (with outstanding loans over 1 billion CFAF) have Portfolio at Risk over 90 days (PAR>90) below 5 % by the end of the project	25% (3/12) (June 2016)	An action plan to reduce the level of PAR has been adopted by the Microfinance Institutions Professional Association. Quarterly consultations the BCEAO are held with stakeholders to assess the measures adopted.	Partially Achieved
Responsible: Ministry of Economy, Directorate of Economy in partnership with CAS-IMEC, BCEAO and APIM	**12.** All MFIs with outstanding loans over 1 billion CFAF have their financial statements audited and certified yearly by BCEAO registered auditors	50% (6/12) (June 2016)	Two MIFs (FECECAV & MGPCC) have been certified by a firm not recognized by the National Experts Accountants (ONECCA)	Partially Achieved
	13. At least 75% MFIs with outstanding loans >1 billion CFAF have undergone at least one transparency exercise between 2009 and 2016	91% (June 2016)	The transparency exercise comprises visibility actions, publication of information on products, customers, financial inf. or ratings	Achieved
	14. At least 75% of MFIs with outstanding loans >1 billion CFAF report the financial information on Mix Market www.mixmarket.org starting in 2009	75% (June 2016)	9 out of 12 MFIs (75%) have published on the web, at least one of their financial statements of the last four fiscal years (2012-2015).	Achieved
	15. CAS-IMEC adopts a code of ethics by the end of the project	Yes (June 2016)	CAS-IMEC has adopted the code of ethics that establishes the values, ethics and the principles of supervision.	Achieved
	16. Volume of Bank Support: Institutional Development (Target S$2.500.000)	2.758.000 (June 2016)	More than 2 758 000 dollars have been dedicated to microfinance	Achieved

PDO	Intermediate Outcome Indicators	Status as of June 2016	Explanation/Comments	Final Results
Component 3 : Reforming the Pension Sector				
This component's objective was to reform the pension arm of the two social security institutions (CRT and CNSS) to restore their financial viability.	**17.** The legal framework for CRT is modified according to established best practices by 2016. In particular, parameters for contribution and payments are established through decrees	Not modified (June 2016)	The legal framework of the CRT could not be changed due to the complexity of the reforms, and the unfavorable social and economic context. However, an action plan has been developed to allow an improvement of the legal framework.	Not Achieved
Responsible: Ministry of Economy and Finance, Directorate of Economy in partnership with CRT and CNSS	**18.** The legal framework for CNSS is modified according to established best practices by 2011. In particular, parameters for contribution and payments are established through decrees	Modified (June 2016)	Law No. 2011-006 adopted February 21, 2011 establishes a new social security Code.	Achieved
	19. The parameters for CRT have been adjusted through decrees, according to the findings of the actuarial study by 2016	Not Adjusted (June 2016)	Parametric reforms could not be implemented due to the complexity of the reforms. The 2010 actuarial study was updated in 2016 and the new reforms to be implemented are more flexible.	Not Achieved
	20. The parameters for CNSS have been adjusted through decrees, according to the findings of the actuarial studies by 2011	Adjusted (June 2016)	Decree No. 2012-038/PR of June 27, 2012 revised the contribution & payments parameters to the various branches of social security. As a result of this reform, the retiree branch presents a surplus.	Achieved

PDO	Intermediate Outcome Indicators	Status as of June 2016	Explanation/Comments	Final Results
Component 4. Supporting the implementation of reforms in financial and private sectors				
This component's objective was to provide technical assistance to the Permanent Reform Secretariat and the Economy Directorate, within the Ministry of Economy & Finance, to strengthen their capacity to formulate policies in the financial and private sectors. Responsible: Ministry of Economy and Finance, Directorate of Economy, in partnership with Permanent Secretariat.	**21.** Reform Secretariat is fully operational and demonstrates the ability to identify and steer key reforms in the financial and private sectors	Fully Operational (June 2016)	The Permanent Reform Secretariat is fully operational. It organizes two review workshops each year: an annual review in March and a semi-annual reviews in August/September.	Achieved
	22. At least one recommendation of the Corporate Governance Assessment is implemented within 6 months following the validation workshop	Yes (June 2016)	The validation workshop was held on June 13 and 14, 2016 at Lomé, followed by training on corporate governance. The availability of consultants from the World Bank has delayed the Organization of the workshop and the implementation of the recommendations. However, the Ministry of Economy and Finance has plans to implement at least one of the recommendations within the time frame of six months, meaning before the end of 2016. .	Achieved

Annex 3. Economic and Financial Analysis

Not Applicable

Annex 4. Bank Lending and Implementation Support/Supervision Processes

(a) Task Team members

Names	Title	Unit	Responsibility/ Specialty
Lending			
Hugues Agossou	Sr Financial Management Specia	GGO31	
Marcelo R. Andrade	Consultant	AFMAO	
Itchi Gnon Ayindo	Consultant	GSP07	
Adja Mansora Dahourou	Private Sector Specialist	GTC07	
Yves A. Duvivier	Consultant	AFCW3	
Emile Louis Rene Finateu	Lead Financial Management Spec	AFTME - HIS	
Guillemette Sidonie Jaffrin	Lead Private Sector Specialist	GTC07	
Andre Ryba	Consultant	GFM01	
Chantal Leontine Tiko	Program Assistant	AFMTG	
Christina A. Wood	Senior Economist	MNACE	
Supervision/ICR			
Aminata Ndiaye	JPA		
Lorenzo Bertolini	Senior Private Sector Specialist	GTC13	
Itchi Gnon Ayindo	Consultant	GSP07	
Adja Mansora Dahourou	Private Sector Specialist	GTC07	
Daria Goldstein	Lead Counsel	LEGLE	
Alain Hinkati	Sr Financial Management Specialist	GGO26	
Esinam Hlomador-Lawson	Program Assistant	AFMTG	
Fiona Stewart	Lead Financial Sector Specialist	GFM3A	
Anton Leis Garcia	E T Consultant	LEGLA-HIS	
Tonle J. Ngou Mawamba	Senior Executive Assistant	GSPDR	
Andre Ryba	Consultant	GFM01	
Chantal Leontine Tiko	Program Assistant	AFMTG	
Philippe Marie Aguera	Senior Financial Sector Specialist	GFM01	
Axel Gastambide	Financial Sector Specialist	GFM01	
Fally Diallo	Financial Management Specialist	WFALA	
Gisela Durand	Consultant	GFM01	
Andrea Vasquez-Sanchez	Senior Program Assistant	GFM01	

(b) Staff Time and Cost

Stage of Project Cycle	Staff Time and Cost (Bank Budget Only)	
	No. of staff weeks	USD Thousands (including travel and consultant costs)
Lending		
FY08	4.65	33.94
FY09	27.88	189.93
FY10	2.75	13.44
Total:	35.28	237.31
Supervision/ICR		
FY09	9	83.10
FY10	18	52.00
FY11	25	65.04
FY12	22	69.19
FY13	14	97.78
FY14	12	84.91
FY15	10	99.93
FY16	1.53	26.62
Total:	111.53	578.57

Annex 5. Beneficiary Survey Results

No Beneficiary Survey Results has been done

Annex 6. Stakeholder Workshop Report and Results

Not Applicable

Annex 7. Summary of Borrower's ICR and/or Comments on Draft ICR

Evaluation Finale Externe des Résulta du Projet Secteur Financier et Gouvernance

Résume Exécutif

Le gouvernement du Togo s'est engagé dans un processus de réformes et d'amélioration de la gouvernance financière dans divers secteurs. Dans ce cadre, il a initié et mis en œuvre le Projet Secteur Financier et Gouvernance (PSFG) avec une subvention de la Banque Mondiale. Démarré en 2009 pour une durée de 5 ans, le PSFG s'est déroulé finalement sur six ans et six mois et est arrivé à terme le 30 juin 2016. D'un coût global de douze millions (12 000 000) de dollars US, soit six milliards deux cent dix-neuf millions cent quatre-vingt-douze mille cinq cent quatre-vingt-douze (**6 219 192 592)** FCFA, le PSFG vise à améliorer la stabilité du secteur financier togolais à travers quatre composantes :

- la restructuration financière et le renforcement institutionnel des banques commerciales ;
- l'assainissement du secteur de la micro finance afin d'éviter les crises ;
- la réforme des deux institutions de sécurité sociale qui souffrent de déficits ;
- l'appui au Ministère de l'Economie et des Finances dans la mise en œuvre du programme prioritaire de réformes.

L'évaluation finale a été conduite suivant une démarche participative et itérative basée sur l'analyse des données secondaires issues d'une soixantaine de documents et des données primaires collectées auprès de plus d'une centaine de bénéficiaires et de gestionnaires du PSFG.

Au terme de l'évaluation, les principaux constats sont assez significatifs.

➲ Le PSFG a été une action pertinente au regard des grandes réformes en cours au Togo. La stratégie d'intervention a été inclusive et s'est révélée appropriée pour l'atteinte des objectifs visés par le projet. Le taux de réalisation global des activités est d'environ 75% et un taux d'absorption budgétaire d'environ 94,75%.

➲ La mise en œuvre du PSFG a été assurée par un Comité de Pilotage et une Unité de Coordination qui sont suivis par un chargé de projet à la Banque Mondiale.

➲ Concernant le Secteur bancaire, le PSFG a permis la privatisation de deux banques sur quatre prévues au départ. Il s'agit de la BTD devenue ORABANK et la BIA Togo devenue BIA ATTIJARIWAFA Bank. Egalement 3785 agents de banques ont été formés autour de 79 modules et des manuels de procédures ont été actualisés pour deux banques (UTB et BPEC) grâce au projet. Dans l'ensemble, le PSFG a contribué à la restructuration du secteur financier. En effet, les ratios financiers du secteur se sont améliorés passant de -4,1 en 2008 à 6,8 en 2015 (pour le ratio COOK) et de 63,7% en 2008 à 76,7% en 2015 (pour le taux de liquidité).

- Au niveau du Secteur de la micro finance, malgré quelques avancés observées, il reste peu rassurant et toujours exposé aux risques classiques (liquidité, crédit, financier...).et demeure dans une situation de crise potentielle. L'assistance technique qui devrait permettre un renforcement des capacités de supervision de la CAS-IMEC s'est révélée peu efficace. Par ailleurs, l'acquisition des véhicules, du matériel informatique a permis d'améliorer le contrôle sur pièce et sur place pour un plus grand nombre de SFD et de réduire les délais de production des rapports. L'évaluation a révélé aussi la faible capacité de la CAS-IMEC à sanctionner les SFD illégaux, en souffrance ou ne mettant pas en œuvre les recommandations des missions de contrôle.

- Le secteur de la sécurité sociale est animé par deux structures (la CNSS et la CRT), engagées désormais grâce au PSFG dans des réformes administratives, organisationnelles et de bonne gouvernance par l'adoption des principes et des bonnes pratiques selon les normes de la CIPRES. L'évaluation a constaté le retard accusé par l'Etat dans l'adoption de la Loi relative à la révision des paramètres de la CRT qui consacrera les reformes des régimes.

- Au compte des réformes des secteurs financier et privé, les cadres du Secrétariat Permanent pour le Suivi des Politiques de Réformes et des Programmes Financiers (SP-PRPF) ont acquis de meilleures connaissances sur les politiques/programmes publics, les outils et stratégies de réformes. Ainsi, grâce au PSFG, ces cadres peuvent désormais conduire des processus de réformes.
  Avec le PSFG, la Direction de l'Economie est dotée de matériels et de compétences spécialisées qui élaborent désormais plus rapidement et facilement le Tableau des Opérations Financières de l'Etat (TOFE).

- L'analyse du rapport entre la qualité et la quantité des résultats obtenus selon le budget consommé laisse prévaloir que le projet a non seulement été efficace mais aussi efficient dans son ensemble. Par example :

- Le rôle du secteur bancaire étant très structurant pour toute économie, la restructuration des quatre banques publiques était très pertinente voire fondamentale. Le résultat de 50% de privatisation, en plus de la mise en place des outils de bonne gouvernance (manuel de procédures) et le renforcement des capacités de 1753 agents de 11 banques sont des acquis significatifs pour un cout total de 1.726.309.766 FCFA sur 5 ans.

  Par ailleurs, de 2005 à 2007 le système bancaire togolais était globalement insolvable. En effet, le ratio fonds propres sur actifs pondérés ressortait négatif du fait des fonds propres négatifs liés à l'accumulation des prêts improductifs notamment aux entreprises durant la crise qu'a connu le pays. A travers le PSFG, la solvabilité du secteur bancaire togolais s'est nettement améliorée passant de -4,1% en 2008 à + 8,9% en 2015. En plus, près de 1.126.511.704 FCFA ont été recouvrés grâce à l'effectivité de la SRT. De ce qui précède, l'efficience du projet au niveau de la composante bancaire est évidente.

- Considérant le secteur de la micro finance, aujourd'hui, environ 2.000.000 de personnes (près du tiers de la population totale, vivant surtout en milieu rural et exclus du système bancaire classique) utilisent les services des SFD ; alors les missions d'audit, de contrôle et de supervision visent à améliorer la qualité de ces services au bénéfice des plus pauvres. Le secteur a utilisé 1.526.719.159 de FCFA sur 5 ans soit 0,42 FCFA par jour et par personne, alors le PSFG a été très efficient dans sa composante micro finance.

- Avec une dépense de 1.156.276.053 FCFA, les effets des réalisations du PSFG sur la CNSS sont très édifiants. Sur la base de la mise en œuvre des recommandations d'un audit financier et organisationnel et d'une étude actuarielle, la CNSS est passée d'un déficit cumulé d'environ 5 milliards avant 2012 à un bilan excédentaire annuel de 200.000.000 FCFA en 2012 et de 5 milliards pour l'exercice 2013. Ceci montre l'efficience de la composante.

- La mise en œuvre des réformes permet de créer un nouvel environnement institutionnel, vecteur de confiance des partenaires techniques et financiers et des investisseurs. Aussi, l'élaboration annuelle du TOFE cohérent et réaliste est gage de bonne gouvernance financière. La création de pool de compétences locales (SR-PRPF et DE) constitue un investissement à long terme pour la mobilisation des ressources qui pourraient largement dépasser la somme de 594.097.293 FCFA investie. En conclusion, le PSFG a été efficace et efficient.

En outre l'analyse de la pérennité du projet a permis de définir une vision et certains axes pour un désengagement ou une continuation du projet ou la possibilité d'une nouvelle programmation. Par ailleurs, certaines leçons méritent d'être analysées.

a. La bonne collaboration entre l'Unité de Coordination et le Comité de pilotage a suscité une réelle participation de toutes les parties prenantes du projet : le PSFG a été piloté de façon participative et inclusive au travers de la mobilisation et la participation effective des acteurs clés de chacune des composantes dans le Comité de Pilotage. Ceci a été une opportunité de rapprochement entre structures. Ce qui a fait du Comité du pilotage un cadre collégial d'échanges et de réflexions collectives sur les difficultés de chaque secteur ciblé par le PSFG.

b. Les changements de Chargé de projet au niveau de la Banque Mondiale pouvaient apporter du sens et du sang nouveau mais aussi des contre-performances. Par exemple, le rejet d'activités validées par l'ancien chargé de projet et non exécutées avant la prise de fonction du nouveau ;

c. La volonté politique reste toujours le noyau de tout processus de réforme telles que la latence au niveau de la CRT et de la non liquidation des SFD qui sont en faillite ou en situation de retrait d'agrément ;

d. La micro finance soulage et créé des dommages à la fois aux communautés si l'autorité de l'Etat s'affaiblit face aux nombreux arbitrages et difficiles équilibres en matière de Loi de finance ;

e. L’assainissement du secteur de la microfinance nécessitant de grosses ressources financières comme les frais de liquidation des SFD en faillite, alors L’Etat devrait agir en amont en investissant dans la supervision ;

f. Le PSFG a été une véritable action de promotion des normes de bonne gouvernance administrative, opérationnelle, financière et comptable dans les quatre composantes et de renforcement de capacités.

Le désengagement ou la continuité du PSFG devrait s’inscrire dans la vision suivante.

« ***Eviter dans un proche ou moyen terme la déconfiture du secteur de la micro finance qui entrainerait de conséquences dramatiques à l’Etat et aux populations et le retour à une situation délétère de la sécurité sociale au Togo »*.**

Recommandations à la Banque Mondiale

R1 : Rechercher rapidement un financement additionnel de 5 à 8 millions USD pour continuer et achever la liquidation des SFD dont le retrait d’agrément a été prononcé depuis la fin 2014 et la fermeture des structures illégales qui vient à peine de débuter. Ce financement permettra de réfléchir à la mise en place d'une stratégie globale de recouvrement dans le secteur de la micro finance et servir à soutenir le processus de rapprochement des deux banques publiques restantes à privatiser ;

Recommandationss à l’Etat

R2 : Accélérer la prise de la loi sur les paramètres de la CRT ;

R3 : *Agréer les Prestataires de services qualifiés pour assurer la supervision déléguée des SFD unitaires. Le début des regroupements passe par la mise en place des services communs principalement l’inspection et le contrôle ;*

R4 : en plus du code de déontologie adopté récemment, doter *la CAS-IMEC d’un cahier de charges conformes à la nouvelle règlementation avec un accent le statut particulier des inspecteurs;*

R5 *: Poursuivre le renforcement des faîtières des SFD à forme coopérative pour une meilleur exécution de leur supervision déléguée ;*

R6 *: Mettre en place une Commission Nationale de la microfinance ayant pour principales activités le recouvrement et l’audition des dirigeants des SFD.*

Une nouvelle programmation du projet s’inscrirait dans la vision ci-après **:**

« Renforcer l’inclusion financière et la délimitation efficace des frontières entre la finance communautaire **(*GE), les SFD (IMF), les banques commerciales et les banques régionales »*.**

Recommandations à la Banque Mondiale

R1 : Conduire les futurs projets dans la même logique participative avec l'implication effective et la responsabilisation réalistes des acteurs clés dans le Pilotage et la mise en œuvre du projet ;

R2 : Définir au début du projet entre la Banque Mondiale et l'équipe de l'UCP les critères d'annotation de la performance individuelle et des marqueurs de progrès du projet dans une logique d'un réel partenariat.

Recommandations à l'Etat

R3 : Renforcer la CAS-IMEC vue que le dynamisme créé par le changement à la tête de la CAS-IMEC en 2016 et les actions fortes engagées pour assainir le secteur ont besoin d'être soutenues. Un désengagement immédiat pourrait avoir des conséquences désastreuses sur la continuité de ces actions. L'assistance de la Banque Mondiale qui a été très déterminante pour initier certaines reformes du secteur mérite d'être reconduite jusqu'à la fin du processus d'assainissement qui a été à peine été entamée. Le risque pour le Gouvernement de faire face à des SFD en faillite est élevé ;

R4 : *Elaborer un nouveau projet pour le secteur de la microfinance en tenant compte du rapport des études MAP (Making Acces to financial services Possible) ;*

R5 : Limiter le plafond du crédit des SFD (par exemple à 2.000.000 FCFA), pour d'abord ramener et renforcer le caractère « micro » et faciliter l'inclusion financière et faciliter la subsidiarité entre les IMF, les banques commerciales et les banques régionales d'investissement. En effet, le non-respect des ratios prudentiels est essentiellement dû à la dégradation du portefeuille crédit. Une analyse sommaire du portefeuille crédit révèle que les crédits défaillants dans toutes les SFD sont des crédits dont les montants sont supérieurs à 3.000.000 FCFA ;

R6 : Titrier les créances des deux caisses de sécurités sociales pour accroitre leur équilibre.

Annex 8. Comments of Cofinanciers and other Partners/Stakeholders

Not Applicable

Annex 9. List of Supporting Documents

Aide-Mémoires and Implementation Status Reports (ISRs) 2009-2016

BCEAO (2016) Dossier de la Réunion de Concertation entre la BCEAO et les SFD

International Monetary Fund (2014) Togo Poverty Reduction Strategy Paper. Country Report No. 14/224

International Monetary Fund (2015) Togo 2015 Article IV Consultation. Country Report No. 15/309

République Togolaise (2016) Note Sur la Situation de la Microfinance Au Titre Du Deuxième Trimestre 2016. Ministère de l'Economie et des Finances

République Togolaise (2016) Evaluation Finales Externe des Résultats du Projet du Secteur Financier et Gouvernance (PSFG). Rapport Finale

World Bank (2006) Togo Financial Sector Review. Report No: 38146 -TG

World Bank (2009) Financial Sector and Governance Project. Report No: 47397-TG

World Bank (2009) Financial Agreement - Togo Financial Sector and Governance Project Grant Number H454-Tg

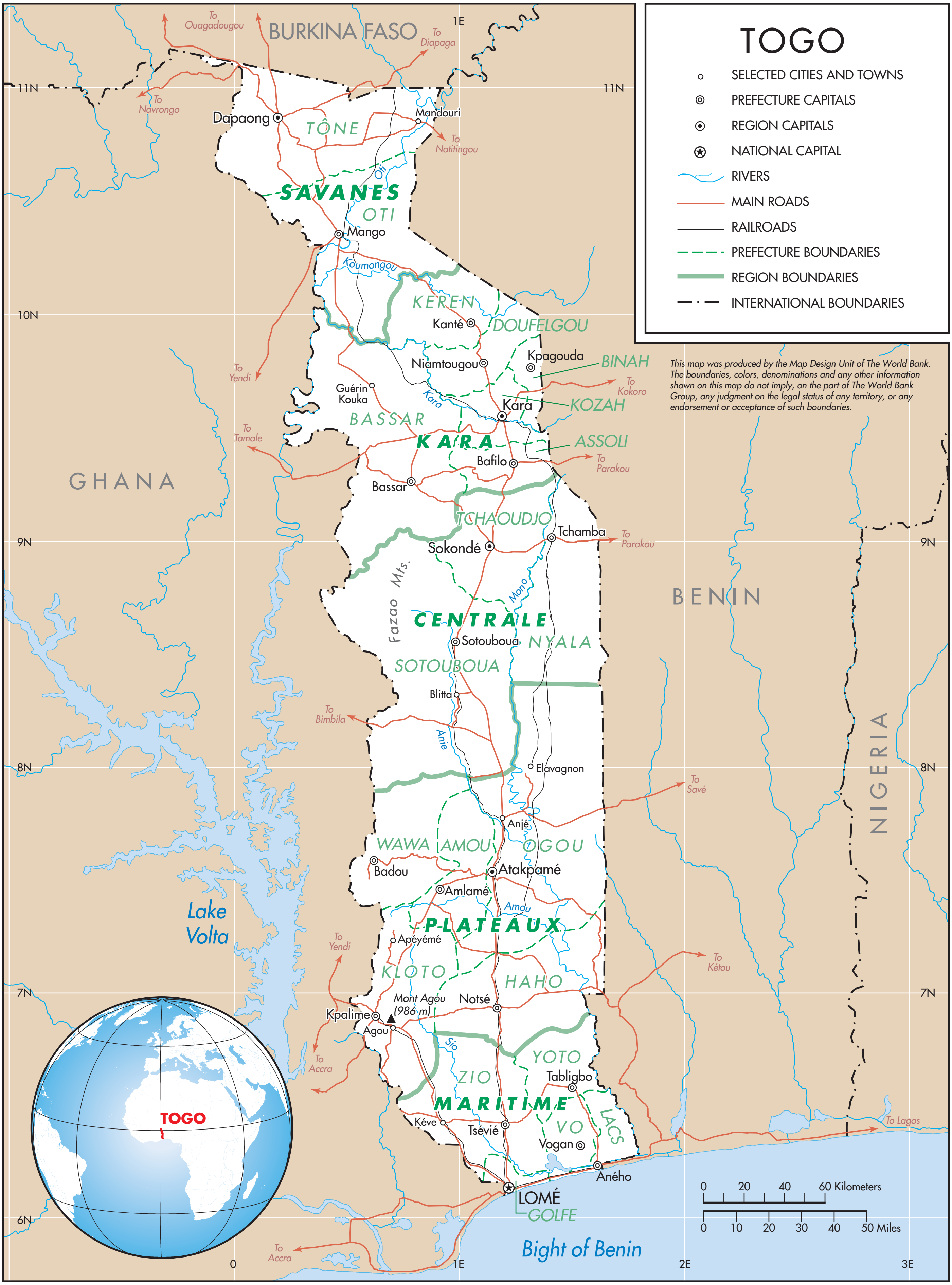
World Bank (2013) Financial Sector and Governance Project First Restructuring Paper. Report No: 74120-TG

World Bank (2013) Strategy for Boosting Growth and Promoting Employment (SCAPE) 2013-2017 Report No. 86108-TG

World Bank (2015) Togo Financial Sector and Governance Project Second Restructuring Paper. Report No: RES19924

World Bank (2016) Togo Systematic Country Diagnostic. Report No.108184-TG

IBRD 33497



SEPTEMBER 2016