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Togo

Future SOURCES OF GROWTH

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Finance Competitiveness and Innovation

Africa Region



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ABBREVIATIONS AND ACRONYMS

AfDB	African Development Bank
AGROPAT	Togo Agency for the Promotion and Development of Agropoles (<i>Agence de Promotion et de Développement des Agropoles du Togo</i>)
ANGE	National Agency for Environmental Management (<i>Agence National de Gestion de l'Environnement</i>)
API-ZF	National Agency for Promotion of Investment and the Free Zone (<i>Agence Nationale de la Promotion des Investissements et de la Zone Franche</i>)
APRODAT	Agropoles Development Agency (<i>Agence de Promotion et de Développement des Agropoles du Togo</i>)
ASM	Artisanal and Small-scale Mining
BCEAO	Central Bank for West African States (<i>Banque Centrale des Etats de l'Afrique de l'Ouest</i>)
CFAF	Franc of the African Financial Community
CVB	Conventions and Visitors Bureau
DB	Doing Business
DGMG	Department of Mines and Geology (<i>Direction Générale des Mines et de la Géologie</i>)
EA	Environmental Audit
ECOWAS	Economic Community of West African States
EIA	Environmental Impact Assessment
EITI	Extractive Industries Transparency Initiative
ES	Enterprise Survey
GDP	Gross Domestic Product
ICT	Information and Communications Technology
IFC	International Finance Corporation of the World Bank Group
ILO	International Labor Organization
IMF	International Monetary Fund
LPI	Logistics Performance Index
MAEH	Ministry of Agriculture, Livestock and Hydraulics (<i>Ministère de l'Agriculture, de l'Elevage et de l'Hydraulique</i>)
MCS	Mineral Cadaster System
MCTR	Ministry of Culture, Tourism and Recreation (<i>Ministère de la Culture, du Tourisme et de la Récréation</i>)
MERF	Ministère de l'Environnement et des Ressources Forestières
MGDP	Mineral Governance and Development Project of the World Bank
MICE	Meetings, Incentives, Conferences and Exhibitions Tourism
MME	Ministry of Mines and Energy (<i>Ministère des Mines et de l'Energie</i>)
MSC	Mediterranean Shipping Company
NDP	National Development Plan
NPL	Non-performing loan

OTR	Togo Revenue Office (<i>Office Togolais des Recettes</i>)
PAL	Autonomous Port of Lomé (<i>Port Autonome de Lomé</i>)
SAZOF	Management Company for the Free Zone (<i>Société d'Administration de la Zone Franche</i>)
SCAPE	Strategy for Accelerated Growth and Promotion of Employment
SCD	Systematic Country Diagnostic
SEZ	Special Economic Zone
SFFZ	Single Factory Free Zone
SME	Small and Medium Enterprise
SNPT	New Phosphates Company of Togo (<i>Société Nouvelle des Phosphates du Togo</i>)
SSA	Sub-Saharan Africa
SWOT	Strengths, Weaknesses, Opportunities, Threats
TCB	Togo Convention Bureau
TEU	Twenty-foot Equivalent Unit
TFFS	Togo Formal Firm Survey
UNCTAD	United Nations Conference on Trade and Development
UNESCO	United Nations Education, Science and Culture Organization
US	United States
US\$	United States Dollars
VALS	Value-Added Logistics Services
VAT	Value-Added Tax
WAEMU	West Africa Economic and Monetary Union
WGI	Worldwide Governance Indicators

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FOREWORD

The objective of this report is to analyze sources of growth in Togo and required reforms in selected sectors (agriculture, manufacturing, transport and logistics, mining and tourism) to allow the country to accelerate GDP growth, therefore creating a basis to move towards reaching the WBG twin goals.

A first part of the study will provide a macroeconomic analysis of growth in the country as well as cross-cutting constraints in the business environment.

- The structural trends of the economy were analyzed, concentrating on the performance of key sectors and the main exports.
- The analysis then explored transversal constraints to growth which typically include investment and operating regulations, including but not limited to the tax burden. Logistics, access to finance or electricity are some of the other issues covered. Political stability has been another concern historically and one which remains relevant but is beyond the scope of this study.

A second part of this report covered selected sectors that support growth for an in-depth analysis. The methodology is similar for each sector:

- Analysis of existing situation and comparison with historical performance,
- Determination of potential developments/opportunities, including benchmarking with other similar countries;
- Determination of constraints and analysis of their nature, with a focus on broader issues of competitiveness.
- Definition of a roadmap to improve the situation

The findings will be disseminated to the client via workshops with targeted audiences. World Bank Group operations will assist policy makers in building the necessary consensus and implementation of recommendations.

EXECUTIVE SUMMARY

1. Togo has enjoyed steady but modest rates of economic growth, averaging 5.0 percent per annum since 2006. While this represents an improvement over previous periods, it has been inadequate to make significant improvements in the well-being of the population. Hence, the government is searching for ways to strengthen its development strategy, and to clarify where its priorities should lie. This is important given the limited financial resources at its disposal, and the need to reduce its level of indebtedness, which stood at 76 percent of GDP in 2018. Hence the government has asked the World Bank, and other partners, to advise it on the potential sources of growth, and how to support them.

2. At the same time, the government was preparing its new National Development Plan 2018-2022 which laid out the broad contours of its strategy, with three strategic orientations. The first one is the establishment of Togo as a logistics hub and business center in the sub-region. This includes the development of all types of transport infrastructure and services, the promotion of business tourism, and general improvements in the investment climate. Hence, all three of these topics are examined in our report. This objective also includes the development of Togo's role as a financial center. It has not been possible to explore this dimension in any detail, though some of the domestic challenges facing the finance sector are discussed in the investment climate chapter. It is certainly worth pursuing given the number of regional financial institutions based in Lomé and the rapid growth of the sector.

3. The second strategic orientation is the development of growth poles for the agro-processing, manufacturing, and extractive industries. The present report therefore devotes separate chapters to agriculture, spatial solutions, and mining. This objective also covers energy, which is addressed briefly as part of the investment climate. The third strategic orientation of the National Development Plan focuses on social development and inclusion which was beyond the scope of this report.

4. This report builds on the World Bank's Country Economic Memorandum of 2010 which also served as the initial Diagnostic Trade Integration Study (DTIS), the Systematic Country Diagnostic of 2016, and the DTIS update of 2017. All these reports have emphasized that long-term growth in successful countries is typically driven by exports. This is especially true in small, developing countries such as Togo where the domestic market is extremely limited, with the purchasing power of a small European city. Expanding export sectors also serve to attract foreign direct investment which brings in the finance, technology and market access generally lacking in such countries. As the World Bank-sponsored Commission on Growth and Development concluded: "all the sustained, high-growth cases prospered by serving global markets. The crucial role of exports in their success is not much disputed."¹

5. Thus, it is critically important to focus on the export sector. The nominal value of exports of goods and services made good progress between 2007 and 2013, but stagnated since then,

¹ World Bank, The Growth Report: Strategies for Sustained Growth and Inclusive Development, 2008, p. 48.

and declined in real terms. There has been no progress in goods exports since 2011. Service exports have grown more steadily. Exports of goods and services have fallen when compared to GDP, from an average of 41.5 percent in 2005-07 to 34.8 percent in 2015-17. If Togo is to boost its rate of economic growth, it will have to reverse this decline.

6. A first step would be to improve the measurement and monitoring of export data. One cannot design and implement policy if one is not able to track results. In addition to Togo's own exports, there are re-exports to and from neighboring countries, transit trade in both directions, and transshipment. Gold in transit from Ghana or Burkina Faso appears as an export from Togo, as does palm oil imported from Malaysia and destined for Nigeria. The distinction between transit trade and re-exports is not clear, and such cross-border trade is under-estimated because much of it is informal. Services exports are often overlooked because they are more difficult to measure. No distinction is made between visitors for conferences, which are amenable to changes in tourism policy, and other business visitors, which are not. No reliable data is available on spending by leisure tourists.

7. The next step is to accelerate improvements in the overall business environment. Togo has made progress in this respect, but there is still much to do. Firms complain about tax policy and administration, access to finance, the price and quality of telecommunications and electricity services, unfair competition from the informal sector, political instability and corruption. Thus, the report begins with a review of the overall investment climate, which is important for all export sectors, as well as producers targeting the domestic market. Improvements here will be particularly important for the manufacturing sector and support the emergence of new activities which cannot at present be predicted.

8. However, the list of needed reforms is long, and it will take time to make progress. Spatial solutions can help governments to create an enabling environment on a small-scale pending nation-wide improvement. Furthermore, the binding constraints holding back sectors are often specific to that sector and may be missed if one concentrates on the broad reforms covered by Doing Business or the Enterprise Survey. This is particularly true of sectors based on natural resources. Thus, the report begins with a review of the investment climate, then analyzes various spatial solutions such as special economic zones, before drilling down on key export sectors.

9. We conclude that some of the traditional sources of growth such as mining, and port/transit services have stagnated and will require greater attention and innovation if they are to contribute significantly to future growth. Export-oriented agriculture could do much better, while food production is bumping up against the limits of the domestic market and must turn to exports. Agropoles have a role to play but are complicated and will not solve the main problems of the most promising export crops. Togo has had some past success with a special economic zone but that too has stagnated recently. New initiatives with spatial solutions will be key to expanding manufacturing exports. And tourism needs fresh attention, with a focus on conferences in the short-term. Togo has various options, but its government has limited financial and human resources and will need to establish a clear sense of priorities, and remain focused on them, while taking maximum advantage of the knowledge and initiative of the private sector.

Investment climate

10. Taxes emerge as the number one concern of the private sector. When all taxes including unreimbursed VAT (Value-Added Tax) are added up, the mean value is estimated at 90 percent of pre-tax profits.² Several taxes are imposed regardless of whether the firm is losing money. Firms face a total of 30 different taxes and fees, and visits by tax inspectors are frequent. Togo ranks 172nd on the Doing Business index for paying taxes, even though it does not appear to capture all the relevant taxes. Such high and burdensome taxes encourage more firms to remain in the informal sector, with several unintended consequences. It concentrates the fiscal pressure on a small number of formal sector companies, while exposing them to unfair competition from other firms operating in the informal sector. It has also discouraged commercial agriculture, which should normally be one of Togo's comparative advantages.

11. In the finance sector, the weak performances of two large public banks has contributed to rising non-performing loans and the overall deterioration of solvency ratios. The restructuring of the two remaining public banks is long overdue. The current restructuring plan must ensure that it achieves adequate recapitalization, strengthened governance, and financial viability of the new institution without further delay, to restore public confidence in the banking sector. Meanwhile, growing budget deficits have led to increased public borrowing from the banks, crowding out credit to the private sector, which has fallen from 27 percent of total bank assets in 2015 to 20 percent by the end of 2017. There are various ways in which the sector could be improved: more competition in banking, better governance in microfinance, greater use of digital payments systems, and better access to credit information.

12. Though moving in the right direction, the existing governance practices of the energy sector result in costly electricity tariffs. Yet these are still below recovery cost thereby putting pressure on long-term fiscal sustainability. Tariffs average nearly 45 US cents per kWh for manufacturing firms, much more than the reported official rate and among the highest in the region. Lack of investments, uncertain fiscal conditions and poor maintenance have impacted the quality of the distribution networks. The grid experiences distribution losses and the regulatory authority housed within the Ministry of Energy has limited human and technical capacity and is not equipped to make sound fiscal management decisions.

13. Togo was ranked 156th out of 176 countries on the Global ICT development index.³ Telecommunications was identified as the second most important constraint in the Enterprise Survey, which is unusually high for this survey. The major weakness has been state intervention limiting competition, private investment and dynamism. The lack of competition has resulted in high costs and poor quality, although more recently, according to the state regulator, prices have been on the decline. State ownership in the context of a monopoly has led to poor governance, resulting in financial losses in what should be a highly profitable sector.

14. Despite Togo's good port performance, weaknesses in logistics services are limiting the

² Study commissioned for, and reported in, the World Bank, Systematic Country Diagnostic, 2017.

³ International Telecommunication Union, 2017.

country's potential as a transport and logistics hub. The Doing Business indicator "Trading Across Borders" points to cumbersome regulations governing logistics and transport services. The delays associated with border and documentary compliance for imports are three times as high as in neighboring Ghana, more than twice as high as in Benin, and 60 percent above the corresponding time in Côte d'Ivoire. This does not bode well for Togo's efforts to expand its role as a regional hub. The Logistics Performance Index (LPI) also suggests cause for concern. Togo's overall index is behind its immediate competitors – Benin, Ghana and Côte d'Ivoire, and appears to be slipping.

15. The sound management of land becomes a critical factor in encouraging investments in commercial agriculture, industrial development, and infrastructure services. Land governance is subject to multiple regimes which encourages conflicts – 70 percent of commercial conflicts are due to land disputes. These conflicts are difficult to adjudicate and often linger in courts for years. The complex legal environment governing land transfer is not conducive to land ownership.

Spatial solutions

16. Togo has had one special economic zone for almost 30 years and is now developing or proposing a variety of others, including industrial parks and agropoles. The existing SEZ is based near the port but also allows for single-factory free zones elsewhere. It has had some success in attracting export-oriented companies, but the number of firms has stagnated at around 60 since 2012 due in part to the lack of developed land.

17. Land for a new zone has been acquired at Adétikopé and a feasibility study has confirmed its viability. Its development should be a top priority. Private management is recommended as this has generally proven to be the more successful approach around the world. The emphasis should be on providing the infrastructure and services needed to conduct business efficiently, rather than on fiscal incentives. The zone should include logistics companies, which can support the manufacturing operations of other tenants. It should be open to firms that do not meet the export requirements for free zone status, or which want to operate within the customs regime to be eligible for duty free access to the ECOWAS market. This will support a broader range of firms, including domestic ones interested in exporting. By increasing demand, it will also help ensure the profitability of the zone.

18. The institutional framework for special economic zones needs to be implemented. The creation of a new agency for the promotion of investment and free zones, API-ZF, was approved some years ago but has yet to be operationalized. It is essential to have a new and stronger institution in place to support and monitor free zones, assist investors, and communicate effectively with all stakeholders. While the existing regulatory framework is adequate to move ahead, eventually all regulations affecting SEZs should be consolidated in one legislation. It would also be useful to evaluate the experience with single-factory free zones, given the problems they have generated in other countries, and revise the legislation if necessary.

19. Since industrial parks do not require any special legal or regulatory regime, they are easier to establish than an SEZ. Industrial parks that are developed and operated by the private sector present very little risk to government, and yet have the potential for significant benefits as they

create public goods such as infrastructure and serviced, industrial land, using private funds. However, the down-side is that they do little to improve the business environment since they are subject to the usual rules and regulations prevailing in the country. It may be more difficult to attract private investors to develop industrial parks, especially experienced foreign developers who are better positioned to attract foreign direct investment. However, these parks could be useful for investors who wish to take advantage of the ECOWAS free trade regime. The Ministry of Industry should continue to promote industrial parks by private developers, thereby limiting the demands on public resources.

20. The government is putting a lot of emphasis on growth poles based on agriculture and agro-processing. Drawing on the experience of other countries, such as Bagrépole in Burkina Faso, Togo will need to carefully consider the amount of financial and human resources it is willing and able to devote to these projects. After 10 years, Bagrépole is still in a preliminary phase. Many other growth pole projects in Africa have been on the books for years without notable progress. They tend to be large, complex projects, and countries have yet to find an acceptable formula for their implementation. The authorities would be well-advised to design agropoles in a streamlined manner, sequenced over a period of 15-20 years, so that public resources are only allocated to a few priority projects, and coordinated at a high level of government. If resources are scarce, additional agropoles beyond Kara should probably take a back seat to SEZ projects, which are quicker and place less demands on public funds.

Logistics

21. Togo's central location in West Africa and deep-water port have combined with the import-export needs of land-locked countries in the Sahel to create the foundations for a thriving regional trade. Proximity to the huge Nigerian market has been another key factor, even though Nigeria has its own ports. High protection of Nigerian industry, including outright bans, provides fertile ground for a lucrative smuggling business across its long and porous borders. With little by way of domestic industry to protect in Togo, and competition with Benin for transit trade, government policy has favored low tariffs and relatively efficient port management.

22. Significant private investment has gone into the port, and transshipment has exploded, rising from 326,000 tonnes in 2012 to 12.3 million tons by 2017. But this entails very limited value-added, and it hides the fact that other, more lucrative port activity has stagnated since 2012. With peace in Côte d'Ivoire and investments in most competing ports in the sub-region, Togo will be hard pressed to gain market share. The country must continually improve its port services in order to at least maintain its current position.

23. The future of the port is inextricably linked to the performance of the trucking industry which brings most cargo to its destination. Togo's trucking industry is disorganized, dominated by small scale operators, and tied up by vested interests. Compared to its competitors, Togo faces special challenges due to its modest domestic market. Its truckers are largely dependent on traffic with neighboring countries, whereas operators in other countries enjoy larger domestic markets shielded from regional competition. An ambitious reform program has been designed to

professionalize the industry and restructure the transport market. It needs to move forward expeditiously.

24. National initiatives to improve the regulatory framework for trade facilitation have had very positive results: Customs IT has been upgraded and connected with Burkina Faso Customs, a Single Window established (although not all border agencies have computerized their functions), and security measures put in place with scanners and GPS monitoring of transit trade. Customs modernization is under way, and the authority is improving its risk management framework. The slow pace of reforms in the ICT sector may hinder progress. Regional initiatives are lagging due to the collective responsibility of countries and regional economic communities: most transport and trade facilitation instruments are not implemented, are poorly designed or outdated, and regional standards are not applied.

25. In addition to increasing the volume of regional trade, the government wants to add value through various logistics services such as packaging and labelling, quality control and assembly. There is a narrow path for Togo to evolve into a logistics hub, focusing on the most promising niche markets to build consensus among stakeholders before raising the level of ambition. The long-term strategy could be based on five pillars: (i) align public and private sector objectives, (ii) build value-added logistics services on existing successful logistics business lines, (iii) reduce costs for the transport and logistics industry, (iv) plan logistics at the national level, and (v) mobilize private sector finance in the development of the logistics infrastructure. The first step of the strategy is setting up a multi-partner task force for the preparation of guidelines for the development of the hub. Its first task will be to define a strategy with national logistics priorities. Capacity-building for public and private stakeholders and a logistics survey should follow.

Mining

26. Traditionally, mining has been a significant driver of growth in Togo. Initially, it was phosphates; more recently it has been limestone transformed into clinker and cement. But phosphate production has stagnated at levels well below historical peaks. Cement exports have fallen as neighboring countries develop their own industries, though these have led to increased clinker imports from Togo. The industry is also facing increased competition from Nigerian cement exports. Iron ore provided a temporary boost, until prices collapsed in 2015 and the mine closed. Artisanal gold and diamond mining have become more important, while construction materials for domestic use is the other major component of the sector.

27. Even though the short-term outlook is not very promising, there is major potential for growth in the phosphates industry. Indeed, diversification into new carbonated phosphate deposits could increase production exponentially (by 3 – 10 times current levels), and eventually lead to processing into phosphoric acid and fertilizer. But this requires entry by a foreign investor with the finance and expertise to develop these more complicated deposits. Recent negotiations have fallen through, and it now appears that more geological work is required, coupled with investment in energy infrastructure. This work should proceed even if the results will not begin to emerge for another four-five years.

28. Meanwhile, efforts to improve the governance of the sector should continue. A clear sector policy is needed, along with better coordination between ministries. The Ministry of Mines and Energy should be given a stronger mandate to lead the sector, and a greater share of the resources generated by mining, in order to build the capacity to fulfill its mandate. Greater clarity on environmental and social compliance, and tax assessments would encourage greater private investment. More work is needed on geological information, a Mineral Cadaster System, and the permitting process. In-depth modeling and analysis of fiscal terms should be initiated to understand the full impacts and fiscal costs of current tax exemptions, and a revised fiscal framework proposed to promote the industry and encourage improved company behavior.

29. A recurring complaint raised by stakeholders and community representatives pertains to the weak practices of community consultation and the mining industry's scant engagement with external stakeholders and local communities. A decree on public participation in preparation and review of Environmental Impact Assessments was adopted in late 2017, but no other formal guidance exists regarding community consultation prior to or during operations. The break-down of channels of communication has escalated tensions and led to missed opportunities for subcontracting and local employment creation. In an environment of more open collaboration, mining operations would have the potential to generate a virtuous cycle of economic development in the surrounding communities.

Agriculture

30. Agriculture remains the foundation of the Togolese economy and it will be difficult to raise the overall performance of that economy without a vibrant agriculture. This will also be necessary if the bulk of the poor are to benefit from that growth. The authorities recognize this implicitly in their focus on agropoles. But it will be important to look beyond agropoles to the broader agricultural sector. The main export crops – cotton, cocoa, coffee, cashew – are cultivated over large areas by smallholders whose main concern is increasing yields of good quality output. Furthermore, processing is not a realistic objective for cocoa or coffee, beyond narrow niche markets, while facilities are already in place for cashew and cotton. Thus, the creation of agropoles may be of limited value for traditional agricultural exports. Instead, they need better extension services, replanting with improved varieties, and better management of value chains. There is much potential for growth in cocoa and cashew given the low level of current yields and overall output, and strong global demand.

31. Cotton deserves priority attention. It supports directly or indirectly some 2.5 million persons, many of them in the poorer northern regions of the country. Production has been expanding recently but remains below historic peaks. Its needs are many: (a) reinforcing the governance and institutional framework of the sub-sector; (b) support to productivity to double yields; (c) development of infrastructure and equipment; (d) marketing and value-added; and (e) innovative financing mechanism.

32. Horticulture exports are small but growing quickly and the international market is strong. However, cold storage and other dimensions of the logistics chain will need to be upgraded to be

competitive in the lucrative fresh fruit and vegetable market. Another challenge is meeting the high standards required in European and other foreign markets. A recent analysis found serious deficiencies across the system of quality control and certification, and no instances where export shipments were ever rejected by inspectors in Togo. Clearly, there is much work to be done if this export sub-sector is to expand.

33. Traditional product categories, such as cotton and cocoa, are more commoditized and so farmers are vulnerable to the price swings in international markets. While such crops will continue to be important for Togo in the foreseeable future, support is necessary to enable farmers to compete in both traditional stockable crops (such as cashew) and fresh, perishable crops (such as pineapple, mango, tomatoes, and other fresh fruits and vegetables).

Tourism

34. Tourism is one of the world's largest industries and destined to grow as incomes rise. Togo emerged as a small sun, sea and adventure destination in the 1980s, before going into decline. Tourism receipts have once again become significant as a source of foreign exchange, rivalling the largest goods export, though this is somewhat misleading. Most of these earnings come from business visitors, or those visiting family and friends, neither of which is amenable to tourism policy as such. Available data is inadequate to assess the importance of leisure or conference tourism, which could be developed through more effective policies and investment.

35. Togo does possess many tourism attributes, from sun and beaches to cultural assets. However, tourism sites are generally in poor states of upkeep, with limited last-mile access and minimal infrastructure and services to justify their appeal. Furthermore, it is difficult to distinguish a comparative advantage for Togo in relation to its neighboring competitors (Benin and Ghana). Togo is frequently overshadowed on multi-country tourism circuits. One specifically under-valued asset is the beachfront along Lomé's downtown. However, like other sites, it is in a poor state with open-air sewage, lack of lighting, facilities, or tourism infrastructure.

36. The most important sector constraints are: (a) the lack of Government prioritization and leadership on tourism; (b) ineffective positioning/marketing; (c) a lack of quality tourism attractions; and (d) the lack of a dedicated Conventions Bureau.

37. Considering Togo's assets, comparative advantage and demand, the short run priority should be establishing Lomé as a sub-regional destination for MICE (meetings, conferences, incentives, exhibitions) tourism. It has a burgeoning competitive advantage in the segment, with improved air access, quality rooms in Lomé, a 2,500-seat conference center, and a relatively safe city. A secondary market of interest is improving its value proposition for multi-country leisure tours. Targeting these markets will require a phased development of select leisure sites, upon which the country may build for a broader set of leisure segments.

Top Ten Priorities for Growth

Tax reform: Reduce the number of taxes, simplify tax administration, improve VAT refunds, and broaden the tax base.
Finance: Reduce public borrowing to make more funds available to the private sector.
Special Economic Zones: Identify a private operator to develop and manage the Adétikopé site
Logistics: Continue to improve services at the port to remain competitive in the sub-region
Logistics: Pursue professionalization of trucking industry
Mining: Prepare for exploitation of carbonated phosphates by conducting geological analysis, assessing the social impact, finding energy solutions, and identifying experienced international private partners
Agriculture: Improve the cotton sub-sector through better governance, research and extension, infrastructure, marketing and finance
Agriculture: Promote horticulture exports through better logistics, improved quality control, access to land and foreign direct investment
Tourism: Establish a Conventions Bureau and upgrade the Lomé Conference Center
Data: Improve the collection and monitoring of exports of goods and services

CHAPTER 1: OVERVIEW OF TOGO ECONOMY

1. **Togo is a small, open, low-income economy enjoying multiple advantages.** It is blessed with adequate rainfall and land for its population of seven million people. Access to sea is a key asset, given its deep-water port. Large phosphate reserves have provided steady returns for more than half a century. Membership in the West Africa Economic and Monetary Union (WAEMU) has ensured sound monetary policy and low inflation. In recent years, fast growing neighboring Ghana and Côte d'Ivoire as well as nearby Nigeria have offered large markets and economic opportunities. Further, landlocked neighbors in the interior – Burkina Faso and Niger – generate substantial transit and re-export trade. With its central location in the sub-region, good port and tradition of openness, Togo has long ago established itself as a trading hub. This has been reinforced by the choice of Lomé as the hub for Asky Airlines which started operations in 2010.

2. **It is however facing significant challenges.** The traditional phosphate reserves are approaching exhaustion. Neighbors are improving their ports such that activity at Lomé, other than transshipment, has stagnated. The export processing zone has long been full, and no new zones have been developed yet. The general investment climate remains weak even if recent improvements have been registered on the regulatory front. In addition, recently, Togo has had to contend with its own political uncertainty, as demonstrations for constitutional change have periodically disrupted the capital city in 2018.

3. As underlined in the recent Strategic Country Diagnostic (World Bank 2016), **to accelerate and sustain poverty reduction⁴, Togo will need to unleash a more robust, inclusive, and sustainable growth process**, led by private economic agents, and supported and amplified by more effective government policies, public investments, and services. Hence, Togo needs to do a better job of exploiting its traditional sources of growth while also diversifying into new activities. This report aims to explore possibilities in that area.

1.1. Recent economic developments

4. **Recent growth has been significant.** Togo's GDP has grown at an average rate of 5.2 percent over 2006-2017, a rate higher than the Sub-Saharan Africa (SSA) average (4.3 percent), but similar to the average for low-income countries (5.1 percent).

5. However, GDP growth slowed slightly to 4.4 percent in 2017 as civil unrest affected some private sector activity, notably construction. The previous growth had been driven in part by increased government spending, which pushed the fiscal deficit up to 9.5 percent of GDP in 2016. As a result, the authorities agreed to a new IMF-supported program in 2017, implementing a drastic reduction in spending which exceeded the program targets. Civil unrest arose, associated with demands for a new constitution and tighter limits on the presidential mandate. In 2018, a more modest path for reduced spending was adopted. As a result, growth increased again in 2018 to 4.9 percent (2.3 percent in per capita terms). Togo is expected to meet the WAEMU convergence criterion of a fiscal deficit below three percent in 2019.

⁴ Poverty rates have declined slowly in Togo, from 61.7 percent to 55.1 percent between 2006 and 2015 (World Bank 2016).

Table 1: Key Macroeconomic Indicators: 2015-2020

(% of GDP, except for GDP growth rate)

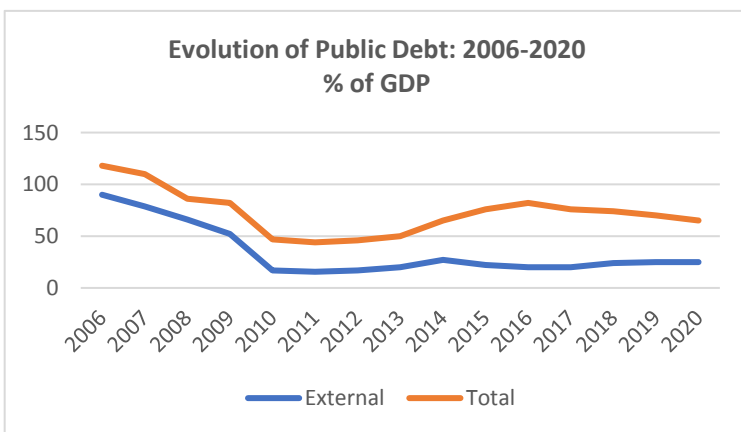
	2015	2016	2017	2018 Estimated	2019 Projected	2020 Projected
GDP growth rate	5.7	5.6	4.4	4.9	5.1	5.3
Exports, goods and services	35.8	35.3	33.1	31.3	32.1	32.3
Current account balance	-11.0	-9.8	-2.0	-4.9	-5.9	-5.3
Fiscal balance	-7.7	-9.5	-2.1	-4.2	-2.6	-2.1
Revenues and grants	21.8	21.6	21.4	23.9	24.0	24.0
Public expenditures	30.7	31.1	21.6	24.7	25.4	25.2
Current	17.7	17.2	15.4	17.9	16.6	17.0
Capital	12.9	13.9	6.3	6.8	10.1	9.5
Private investment	20.8	19.6	19.6	20.0	21.0	22.5
Public debt	72.1	81.4	75.5	76.2	72.2	68.4

Source: IMF, Staff Report for the 2019 Article IV Consultation and Fourth Review Under the Extended Credit Facility, July 2019.

6. **Togo’s sources of growth are vulnerable to shocks.** Activity in the trade/transport sector relies in part on trade diversion and smuggling, which are indeed not reliable. Climate change has begun to adversely affect agriculture and increase flood risks. Moreover, current economic growth rates are entirely offset by local environmental degradation, primarily through soil and forest resource depletion, coastal erosion, and ambient air and water pollution. Due to the country’s failure to accumulate and preserve its physical, financial, and natural wealth, Togo’s net national savings rates are negative when adjusted for environmental degradation. Finally, fiscal sustainability and the impact of public expenditures on growth are problematic, as 2017 and 2018 events have shown (World Bank 2016).

7. **Indeed, past expansionary fiscal policy has led to a significant rise in public debt which will act as a constraint on public expenditures and investments.** By 2016, public debt had returned to the 2006 level of 82 percent of GDP - just prior to the approval of HIPC debt reduction. With the recent renewed commitment to sound macroeconomic management, this ratio is expected to fall to 68 percent in 2020, bringing it below the WAEMU criterion of 70 percent. However, these figures do not include contingent liabilities resulting from state ownership in sectors such as electricity, cotton and banking, which have required subsidies from time to time.

Figure 1: Evolution of Public Debt: 2006-2020
% of GDP



Source: IMF, Staff Reports, various years.

8. **The composition of public debt has shifted toward greater use of local-currency borrowing, thereby reducing the exchange rate risk, but it has meant some crowding out of credit to the private sector.** The fiscal consolidation necessitates a shift from public to private investment if growth is to be sustained or even accelerated. Greater availability of

credit will help the private sector; on the other hand, taxes will have to increase. An improved investment climate and greater support for the private sector will be critical going forward.

1.2. Structure of the economy and growth drivers.

9. **The tertiary sector dominates the economy and drives growth.** It contributed over 70 percent of growth between 2006-15 and accounted for 52.4 percent of GDP at the end of the period. Trade, telecommunications and finance were key components, but public administration (including education and health) and other non-market services were even more significant. Public services have thus been a major source of growth (Table 2), supported partly by the rising tax revenues but also by increasing indebtedness as seen earlier.

10. **Manufactures have contributed almost one-fifth of economic growth,** which is more than twice their share of GDP (Table 2). This reflects some of the success of the industrial free zone and indicates that there is a manufacturing base on which to build. **For mining, growth in the real output of phosphates has been negative** over the period (-18.5 percent). However, the price of phosphates has risen substantially between 2006 and 2015, such that the value of production and hence the value-added has quadrupled in local currency. Thus, thanks to this price effect, phosphates' share of GDP has risen and the contribution to growth is much less negative than its real growth in output would suggest.

11. **Agriculture, despite a large share in GDP, has had a limited impact on growth.** The livestock sub-sector, however, has enjoyed much better performance. Cash crops remain a very small part of GDP, with slow growth. This pattern suggests untapped potential in agriculture.

Table 2: The Structure and Evolution of GDP – 2006-20015

	Share of GDP	Rate of growth	Contribution to
	2015	2006-15	growth
Primary sector	29.0	1.5	9.8
Agriculture	22.4	0.7	4.0
Food crops	20.0	0.7	3.6
Cash crops	2.4	1.3	0.8
Livestock	3.7	7.1	4.6
Fishing, forestry	2.9	1.5	1.1
Secondary sector	18.6	4.6	18.6
Mining	3.2	-8.0	-1.8
Phosphates	2.3	-18.5	-2.0
Other	0.9	0.6	0.2
Manufactures	8.1	8.3	19.8
Food, beverage, tobacco	2.8	6.3	6.3
Construction materials	2.2	10.3	5.8
Other	3.1	8.3	6.9
Utilities	2.9	9.8	6.4
Construction	4.3	-9.9	-5.8
Tertiary sector	52.4	6.4	72.3
Trade	8.1	3.3	7.2
Transport	5.7	9.4	8.2
Telecommunications, post	7.0	9.3	20.2
Finance	4.4	18.6	15.0

Hotels/restaurants	0.9	-16.7	-1.8
Other non-market services	17.1	8.9	28.4
Public Administration	10.9	13.8	19.8
Education, health	5.6	6.2	5.6
Total	100	4.6	100

Source: Government of Togo, National Accounts

1.3. Export Structure and Performance

12. Long-term growth in successful countries is typically driven by exports. This is especially true in a small, open economy such as Togo. Expanding export sectors also helps to attract foreign direct investment which brings in the finance, technology and market access generally lacking in such countries. Thus, it is critically important to review the performance of the export sector and examine how it can be enhanced. The level of Togo's exports of goods and services when compared to the size of its economy is like that of Ghana and Côte d'Ivoire, and greater than that of Benin or Senegal. But it remains far below that of the fast-growing countries of Southeast Asia, such as Cambodia, Thailand or Vietnam (Figure 2).

Figure 2: Exports of goods and services as % of GDP

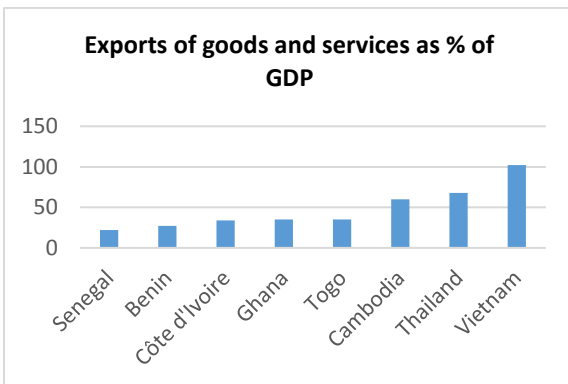
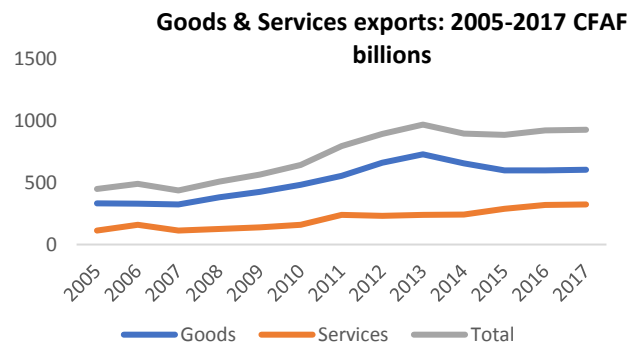
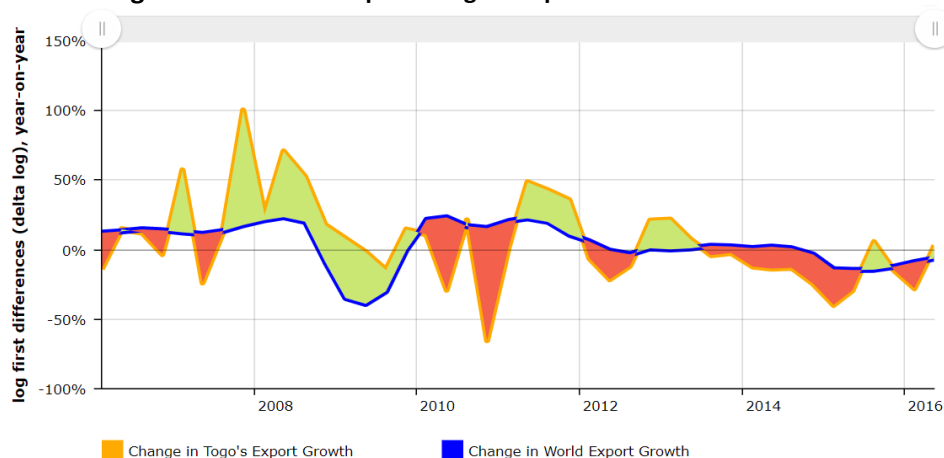


Figure 3: Goods & Services exports: 2005-2017 CFAF billions



13. **The nominal value of exports of goods and services made good progress between 2007 and 2013, but stagnated since then, and declined in real terms.** The peak in goods exports in 2013 was due to a temporary surge in re-exports, but no progress has been made since 2011 in goods (Figure 3). The peak in export growth in 2007/8 was due to a temporary boom in phosphate prices (Figure 4). Service exports have grown more steadily. Exports of goods and services have fallen when compared to GDP, from an average of 41.5 percent in 2005-07 to 34.8 percent in 2015-17.

Figure 4: Growth of exports: Togo compared to the World



Source : BCEAO, Balance des Paiements et Position Extérieure Globale, Togo, various years. MEC database, World Bank.

Table 3: Togo's Export Composition, 2016 and 2017.

	CFAF billions		%
	2016	2017	2017
Total exports	935.3	922.5	100
Goods	395.4	381.5	41.3
Manufactures	169.1	183.6	19.9
Clinker and cement	59.7	55.1	6.0
Phosphates	46.9	39.6	4.3
Cotton	31.6	42.3	4.6
Cocoa	8.1	3.1	0.3
Coffee	4.6	1.5	0.2
Cashew*	3.7	3.7	0.4
Horticultural products	1.9	4.6	0.5
Other	55.7	51.6	5.6
Adjustments	11.6	-3.8	-0.4
Re-exports**	155.0	136.8	14.8
Petroleum	25.2	41.9	4.5
Vegetable oil	21.3	30.7	3.3
Gold	14.6	20.1	2.2
Other	93.9	44.1	4.8
Electricity	64.5	73.2	7.9
Services	321.1	331.0	35.9
Transport	129.1	122.0	13.2
of which, Air transport	82.3	81.0	8.8
Travel	70.7	80.1	8.9
of which, Leisure tourism	36.0	36.2	3.9
Business travel	34.8	43.9	4.8
Business services	65.1	73.6	8.0
Other	56.2	55.3	6.0

* Estimated from MAEH, *Analyse de la Filière Anacarde au Togo*, Octobre 2015.

** Official data on re-exports focuses on imports coming from abroad and exported in the sub-region. We have added gold which is imported from neighbouring countries and exported abroad.

Source : BCEAO, Balance des Paiements et Position Extérieure Globale, Togo, 2016 and 2017.

14. Table 3 underscores a few facts. **First, unlike many other LDCs, manufactures are an important component of exports (19.9 percent in 2017).** This is primarily due to the free trade

regime which has been in place for almost 30 years. Trade data does not clarify this but separate data from Management Company for the Free Zone (Société d'Administration de la Zone Franche – SAZOF), the agency administering the regime, indicates that exports were worth CFAF230 billion in 2017. This suggests that virtually all the manufactures, as well as clinker and cement, were produced by beneficiaries of this regime.

15. **Agricultural exports are very small**, a surprise given the good agro-climatic conditions of the country. However, the data do not include informal cross-border trade in agricultural products. As will be described later, agricultural production of food staples has been growing robustly and sales are undoubtedly expanding to neighbouring countries.

16. There is a significant volume of other goods exports, equivalent to 5.6 percent of total exports and like the largest single category of goods exports, clinker and cement. More than half of this is classified as uncontrolled trade, so nothing is known about its nature or content. In addition, there are significant exports of electricity, not easily classified as a good or a service.

17. **In addition, there is the presence of considerable re-exports**⁵. Many imported goods are held in bonded warehouses or under temporary admission without paying import duties and taxes pending identification of a buyer. If they are sold domestically, all duties and taxes are payable; if the buyer is from a neighbouring country, the goods are classified as re-exports. Typically, these goods are imported from overseas. But some goods come from neighbouring countries and are re-exported abroad, such as cotton and gold.⁶

18. **In Togo, services exports account for one-third of total exports**. Exports of both air transportation and other business services are notable, each one being greater than the value of clinker and cement exports for example. Air transport – particularly passengers – reflects Togo's role as the headquarters of Asky Airlines. Earnings from travel, including leisure tourism, are also substantial, though the reliability of this data is uncertain. In all three of these services, imports are much lower, such that the country is a significant net exporter. The opposite is true for the other major service – maritime transport.

19. This picture remains however partial. First, it does not capture *transshipment*, whereby goods are re-exported without ever leaving the port, and may not even touch land. This has been the most dynamic form of trade through the port in the last ten years, rising to 12.3 million tonnes in 2017.⁷ It must also be noted that Table 3 does not capture the flourishing transit trade which is an integral part of the Togolese economy, and yet another service. Its volume reached 2.9

⁵ - The importance of re-exports can be a source of confusion when analyzing Togo's trade data. A distinction is not always made between re-exports and goods originating in Togo. For example, tables on agricultural exports typically include vegetable oils, when in fact these are imported, notably from Southeast Asia, and then sold in the sub-region. Similarly, petroleum products and gold often appear in lists of goods exports, but these are not produced in Togo.

⁶ - Gold is not officially covered by the re-export regime, and so is not included in the official re-export figures, but it is well-known that most if not all of it comes from neighboring countries.

⁷ - Website of the *Port Autonome de Lomé*, www.togo-port.net.

million tonnes in 2017⁸. Import transit trade amounted to 2.7 million tons, or about 45 percent of all imports at the port. This trade covers goods which are designated as destined for another country, in advance or more often upon arrival at the port. While some of these imports may leak into the domestic economy, the large majority continue to other destinations, though often not the one announced⁹.

20. Overall, it was concluded in the 2010 CEM that the value-added of transit and re-export trade was about 15 percent. In 2016, this would amount to roughly CFAF60 billion. This is similar to the value-added estimated for the entire free trade zone.¹⁰ **When combined with re-exports and transshipment, Togo's role as a logistics hub is clearly important, even though it depends partly on informal, and not always legal, trade.**

21. **Putting aside transshipment, the composition of exports has not changed appreciably in the last ten years.** Cement exports have fallen as neighbouring countries have opened their own cement plants, but then clinker exports have expanded to supply them. No progress has been made on the volume of phosphate exports, though the value has increased significantly due to prices three times the level of the mid-2000s. Among individual goods, cotton has made the most progress in real terms, and similar to phosphates in value. But production has yet to recover to the level achieved in 1999. The value of coffee and cocoa exports grew modestly up to 2015 but has since fallen below the levels of ten years earlier. Among service exports, the main development has been the arrival of Asky Airlines, which started flights in 2010. Exports of passenger transport by air increased from only CFAF2 billion to CFAF60.2 billion in 2016. Transshipment volumes have also exploded with the opening of a new container terminal. Leisure tourism has also enjoyed solid growth.

Table 4: Changes in the Export Structure: 2005/7 - 2015/16

	CFAF billions		% change
	2005/07	2016/17	
Phosphates	16.7	43.3	159
Clinker	29.2	52.2	79
Cement	29.4	5.2	-86
Cotton	14.6	37.0	153
Cocoa	11.8	5.6	-53
Coffee	4.7	3.1	-34
Free zone	146.0	221.5*	52
Air transport, passengers	2.0**	60.4	2900
Leisure tourists	10.7**	36.1	237
Re-exports	51***	146.0	186

⁸ - It is worth recalling a detailed study of transit and re-export trade conducted for the Country Economic Memorandum (CEM) of 2010, as it was not possible to update the analysis for the present study. Some of the key conclusions remain relevant. During the period 2000 to 2008, it was estimated that transit trade was two or three times larger than re-exports, depending on the year.

⁹ - This is the main channel for the lucrative used car business, which cannot officially declare Nigeria as the destination given the ban on used cars beyond a certain age, but which thrives precisely by circumventing this restriction.

¹⁰ - Data provided by SAZOF.

Import transit volumes	1.02 mil. tons	2.46mil. tons [#]	140
Transshipment volumes	0.28 mil. tons	9.40 mil. tons [#]	3200

*average of 2015 and 2017. **2007-8; earlier data not available. ***IMF. It is not clear whether they used the same definition as in the BCEAO data used for 2015-16. # average of 2015-17.

Source: BCEAO, *Balance des Paiements et Position Extérieure Globale*, Togo, various years; World Bank CEM, 2010; SAZOF table of key indicators and website.

1.4. Sectors that can support growth

22. As underlined earlier, Togo needs to move toward a growth model led by the private sector, supported by more effective government policies and public investments which will allow the country to better exploit its traditional sources of growth while also developing new activities. Any growth strategy must begin with general improvements in the investment climate, in order to stimulate private activity across the economy. The following chapter provides an overview of the main challenges facing private enterprise and some of the reforms needed to address them.

23. But the list of necessary reforms is long, so one approach adopted in many developing countries is to begin with a subset of firms in a small geographic area. Togo has experimented with one such spatial solution – an export processing zone. As a result, manufacturing exports are significant for the country and help the sector to make an important contribution to GDP growth. In this respect, analysing the working of the current zone - which in 2015 housed 63 firms employing close to 14,500 workers – and the potential for other spatial development solutions is very important. It is the objective of the third chapter of this report.

24. The binding constraints in key exports sectors are often very specific to that sector and may not be captured by broad reforms to the business environment. This report thus analyses several sectors of the Togolese economy which were chosen based on their economic importance (share in GDP or exports, income for the State), employment contribution and immediate poverty reduction potential. Togo has long been a hub for regional trade thanks to its good port and central location in West Africa. One cannot talk about the Togolese economy without analysing the working of the trade and transport sector – which accounts for close to 14 percent of GDP - to see how it can help the country to become a better logistics hub for international trade. This is the purpose of the fourth chapter of this report.

25. Phosphates used to be the key sector of the economy in the 1980s and 90s. Since then, production has declined but other mining activities have grown, notably limestone for clinker and cement. As of now, the sector provides a small 1.5 percent of public revenue and less than one percent of national employment, but the value of phosphate exports has tripled between 2005 and 2016, due to higher world prices, providing important income to the Government of Togo. For the future, the development of Togo's carbonate phosphate reserves and the construction of phosphoric acid and fertiliser plants could help the sector develop and generate more jobs and resources for Government. These issues are therefore analysed in the fifth chapter of the report.

26. Even if the primary sector exports are limited, it remains a key pillar of the economy in terms of share of GDP (29 percent) and employment (it occupies more than half of the active

population). Further, most farmers are under the poverty line, and the rate of rural poverty is 69 percent. Any growth and poverty reduction strategy has thus to look at the sector and address related issues. This is the objective of the sixth chapter.

27. Togo was a charter-based sand, sea, and discovery destination in the 1980s due to heavy investment in government-owned resorts and city properties. Following unrest in the 1990s, the sector declined. Since then, the sector has slowly recovered and by 2017, total export earnings from tourism amounted to about 8.9 percent of export earnings, though less than half of this was due to leisure tourism – which is still not much less than the largest agricultural export, cotton. Given its employment potential – especially for unskilled workers and women – the sector is important within the framework of a growth and poverty reduction strategy. As such, it is the topic of the final chapter of this report.

CHAPTER 2: FIRM COMPETITIVENESS AND THE ENABLING ENVIRONMENT

2.1. Introduction

28. This chapter examines Togo's enabling environment for private firms. It evaluates the main factors influencing the competitiveness of private firms in Togo using the Enterprise Survey (ES), the latest edition of the Doing Business (DB) reports, and recent publications.

29. The diagnostics converge on a set of broad challenges rooted in weak governance and institutional effectiveness limiting competitiveness for the private sector:

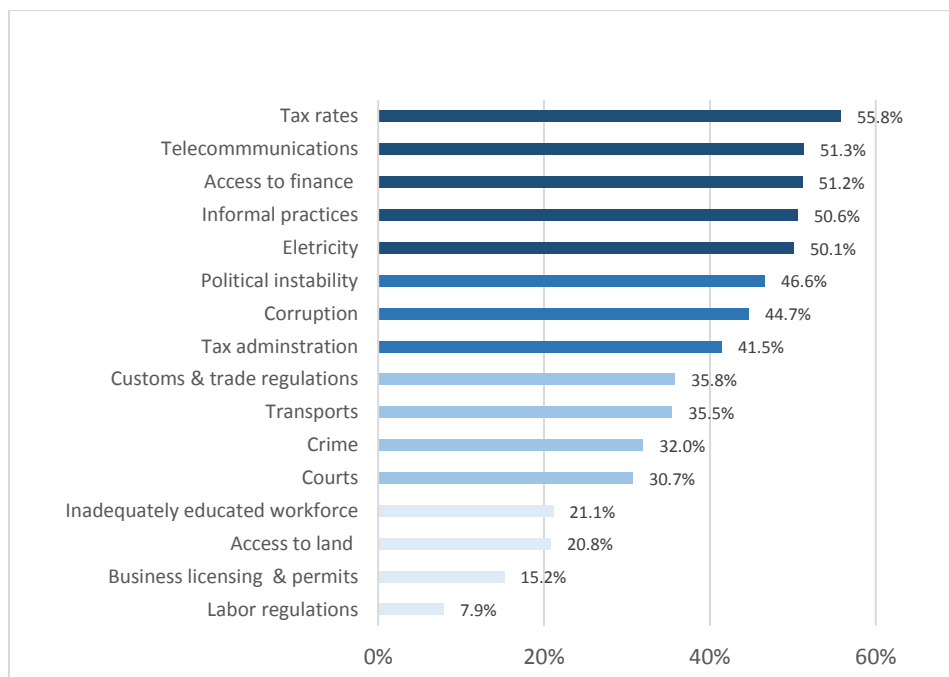
- Togo's governance model does not encourage effective fiscal policy: High and distortionary fiscal policies impose a significant burden on firms, encouraging informal behavior and limiting the potential of productive firms
- Costly and ineffective access to critical inputs and infrastructure such as electricity and telecommunications.
- High barriers to entry and operational costs in the form of cumbersome and costly administrative procedures. Concurrently, vested interests manifest themselves through government intervention in several key sectors (agriculture, finance, extractives, telecommunications) limiting private sector dynamism.

30. For Togo to expand its manufacturing sector and strengthen its position as a logistics and service hub, the country will need to improve the quality and reduce the cost associated with the provision of energy, transport and telecommunications, as well as ease the regulatory burden, to facilitate firm entry and development.

2.2. Investments Climate challenges as perceived by Togolese firms.

31. The overall investment climate as depicted in Figure 5 presents significant challenges for Togolese firms. The top tier of constraints is rated around the 50 percent mark, suggesting that several areas of the business environment severely impede firm operations. This first tier of obstacles is led by tax rates, rated as major or very severe by 55.8 percent of firms, next are telecommunications rated by 51.3 percent as a major concern, and access to finance (51.2 percent). Closely following are concerns over informal practices and electricity with nearly 50 percent of managers rating them as major or very severe. These obstacles underscore concerns associated with the functioning of the legal and regulatory framework evidenced by the tax code and the prevalence of informal practices, mixed with infrastructure issues.

**Figure 5: Investment Climate Constraints
% of firms identified as major or very severe**



Source: Enterprise Survey 2017

32. A second set of constraints rated between 30 to 50 percent as major or very severe relates mostly to the ineffectiveness of institutions. These include political instability, the prevalence of corruption, the functioning of the tax administration, customs regulations, transport issues, crime and the courts.

33. The last group of constraints are rated as relatively minor with an overall magnitude of severity around 20 percent or less. They included the skills of the workforce, access to land, business licensing and permits, and labor regulations.

34. Actual conditions on the ground as experienced by operators may not always reflect the overall relative rating or ranking of perceived constraints. For example, conditions associated with accessing credit appear to be relatively favorable in Togo since 43 percent of firms have a loan - well above the sub-Saharan Africa (SSA) and West Africa Economic and Monetary Union (WAEMU) averages. Yet over half of firms rated access to finance as a major constraint. On the other hand, the availability of legally secure land remains a deeply entrenched structural issue in Togo, due to a complex governance framework. Yet, it has not been deemed as a significant constraint by respondents.

35. Togo has recently made major progress in improving its investment climate. Its ranking in the Doing Business report consequently rose from 137th in 2019 to 97th in the 2020 report. Particularly notable were the advances made in starting a business, where the ranking jumped from 74th to 15th, registering a property (from 127th to 56th), getting credit (from 144th to 48th) and protecting minority investors (from 149th to 120th).

36. The following section examines in more details the main areas of the investment climate for Togolese firms to reconcile firm perceptions and the conditions they experience on the ground. We begin with taxes, which now emerges clearly as the biggest laggard in Doing Business, with a ranking of 174th.

2.3. Togo's main obstacles to competitiveness.

2.3.1. Tax policy and administration

37. Togo's tax framework is detrimental to investment and firm growth. Distortionary or regressive taxation increases the likelihood that taxpayers see the tax system as unfair and thus entices informal practices and evasion. Tax complexity increases taxpayers' compliance cost and negatively impacts the cost of doing business for firms.

38. High levels of taxes represent the single most important obstacle to Togolese businesses according to both the Enterprise Survey and the Togo Formal Firm Survey (TFFS¹¹).

39. Tax policy can have significant impact on the real income of firms and hence discourage investment. High corporate or business-related taxes also has an adverse impact on the firm's employees¹². High effective taxes increase incentives for rent seeking behavior through special tax regimes (exemptions etc.), which is particularly true of Togo. Recent World Bank publications¹³ point to significant inefficiencies in the Togolese tax policy framework. The tax code imposes high marginal tax rates along with a complex tax collection process.

40. In this context, it is not surprising that Togolese businesses reported tax rates as the single most important constraint. It is true that ES surveys worldwide indicate that taxes rates are often cited as among the top constraints, suggesting that firms tend to complain about taxation. However, the Togolese context points to ample evidence corroborating the perception ratings.

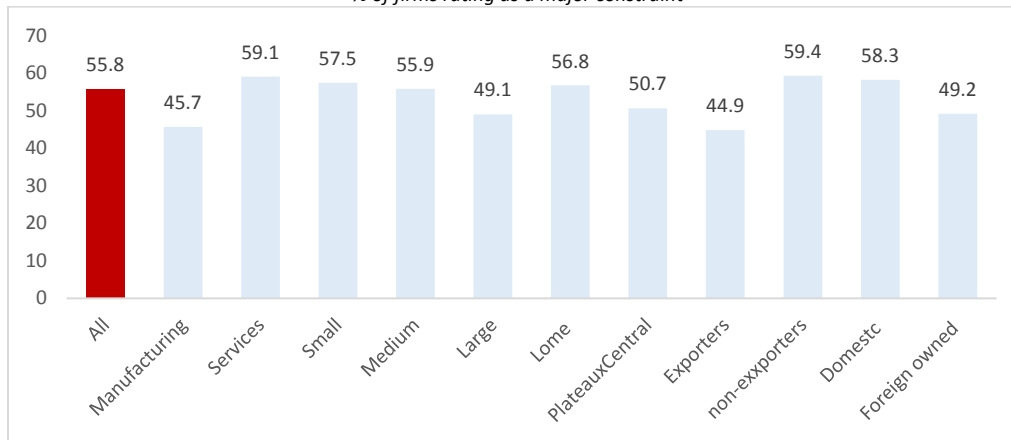
¹¹ The Systematic Country Diagnostic team of the World Bank conducted a survey of formal firms in July 2015 (TFFS). This survey was drawn from the population of all firms filing tax declarations.

¹² Desai et al. (2007) show that, internationally, between 45 and 75 percent of the burden of corporate taxation falls on labor, rather than on the owners of capital.

¹³ The Togo Systematic Country Diagnostic (SCD). The second Fiscal Management and Infrastructure Reform Development Policy Financing.

Figure 6: Tax rates

% of firms rating as a major constraint



Source: ES 2017

41. Firm characteristics matters in the way tax rates are evaluated as a constraint. Figure 6 points to considerable differences based on firm characteristics illustrating the way in which a complex tax code can affect firms differently based on size, market orientation or business sector.

- *Size*: Smaller firms complained more on average with 59.1 percent rating tax rates as a major constraint compared to 49 percent for larger firms. This is not surprising, as smaller firms in Togo are subject to a larger percentage of tax on profit than medium or large firms¹⁴, and the costly tax payment process is more of a burden on smaller firms with fewer employees.
- *Market orientation*: Exporters reported substantial differences in the way tax rates affect their businesses compared to non-exporters-- with 44.9 percent of exporters evaluating tax rates as a major constraint vs 59.4 percent for non-exporters.
- *Ownership*: 58.3 percent of domestic firms rated tax rates as a major constraint compared to 49.2 percent for foreign-owned ones.
- *Sector activity*: Manufacturing firms appear less constrained than service-oriented firms by a significant margin – 45.7 percent vs 59.1 respectively.

42. The findings are intuitive given Togo's multiplicity of exemptions and tax regimes. Traditionally manufacturing sectors benefit from more favorable tax regimes or other fiscal incentives (exemption on certain types of investments – machinery etc.), while exporters and foreign operators have greater access to different tax regimes, notably the free zone status.

¹⁴ Systematic Country Diagnostics (SCD), World Bank 2017.

Table 5: Tax payment Process and Overall Burden

	Togo	Benin	Rwanda	Senegal	Cote d'Ivoire	Ghana	SSA average
Survey data – Firm experience							
Inspection by tax official (% of firms)	76.7	60.9	54.1	44.1	75.9	87.9	70.9
Informal payment request (% of firm)	4.7	11.0	4.5	2.1	22.9	11.4	17.5
Frequency of inspections/meetings with tax officials	2.9	1.6	3.3	7.3	3.6	3.0	3.3
% of firms rating tax rates as a major constraint	55.8	46.9	31.3	29.2	55.6	52.2	36.5
Doing Business - Regulations							
Payments no	49	54	9	53	25	36	36.6
Time (hours)	159	270	91	416	187	226	280.6
Total contribution rate	48.2	48.9	33.2	44.8	50.1	55.4	47.3
Post-filing index (0-100)	14.9	49.3	64.6	71.8	64.8	49.5	54.7
Paying Taxes Indicator Ranking	174	171	38	166	114	152	-

Source: Enterprise survey 2017 – Doing Business 2020.

43. Table 5 summarizes the tax regulatory process and fiscal burden based on the ES and the Doing Business methodology. The Doing Business ranks Togo poorly (174th) on the “Paying Taxes” indicator – while other WAEMU countries are also ranked low. These results suggest that some problems are associated with regional rules, yet Côte d’Ivoire has recently managed to improve its ranking significantly to 114th. Togo does much worse than Rwanda. Particularly interesting is the total contribution rate which combines the level of taxes with the administrative burden.¹⁵ It is estimated at 48.2 percent – not excessive when compared to WAEMU countries – but well above that for Rwanda (33.2 percent).

44. The post filling index¹⁶ appears to be particularly problematic in Togo with a score of 14.9 over 100, well below all of the other comparators. This reflects a poor VAT reimbursement process with long delays, which is a particularly big problem for exporters. In addition, multiple numbers of payments (49) and relatively long delays (159 hours per year) reflect the cumbersome procedures firms must fulfill to comply with their tax obligations. To promote exports, it would be useful to establish a list of approved companies eligible for rapid and simplified VAT reimbursement, and to ensure available financing by creating a dedicated special account.¹⁷

¹⁵ The total contribution rates is a simulation that include taxes, excises and duties levied on a medium size company must pay in a given year as well as measuring the administrative burden of paying taxes and contributions and complying with Post-filing procedures. Taxes and contributions measured include the profit or corporate income tax, social contributions and labor taxes paid by the employer, property and property transfer taxes, dividend tax, capital gains tax, financial transactions tax, waste collection taxes, vehicle and road taxes, and any other small taxes or fees.

¹⁶ The Post-filing index has four components—time to comply with VAT refund, time to obtain VAT refund, time to comply with a corporate income tax correction and time to complete a corporate income tax correction. Doing Business Methodology 2019.

¹⁷ World Bank, République du Togo : Analyse de la mobilisation des recettes fiscales, Nov. 2018.

45. With regards to interactions with the tax administration, the ES results indicate a high incidence of firms inspected by tax officials annually (76 percent), though this does not lead to an excessive number of meeting with tax agents (roughly three per year) nor does it lead to prevalent corruption as reported by respondent. Only 4.7 percent were requested an informal payment – significantly less than the regional average of 17.5 percent.

46. The Doing Business results may not reflect the full spectrum of challenges faced by firms. Taken together taxes and fees that apply to most businesses are more burdensome than the DB “total contribution rate” would indicate. For instance, the tax authority, OTR (*Tax Authority*), reported that there were close to 30 separate taxes and fees applied to firms compared to a total of 15 taxes and fees estimated by the Doing Business report.

47. The nature of the tax code creates severe distortions as most taxes fall on the relatively small tax base of the formal productive sector. A study conducted for the Togo Systematic Country Diagnostic (SCD) found that the estimated tax wedge combining all effective taxes in Togo (corporate taxes, local taxes, labor and input taxes apart from import duties, and unreimbursed VATs) was close to 90 percent of the mean value of pre-tax profits for fiscal year 2014.¹⁸ According to the same study, several taxes in Togo (e.g. professional tax) are applied on a revenue and cost basis instead of on profits, further discouraging firm entry into the formal sector and encouraging evasion, since revenue-based taxation generates significantly less profit.

48. A newly enacted tax code effective January 2019 aims to reduce several individual taxes and simplify the collection process (see Box 1 summarizing latest tax policy developments). However, at this time the challenges described above persist.

Box 1: Tax Policy Reform in Togo

Effective January 2019, the new tax code, supported by the first and second Fiscal Management and Infrastructure Reform Policy Loans includes significant measures aimed at reducing, simplifying and modernizing taxes in Togo. They are summarized as follow:

- Creation of a new Tax Policy unit under the Ministry of Economy and Finance to analyze tax reform options and make concrete proposals aimed at increasing the efficiency and equity of the tax system.
- Preparation of a strategic plan for 2018-2022 aimed at mobilizing additional tax and customs revenues through widening of the tax base, improved revenue collection, and reduced tax exemptions.
- Modernization and reorganization of the cadaster to optimize property tax collection.
- A land survey is being carried out to identify zones with large revenue potential.
- Reduction of the number of taxes from 26 to 17 consistent with WAEMU directives.
- Reduction of the corporate tax rate from 28 to 27 percent.
- Replacement of planned ICT turnover tax with 4G license fees

Source: World Bank, Fiscal Management and Infrastructure Reform Project, 2018.

¹⁸ Estimated tax rates are based upon a simulation of direct taxes only (excluding VAT). They do not include either Professional or Minimum Forfeit taxes. World Bank, Systematic Country Diagnostic, 2017.

2.3.2. Access to finance

49. The availability and efficiency of financial services and products are critical factors for firm competitiveness. Accessing financial resources enables firms to scale up and increases productivity.

50. Access to finance was perceived as the third leading constraint with 52.1 percent of firms rating it as a major or very severe obstacle; much higher than the regional average (39.3 percent for SSA) but in the middle of its comparators (Table 2). Firm-level data indicate that Togo performs well on most credit inclusion metrics.

51. The financial sector in Togo is dominated by the banking sector totaling 14 banks and 2 rural financial institutions, representing in total close to 80 percent of financial sector assets. There are 20 micro-credit institutions operating throughout the country. Two state-owned banks control about 30 percent of all banking assets¹⁹.

52. Togo's financial sector remains sound overall but in recent years several developments have increased the vulnerability of the sector. The deterioration of the solvency ratio and rising non-performing loans (NPLs) have increased systemic risk. Accumulating fiscal deficits have been mostly financed by banks, increasing the share of government bonds from five percent of total bank assets in 2005 to 15 percent in 2015, and thereby increasing the exposure of the banking sector to sovereign risk.²⁰ This situation is putting pressure on the financing costs of the banking sector, raising the likelihood that a bailout may be necessary, and thereby weighing on public finances. The existing regulatory framework does not take this risk into account.

53. This increased public borrowing has come at the expense of credit to firms which has steadily declined over the last three years from 27 percent of total bank assets in 2015 to 24 percent in 2016 and 20 percent by the end of 2017.²¹ However, the ratio of private sector credit to GDP remains high, at 42 percent.²² Togo continues to have the highest rate of bank assets to GDP in low-income SSA. On the other hand, bank credits are somewhat concentrated since loans granted to the five largest borrowers represent 157 percent of bank capital, compared with 94 percent on average for WAEMU countries.

54. The weak performances of two large public banks contributed to the overall deterioration of solvency ratios. The overall solvency ratio of the banking sector increased from 3.8 percent in 2016 to 6.8 percent at the end of 2017, though it remains below the BCEAO requirement of eight percent. Rising NPLs (18.3 percent in June 2018) represents another major obstacle to the soundness of the banking sector and by extension a threat to the supply of further credit. The rise in NPLs is mainly due to the weak performance of the two main public banks. The

¹⁹ BCEAO Annual report 2017.

²⁰ In this context, high public debt that causes deterioration of the banking sector's asset portfolio, also increases the risk and difficulty of a government bailout (moral hazards, distortion in the market etc.).

²¹ World Bank, *Revue du Secteur Financier au Togo*, 2018.

²² IMF, *Staff Report for the 2019 Article IV Consultation*, June 2019.

restructuring of the two remaining public banks should become a priority. Their successful restructuring would serve as a catalyst for the restoration of financial soundness in Togo's banking sector. The current restructuring plan must ensure that it achieves adequate recapitalization, strengthened governance, and financial viability of the new institution without further delay, to restore public confidence in the banking sector in Togo.

55. A recent report by the Association of Togolese Banks points to weaknesses in the bank's ability to identify and assess clients' creditworthiness. The report also highlighted weaknesses in regulations and financial infrastructure – including high costs and delays in registering and enforcing collateral.²³ In this context of credit vulnerabilities and poor risk assessment, collateral requirements tend to be high. Respondents in the ES reported requirements averaging 225 percent of the loan amount, a little over the regional average (200 percent).

56. Access to financial services has improved significantly, rising from 18 percent in 2014 to 45 percent in 2017. This is due to microfinance and mobile banking which serve 2.9 million and 2 million persons respectively. Nevertheless, access to banks remains limited despite the growing number of institutions in the sector. Large numbers have not yet translated into substantial competition which would lower prices and lead to a wider range of services. One of the main constraints in the banking sector is the slow rate of innovation, both in financial services and in technology.

57. Microfinance has been more dynamic. By the end of 2017, it had mobilized US\$310 million in deposits, and provided US\$256 million in loans. Nonetheless, it faces structural problems, including: (a) poor use of digital technology; (b) weak governance and internal controls; and (c) the prevalence of informal institutions. Supervision by the Ministry of Finance also needs to be reinforced. One of the main factors blocking the move to digital technology is the 2011 law regulating microfinance which does not allow microfinance institutions to issue methods of payment.

58. Digital payment services are becoming more popular, but their utilization remains modest, despite Government's general desire to give priority to information and communication technology. Almost 2.9 million persons use mobile money, essentially for inter-personal transfers, as opposed to on-line or credit/debit card payments. Digital credit, and saving in a formal account, are both at an early stage, whereas informal methods are more common. Togo could move more quickly towards a digital economy through digital adoption in microfinance and public payments, and compatibility between payment systems.

59. A regulatory framework has been put in place for consumers of financial services, but it is not yet operational. The decree of May 2018 is an important advance, as it authorizes the automatic transfer of data on large borrowers to the electronic credit bureau. This decision was followed in December 2018 by the adoption of a new law on cyber security and the fight against cyber crimes. This law also envisages the creation of a Computer Emergency Response Team, a

²³ The Professional Association of Banks and Financial Institutions in Togo commissioned a study in 2017 to identify and quantify the main causes of the deterioration of the banking portfolio in Togo based on a sectoral survey of Togolese banks.

Security Operating Office and a National Cyber Security Agency.

60. The ES provides detailed data on the demand side of the credit market. Findings suggest overall favorable lending conditions for all firms irrespective of size. Figure 7 points to overall moderate variations in perception based on firm characteristics, with size, location and ownership appearing as the main factors.

Figure 7: Access to Finance by Firm Type
% rating as major or very severe



Source: ES World Bank 2017

61. Small businesses complained more, with 54.7 percent rating access to finance as a major constraint compared to 38.5 percent of large firms. Typically, smaller firms face more difficulties in securing a bank loan and are faced with more stringent collateral. The ES reported that small firms had to submit 227 percent of the loan amount as collateral vs 163 percent for medium firms and none for large firms.²⁴

62. Firms located outside the capital city were the least likely to perceive accessing finance as a major obstacle (25.2 percent). This is surprising but may be partially explained by the fact that Togo has a significant number of micro-credit branches located outside the capital city. Similarly, foreign-owned firms did not report high levels of concerns (38.8 percent), probably because they have access to overseas finance, including own capital. In contrast, exporters were similar to the overall average in their perception of accessing finance as a constraint, which is somewhat counter-intuitive. Global firm-level experience and research indicate that exporters have on average higher levels of business sophistication, more dynamic and competitive products, and are therefore more likely to access credit than non-exporters. Manufacturing and service firms complain almost equally. In general, services and retail firms are less credit constrained than manufacturing firms since they do not require as much capital for their long-term investments (heavy/costly equipment's, industrial land etc.).

63. To further make sense of the perception-based results, Table 6 summarizes selected

²⁴ It seems unlikely that no collateral is demanded for large firms.

financial indicators for Togo and regional comparators using the Enterprise Survey. Togolese firms are subjected to relatively high collateral requirements averaging 226 percent of the loan value. Also, 90 percent were required to provide a form of collateral. In both cases, these are a little higher than the SSA average. The businesses' account receivables and inventories were the most requested form of guarantee by banks (37 percent of firms) followed by the owner's personal assets (33.5 percent of firms).

Table 6: Selected Finance Indicators

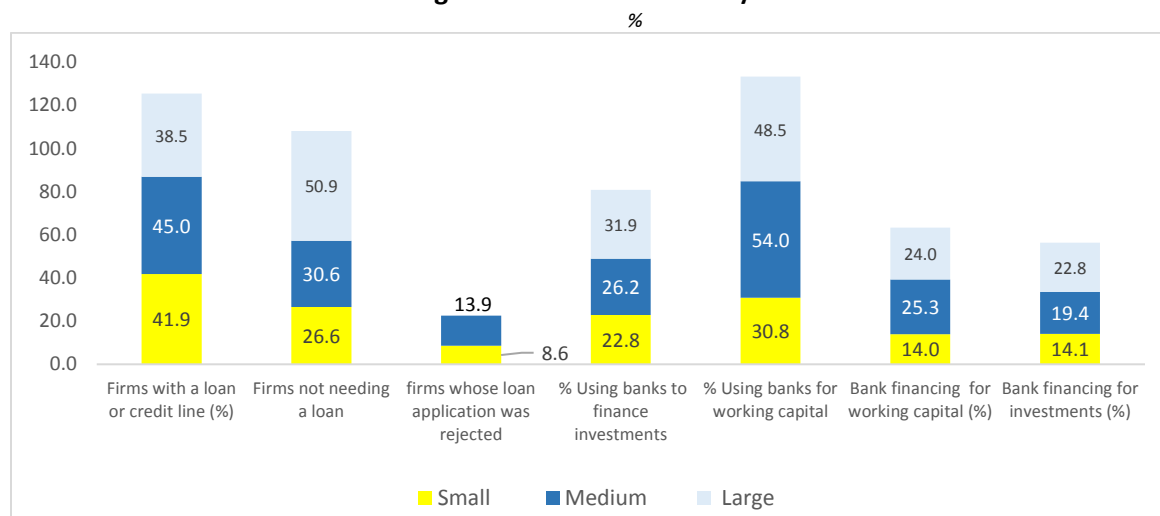
	Togo	Cote d'Ivoire	Ghana	Benin	Rwanda	SSA average	ES average
Firms with a loan or credit line (%)	42.2	21.3	23.3	24	45.5	22.6	33.9
Value of collateral needed for a loan (% of loan)	226.1	156.8	240	231.3	276.6	205.7	200
% of loans requiring collateral	90.3	85.7	79.5	79.2	92.4	86	86.0
Loan application was rejected (%)	9.7	17.5	9.4	23.9	10.2	15.8	11.2
% of firms using banks to finance investments	25.7	23.6	21.2	12	23.3	21	25.3
% of firms using banks to finance working capital	40.3	15.3	25.3	26	43.9	23.7	30.6
Working capital financed by banks (%)	18.9	7.2	10.6	10.9	20.3	9.0	11.7
Investment financed by Bank (%)	17.6	14.9	12.6	3.6	13.5	10.3	14.3
% of firms rating Access to Finance as a major constraint	51.2	69.1	62.2	43.2	35.1	39.3	25.3

Source: Enterprise Survey 2017

64. High collateral can represent an obstacle for firms seeking bank credit. However, by most accounts access to credit does not appear particularly restrictive. In fact, according to several credit inclusion indicators Togo figures among the best performers Table 6). The ratio of rejected loans is among the lowest (9.2 percent) and 42.2 percent of Togolese firms have a loan or a line of credit, the highest in the WAEMU areas and twice the regional average (22.6). Accordingly, there is a relatively high proportion of firms using banks to finance investment or short-term working capital. Togolese businesses favor the use of bank credit, whereas regional comparators rely more on the firm's internal resources (Table 6).

65. Additionally, the use of credit to finance new investment or working capital does not vary significantly across firm size (Figure 8). In fact, more small or medium firms have a loan or a line of credit than large firms (41.9 and 45 percent vs. 38.5 percent). While smaller firms must submit relatively higher collateral, this was not found to be a major deterrent in applying for a loan (see Table 7).

Figure 8: Access to Finance by Firm Size



Source: ES 2017

66. Further explanations for credit use and access are summarized in Table 7 below. Nearly half of all firms reported that that they did not apply for a loan because they did not need one. Among those who did need a loan, the main reason for not applying was the complex application procedures (20 percent). Interest rates (8 percent) and collateral requirements (6.1 percent) did not figure as significant reasons for not seeking a loan. Those who would like a loan but could not either because they were rejected or due to restrictive conditions²⁵, defined as either high collateral, complex procedures or high interest, stands at 23 percent – a moderate figure indicative of the country’s relatively favorable credit conditions²⁶.

Table 7: Main reasons for not applying for a loan

	% of firms			
	All	Small	Medium	Large
No need	49.2	41.6	51.0	71.7
Complex application procedures	20.0	19.9	24.4	9.0
Interest rates were not favorable	8.4	9.2	11.3	4.2
High collateral requirements	6.1	5.0	6.4	
Did not think it would be approved	1.6	3.4		
Others	14.7	21.0	7.0	15.0
Firms that are involuntarily “out “of credit consideration	23.2	-	-	-

Source: ES 2017

67. On the supply side, Togo could further improve risk assessment capacity by strengthening its credit information. Transparent credit information is a prerequisite for sound risk management and financial stability. Effective credit reporting systems can mitigate several

²⁵ When accounting for the overall surveyed firms the results in table 4 allow for estimating the overall proportion of firms that are excluded from the banking system found to be 23 percent.

²⁶ Until very recently, lending interest rates in Togo were in line with or less than those in other WAEMU countries. However, in 2013 the BCEAO reported a rise in Togo’s bank lending rate above that in the other countries, to 12.5 percent. This reflects both higher spreads and an increased cost of funds, as would occur with greater risk. (SCD 2018).

market failures more prevalent in developing nations, including adverse selection and asymmetric information that can arise between borrowers and lenders. Significant efforts²⁷ have been made by the authorities to improve the collateral registry infrastructure, but the credit information infrastructure and regulations governing credit information remain a challenge for both lenders and borrowers.

Table 8: Credit Information

	Togo	SSA	OECD
Strength of legal rights index (0-12)	6	5.1	6.1
Depth of credit information index (0-8)	8	3.9	6.8
Credit registry coverage (% of adults)	0.0	8.3	24.4
Credit bureau coverage (% of adults)	13.6	11.0	66.7

Source: *Doing Business report 2020*

68. Togo is not well-ranked on the Doing business “Getting credit” Indicator (144th) which focuses on the availability and effectiveness of credit information. Togo has made some progress by modernizing and improving the effectiveness of its collateral registries – however much remains to be accomplished when it comes to strengthening credit information, including the ability to collect and disseminate credit history and delinquencies.

2.3.3. Informality and Corruption

69. Weak governance and Institutional ineffectiveness provide fertile ground for informality and corruption. Nearly half of all firm surveyed by the ES rated *informal practices* as a major constraint closely followed by *corruption* – rated as a major obstacle by 44.7 percent of firms. These findings suggest poor governance and weaknesses in the broader institutional framework regulating economic activity, leading to high prevalence of informality and corruption.

70. The ability of the state to articulate and implement policies hinges on the quality and soundness of its governance and institutional framework. The SCD highlighted the fundamental link between governance and the constraints to poverty reduction and private sector-led growth. It cited significant institutional constraints including poor regulatory and legal framework. In the context of Togo, poor fiscal governance and the lack of effective prioritization for public service delivery are the main channels through which deficiencies and distortions in policy are transmitted to the productive sectors.

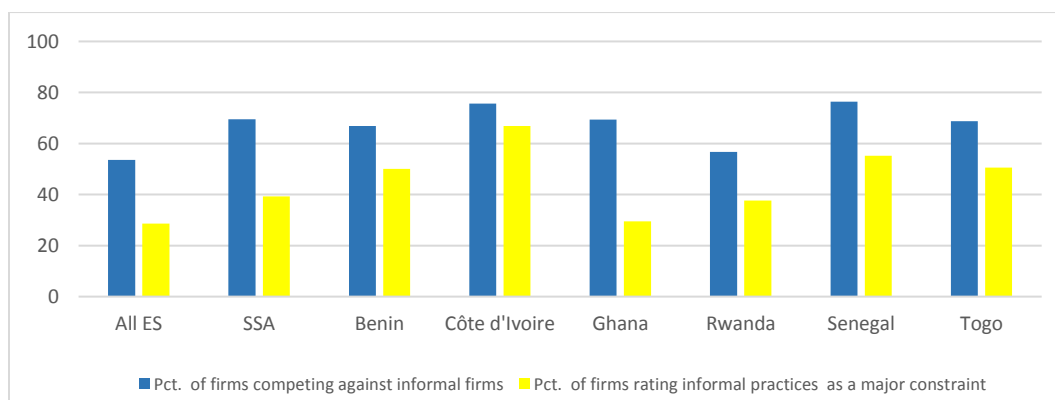
71. Historically, Togo’s institutions have not been conducive to effective reform implementation. More recently Togo has been able to implement a series of regulatory reforms and register some commendable progress on several Doing Business indicators. A concerted effort with a coordinated vision across multiple key dimensions of the institutional and

²⁷ Togo improved access to credit information by launching a new credit bureau in 2017 and improved access to credit information by introducing regulations that govern the licensing and functioning of credit bureaus in UEMOA member states. Doing Business 2018

governance framework remains to be articulated and followed through.²⁸

72. Widespread informality reflects the costly and burdensome fiscal policy environment for firms. It adversely impacts the competitiveness and productivity growth of firms, in both the formal and informal sectors. In Togo, over 68 percent of businesses reported competing against informal firms (Figure 9). This puts downward pressure on their prices and sales since informal businesses do not pay the same taxes and fees; and are less likely to comply with labor and other regulations. On the other hand, informality limits access to finance. Firms with smaller profit margins operating in agriculture activities cannot operate effectively with the existing tax burden. The SCD points out the relatively low number of formal operators in the agriculture sectors and cited “tax policies have the effect of largely relegating agricultural production and related services to the informal sector or the state. They impede significant investment in storage and other value chain infrastructure and discourage the entry of agribusiness, thus obstructing the development of higher-productivity, higher-value agriculture”.²⁹

Figure 9: Informality – Togo and Comparators



Source: ES 2017

73. Firm characteristics matter in the way informality is perceived as an obstacle. Small firms seem much more affected than medium or large firms – 59.2 of small firms rated informality as a major constraint compared to 41.8 percent and 34.2 percent for medium and large firms respectively (Figure 10). This is because small formal sector firms are more likely to be operating in the same markets as informal firms; 80 percent of small firms reported competing against other informal firms compared with 42 percent for large firms. This impedes their ability to grow and helps explain the common phenomenon of the “missing middle” of medium-sized companies in Togo and across Africa.

74. Corruption and informality are intimately related. Ambiguous and complex regulations leave space for discretion at the expense of both firms and institutions. Firms who wish to remain informal often must pay for the privilege. Togo has made modest progress to improve governance in recent years, but firms continue to operate amidst a challenging governance

²⁸ in this respect the recent establishment of the CCA – “Cellule Climat des Affaire” team is a positive sign.

²⁹ World Bank, SCD, 2017.

environment.

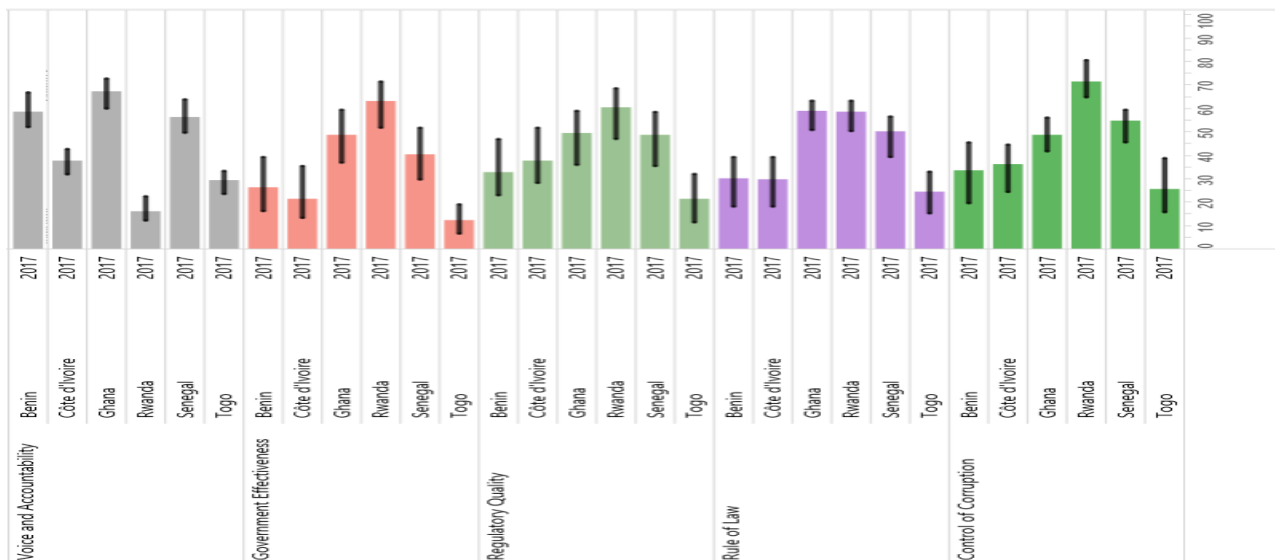
Figure 10: Informal Practices by Firm Type
(% rating as major or severe)



Source: ES 2017

75. The Transparency International Index ranks Togo 129th out of 180 countries with a score of 30 / 100 on the perceived level of corruption in the public sector. According to The Bank's Worldwide Governance Indicators (WGI), Togo performs poorly on all its measures (see Figure 11). It has the lowest rating of the six comparator countries in the control of corruption, rule of law, regulatory quality and government effectiveness. Control of corruption covers both "the extent to which public power is exercised for private gain, including both petty and grand forms of corruption" as well as capture of the state by elites and private interests. Government Effectiveness includes the quality of public services, the civil service and independence from political pressure. Togo has made only modest progress on these two while the remaining dimensions of governance have been stagnating.

Figure 11: Worldwide Governance Indicators



Source: Worldwide Governance Indicators, World Bank 2018

76. Despite concerns on the perception basis for the rating, corruption indicators summarized in Table 9 give a different picture. Overall firm level data from the Enterprise Survey indicate few occasions requiring bribery in Togo. This appears to be because many firms refused to answer altogether, suggesting mistrust with any type of institutional representation, and fear of possible retaliation. Regional comparators with similar adverse governance conditions indicate results that correspond more closely to what is known in those environments.

Table 9: Selected Corruption Indicators
% firms requested “gifts” or informal payments

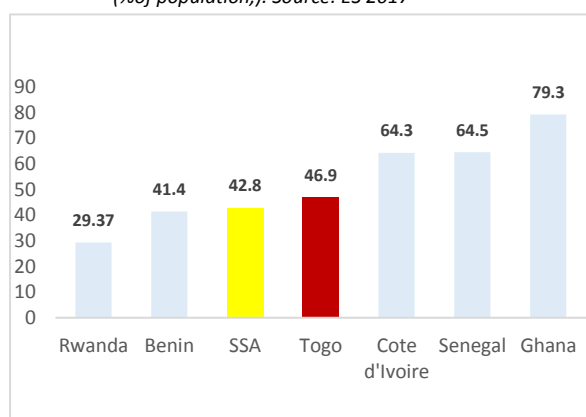
	Togo	Cote d'Ivoire	Ghana	Senegal	Benin	Rwanda	SSA avg	ES avg
to secure government contract	3.1	35.7	35.2	19.4	41.8	11.3	35.5	28.9
Bribe to secure a government contract (% of contract value)	0.0	2	2.2	0.1	4.6	0.3	2.7	1.8
To officials "to get things done"	6.2	29.2	24.3	6.3	33.4	6.2	27.8	22
to get an operating license	17.2	10.8	19.1	17.2	12.4	9.3	16.1	14.4
to get a construction permit	0.0	17.2	35.1	16.0	24.9	14.0	25.9	23.3
to get an electrical connection	11.1	4.6	32.8	8.9	47.0	0.0	22.5	16.1
to give gifts to get an import license	0.0	12.1	23.1	0.0	19.7	2.9	16.8	14.2
In meeting with tax officials	4.7	22.9	11.4	7.3	11.0	4.5	17.5	14.6
% Identifying corruption as a major constraint	44.7			26.6	39.5	15.4	40.5	33.0

Source: ES 2017

2.3.4. Electricity

77. Access to a reliable and affordable supply of energy improves the competitive position of firms. Togo has achieved commendable progress to improve access to urban and rural areas, increase private sector participation, and improve the regulatory framework.³⁰ It has also increased generating capacity. Unfortunately, operational constraints and distribution losses result in uneven supply of power while relatively high cost continues to pose serious challenges to firms.

Figure 12: Access to Electricity
(%of population,). Source: ES 2017



³⁰ Togo has established a regulatory body, passed a public private partnerships (PPP) law and a public procurement decree, and established an agency to promote rural electrification. (USAID Power Africa 2018)

78. Togo’s electrification rate has steadily increased over the last ten years owing to an electrification strategy that seeks to attain 100 percent coverage by 2030. Today access to electricity is on a par with regional norms (Figure 12), and generation capacity has increased to reach about 230MW. Togo used to import most of its power from Ghana and Nigeria. Thanks in part to a recent partnership with IFC – a 20 percent equity investment combined with advisory service to Africa Contour – most of the country’s power needs are now generated domestically.

79. Though moving in the right direction, the existing governance practices of the energy sector still result in costly electricity tariffs; and although significant, these tariffs are still below recovery cost thereby putting pressure on long-term fiscal sustainability. The SCD TFFS survey estimated that tariffs averaged 29.5 US cents and nearly 45 US cents per kWh for manufacturing firms, much more than the reported official rate and among the highest in the region. Lack of investments, uncertain fiscal condition and poor maintenance has impacted the quality of the distribution networks. The grid experiences distribution losses and the regulatory authority housed within the Ministry of Energy has limited human and technical capacity and is not equipped to make sound fiscal management decisions.

Table 10: Electricity Indicators for Togo and comparators

	No. of electrical outages (typical month)	% of firms with a generator	Losses due to electrical outages (% sales)	Electricity from a generator (%)	% of firm’s electrical outages	Duration of outages (hr)
Togo	5.5	53.1	3.7	11.8	93.8	2.1
Benin	28.0	59.9	9.4	37	95.6	3.7
Rwanda	4.0	48.8	4.3	7.8	62.5	4.3
Ghana	8.4	52.1	15	21.5	89.1	7.8
Côte d’Ivoire	3.5	29.8	4.9	27.3	78.8	5.5
Senegal	6.0	64.2	2.8	9.0	83.7	1.8
SSA	6.5	51.3	8.5	28.2	78.7	5.7
All ES	6.4	33.4	4.7	20.4	59.0	4.8

Source: ES 2017

80. The ES results depict a somewhat mixed picture. Though rated as a major constraint by 50.1 percent of managers, electricity indicators perform close to regional standards, and in many cases better. Although a high proportion of firms experience power outages (93.8 percent) those same outages did not result in excessive delays that might cause significant production losses – such as in many of other regional comparators (Table 10) Still, the relatively high frequencies of outages creates uncertainty inducing firms to invest in generators. The share of all electricity consumed by firms which comes from generators is among the lowest in the region (11.8 percent vs. 28.2 percent for SSA) suggesting that indeed the length of outages is modest.

Table 11: Getting Electricity

	SSA	Togo	Cote d'Ivoire	Benin	Ghana	Senegal	Rwanda
Procedures (number)	5.2	3	8	5	4	6	4
Time (days)	109.6	66	53	90	55	68	30
Cost (Pct. of GNI)	3187	2120	2194	11584	632	2421	1923
Reliability of supply and transparency of tariff index (0-8)	1.6	3	5	0	4	5	6
Indicator ranking	-	99	141	178	79	119	69
Distance to frontier	-	72.6	59.2	33.8	77.4	65.2	82.3

Source: *Doing Business 2020*.

81. The Doing Business report ranks Togo 105th on the “Getting Electricity” indicators³¹ among the better rankings in West Africa. Togo made progress on several regulatory measures aimed at easing connection to the grid³² over the last few years but the cost remains high, averaging close to 3000 percent of GNI. Therefore, what may account for the relative unfavorable rating of “Electricity” as an obstacle is associated with costly connectivity and tariffs in a context of uncertainty with respect to future reliability and cost.

2.3.5. Information and Communication Technology

82. Efficient Information and Communication Technology (ICT) reduces transaction costs and promotes market connectivity and innovation. According to the ES, telecommunications was the second leading constraint rated by 51.3 percent of firms as major or very severe. High cost and relatively poor services constrain firms and limit the leverage and spillover effect that the ICT sector can create.

83. The state of the ICT sector reflects poor regulations and policy rooted in weak governance. The sector’s major weakness has been state intervention limiting competition and private investment and dynamism. The lack of competition has resulted in high costs and poor quality, although more recently, according to the state regulator, prices have been on the decline. State ownership in the context of a monopoly has led to poor governance, resulting in financial losses in what should be a highly profitable sector.

³¹ The « Getting Electricity » measures all cost, and procedures associated with connecting to the power grid.

³² The DB reform survey cites: “Togo improved the monitoring and regulation of power outages by beginning to record data for the annual system average interruption duration index (SAIDI) and system average interruption frequency index (SAIFI). Togo also made getting electricity less costly by reducing the amount billed by the utility for external works as well as the security deposit for a new connection”.

Figure 13: ICT indicators

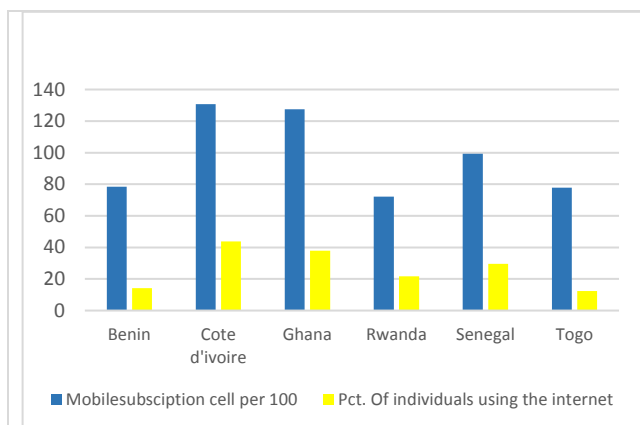
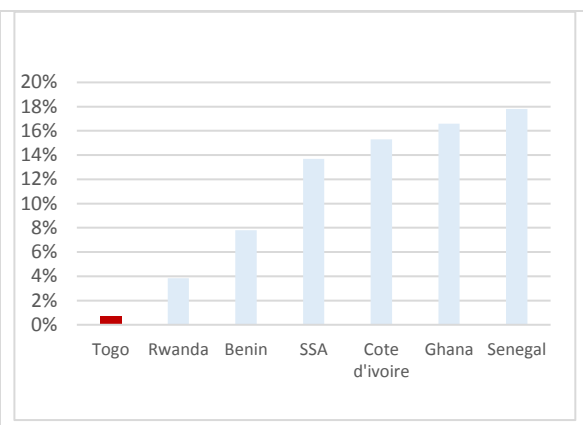


Figure 14: Social Media Subscribers



Source: World InternetStats.com 2018. World Development Indicators 2017

84. As a result, ICT indicators are not favorable. Togo lags in most critical ICT areas whereas the rest of West African nations have made notable progress in recent years. Togo was ranked 156 out of 176 on the Global ICT development index (International Telecommunications Union 2017)), the number of mobile telephone subscription is 80 per 100 – on the lower side (Figure 13). Togo has the lowest level of social media subscribers and internet penetration among comparators (Figure 14).

85. Togo’s ICT sector has grown strongly, averaging 9.3 percent per annum between 2006 and 2015. However, this is likely to slow down without improvements in governance and policy mixed with conflicts of interest.

Table 12: ICT and Innovation in Togo and Comparators

(% of firms)

	technology licensed from foreign companies	own Web site	e-mail to interact with clients	introduce d a new product/s ervice	New product/s ervice is also new to main market	introduced a process of innovation	firms that spend on R&D
Togo	8	29.8	82.6	38	15.5	15.5	18.1
Benin	2,1	38.3	70.2	34.2	53.9	22.6	14.0
Cote d Ivoire	3.4	18.1	53.7	40.1	70.3	15.9	6.8
Ghana	14.5	33.2	64.9	52.5	51.0	69.1	22.9
Rwanda	23.5	34.2	76.5	58.0	69.5	82.9	30
Senegal	14.4	34.6	64.7	49.8	66.7	51.9	8.5
SSA	14.5	30.2	58.0	43.4	71.6	39.1	17.2
All ES	14.9	45.5	70.3	35.9	69.4	34.4	14.1

Source: ES 2017

86. At the firm level, the usage of ICT has probably been adversely impacted. Costly and deficient ICT services do not encourage firms to modernize their business practices, or their mode of production, thus limiting the firm’s competitive position. Table 12 indicates there is an

extremely low number of firms with a technology licensed from a foreign company (8 percent) or with an internationally recognized quality certification (also 8 percent). There is a relatively high number of firms interacting with clients through e-mail, but only about 30 percent of them have their own website. In addition, with regards to innovative practices Togo performs rather poorly - 15.5 percent of firms reported having introduced a new product or service which is also new to the market, another 15 percent introduced a process of innovation (changes in managerial or other internal business practices) and 38 percent have introduced a new product or services compared to 43.4 percent for SSA. In the absence of more dynamism in the ICT sector, Togo will not develop the capacity to leverage the potential that the digital economy can unlock on growing sector of its economy.

2.4. Trade logistics and transports

87. Togo needs to improve its logistics services and transport sector regulations to leverage its edge in maritime transport and become a true multimodal logistics and services platform.

88. Togo is ideally positioned to compete regionally as a transit and logistics multimodal platform. The country's main access to the sea is the Autonomous Port of Lomé (*Port Autonome de Lomé – PAL*), the deepest in the West Africa region with a draught of 16.6 meters and an annual capacity of 1,100,000 TEUs³³ enabling larger liners to transit through its facilities and giving the PAL a unique regional advantage. Given its location as a natural asset, Togo's improvements in the logistics and transport sector will be critical to fulfilling the country's potential as a backbone multimodal platform and supporting the development of the country's regional integration and key manufacturing and service sectors.

89. Thanks to major investments in port infrastructure and services undertaken since 2011, including the expansion of the port facilities (berth and yard) and the concession for the Lomé Container Terminal (LCT), total port traffic increased from 9.2 million units to 19.3 million units in 2017 – with a significant part due to transshipment activity which increased from 1.7 million units to 12.2 million units. Togo performs well above its regional comparators in maritime transport; its liner shipping connectivity index scores above 30, twice as much as regional comparators, and second behind South Africa in the continent overall.

90. Despite Togo's port performance, weaknesses in logistics services are limiting the country's potential as a transport and logistics multimodal platform. The Doing Business indicator "Trading Across Borders" points to cumbersome regulations governing logistics and transport services. Togo's rank, at 131st, does not appear too bad by the admittedly low standards of the region, but this is due to relatively good ratings for exports. The delays associated with border and documentary compliance for imports are estimated at 168 hours and 180 hours respectively. The total time required is three times as high as in neighboring Ghana, more than twice as high as in Benin, and 60 percent above the corresponding time in Côte d'Ivoire. This does not bode well for Togo's efforts to expand its role as a regional hub.

³³ Bolloré Port Africa Port Statistics 2019.

Table 13: LPI Indices for Togo and comparators

	Togo	SSA	Benin	Cote d'Ivoire	Ghana	Senegal	Rwanda
LPI (overall 1 to 5)	2.45	2.45	2.75	3.08	2.57	2.25	2.97
Quality of trade and transport infrastructure (1=low to 5=high)	2.23	2.20	2.50	2.89	2.44	2.22	2.76
Quality of logistics services	2.25	2.39	2.50	3.23	2.51	2.11	2.85
Competitively priced shipments	2.52	2.52	2.73	3.21	2.53	2.36	3.39
Efficiency of customs clearance process	2.31	2.27	2.56	2.78	2.45	2.17	2.67
Frequency with which shipments reach consignee within scheduled time	2.88	2.77	3.42	3.23	2.87	2.52	3.35
Liner shipping connectivity index (max value = 100)	35.86		16.96	16.76	18.5	14.45	

Source: Logistics Performance Index, World Bank 2018

91. In addition, the Logistics Performance Index (LPI) suggests cause for concern. The overall index is no better than the average for SSA and is behind its immediate competitors – Benin, Ghana and Côte d'Ivoire (Table 13). In fact, the overall LPI score slightly decreased from 2.62 in 2016 to 2.45 in 2018.³⁴ Among the dimensions measured by the LPI, areas of concern include the quality of trade and transport infrastructure and the quality of logistics services. The latter has also declined from 2.46 in 2016 to 2.25 in 2018. Meanwhile, regional competitors are making progress. The associated costs are also higher in Togo than in Benin and Côte d'Ivoire.

92. According to the Trade and Logistics Services Competitiveness project of the World Bank there are two main inefficiencies inherent to logistics services in Togo. First, the sector lacks critical training capacity. There is little or no formal accreditation or technical training for key professions such as trucking or machinery operation. Second, weaknesses are related to the regulatory and institutional framework. For instance, there are no specialized trucker permits beyond regular vehicular permits³⁵. With no formalities to become a trucker, the sector has reached overcapacity. This discourages investment in new trucks, as investors cannot ensure enough trips to be profitable. While increased, mandatory certification in certain cases may inhibit recruitment, in the longer term, it contributes to upgrading professional standards. A gradual strengthening of licensing accompanied by capacity-building is necessary.

³⁴ Such variations should be treated with caution as the index is known to fluctuate considerably from year to year.

³⁵ There is no permit required to become a driver beyond having an 'E' driving license. A Certificate of Professional Competence, which confirms additional professional skills than driving (transport regulations, towing, and so on), and practical training with driving school trucks, do not exist in Togo. A similar issue exists for non-transport logistics professions, where a lack of certification prevails.

93. With regards to the road network, the authorities have engaged in a large-scale road infrastructure program set to connect the port and major capitals of the hinterland³⁶. According to the SCD, the road network in Togo is of relatively good quality and its extent (in density per sq. km) is comparable to regional comparators³⁷. The multiplicity of check points, which slow down traffic, entail extra expense and affect transit time, an aging truck fleet and poor professionalization of the trucking industry constitute challenges which must be addressed urgently.

2.5. Access to Land

94. Though not among the most pressing concerns according to the ES – only 20.8 percent of firms rated it as a major constraint – this figure would undoubtedly rise if the focus was limited to investors interested in commercial agriculture.

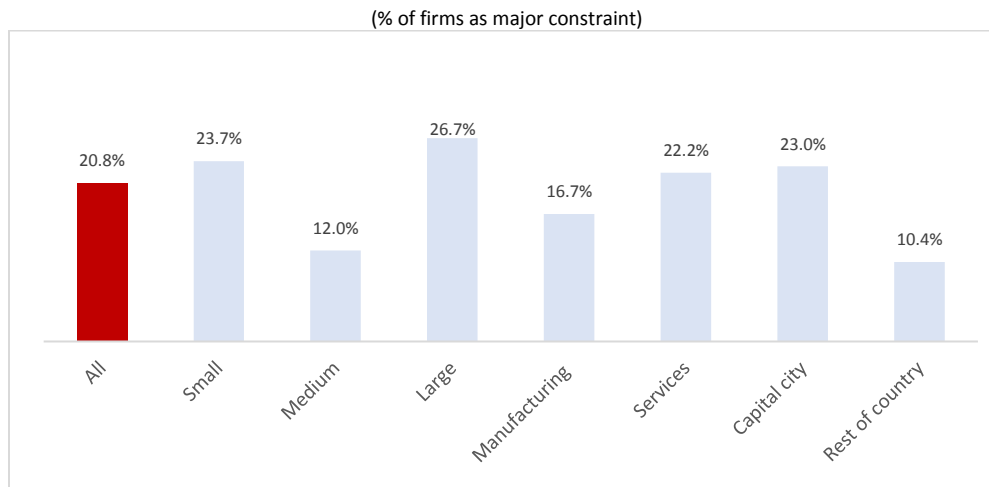
95. To invest in productive activities, businesses must find a location that is endowed with adequate infrastructure and near their main markets, labor and other critical inputs. Unfortunately, in many cases the preferred location may not be consistently available or can be too costly for the firm. Figure 11 shows that large firms located in and near major urban centers of the capital city find more difficulties in acquiring land, whereas firms located outside the capital city, where land may be more available do not appear as challenged. Larger firms may be particularly sensitive to the quality of infrastructure and utilities, hence the importance of access to land. There are also differences associated with the sector of activity. Manufacturing firms complained less than firms in the service sector (16.7 percent vs. 22.2 percent) which is somewhat counter-intuitive.

96. The sound management of land supply becomes a critical factor in encouraging investments in commercial agriculture, industrial development, and infrastructure services. Yet the existing regulatory framework is not fully conducive to proper land exploitation, restricting its potential as a productive asset.

97. As in many countries of the sub-region, land governance is subject to multiple regimes which encourages conflicts. In fact, 70 percent of commercial conflicts are due to land disputes. These conflicts are difficult to adjudicate and often linger in courts (the SCD estimates over 880 days in some cases). The complex legal environment governing land transfer is not conducive to land ownership. The ES reports that from the total land occupied by businesses, on average 71 percent is leased or rented while only 23 percent is owned.

³⁶ The government is making sizeable investments in both urban and international road corridors, notably along key (North-South and East-West) international trade corridors.

³⁷ Relative to its population, Togo's road density is close to that of Benin and Tanzania, and better than many West African nations. According to the SCD, the road network does not suffer from significant gaps.

Figure 15: Access to land

Source: ES 2017

Table 14: Land Transfer in Togo and Comparators

	SSA	Togo	Cote d'Ivoire	Benin	Ghana	Rwanda
Procedures (number)	6.1	3	5	4	5	3
Time (days)	51.6	35	39	120	33	7
Cost (% of property value)	7.3	1.6	7.1	3.4	6.1	0.1
Quality of Land Administration Index (0-30)	9.0	9.5	10	9.0	8	28.5
Indicator ranking	-	56	112	126	111	3
Distance to frontier	53.6	72.0	58.6	56.3	59.4	93.7

Source: Doing Business 2020

98. Togo has made substantial progress in facilitating property transfer as reflected in its Doing Business ranking (Table 14) which improved from 127th in the 2019 report to 56th in the 2020 report. Togo has reduced the cost associated with the process of property acquisition from nine percent of property value in 2015 to 1.6 percent today. Likewise, the time necessary to complete a property transfer was reduced from 288 days to 35 days. Important reforms³⁸ were implemented with the operationalization of a one-stop-shop for land transactions, and other measures, including a new land code, tilting digitization, and overall modernization of the land cadaster. These should alleviate some land transfer challenges. However, this measure only refers to the transfer of land for which there is already a title. It does not capture the many problems related to obtaining a new title, which is especially important for access to rural land.

³⁸ Togo reduced the time needed to transfer property by scanning most of the land in Lomé, and by creating an office exclusively dedicated to property transfers. Togo also reduced the property transfer tax and increased transparency by making information on cadastral plans and land title ownership freely accessible to all citizens. Doing Business 2018

CHAPTER 3: THE POTENTIAL CONTRIBUTION OF SPATIAL SOLUTIONS

3.1. Introduction

99. Within the context of growth sources in Togo, spatial approaches to promoting growth present an intriguing option for the country. Not a source of growth in and of themselves, spatial solutions fall in the category of potential enablers of growth in Togo, especially given the previous experience with SEZs in the country and the current government's support for and policy of developing special economic zones (SEZs). The question that this chapter seeks to answer is where and how spatial solutions might be used to enhance growth in Togo, and how these options can be combined with country-wide reforms.

100. As is always the case, spatial solutions represent just one of many economic tools that a government can use to grow its economy. Many economists view especially SEZs as second- or even third-best solutions to competitiveness with limited success only under specific conditions (Hamada 1974; Madani 1999; World Bank 1992 and 2011). In many countries they have not benefitted the host country significantly while at the same time generating negative spillovers, sitting empty or not even getting built (Saleman and Jordan 2015). However, in certain cases promoting the development of spatial solutions make sense, especially when it is highly unlikely that a government will be able to implement broader reform. Although the benefits of spatial solutions are not universal, in some countries they have been shown to play a catalytic role in economic growth (Johansson and Nilsson 1997, Willmore 1995), facilitating industrial development (Farole and Akinci 2011), increasing participation in global value chains (Siroen and Yucer 2014), transitioning from agricultural commodities to large-scale manufacturing (Farole and Akinci 2011), and diversify exports (World Bank 2008). More importantly, they provide a serviced, geographic area in which investors can operate.

101. This chapter examines spatial solutions, with a particular emphasis on SEZs, in light of Chapters 1 and 2 of this report (i) in light of their probability of being able to tackle the specific investment climate challenges in Togo, and (ii) as possible enablers for the sources of growth in the country. It will do so by discussing the country's track record with spatial solutions, to what degree spatial solutions in Togo can address the specific constraints to the business environment, and recommendations on all aspects of this approach.

102. More importantly, given that long-term growth in exports has been identified in the previous chapters as potentially a major driver of growth, a condition for attracting more FDI to Togo, and a conduit for finance, technology and market access, this section will demonstrate the role that the country's spatial solutions can play in enabling the expansion and diversification of exports.

103. **SEZs** are defined as geographic areas for industrial, commercial and service purposes with multiple co-located companies, an on-site zone management, and a special legal/regulatory regime which provides incentives and conditions to the companies located there. **Industrial parks** are similar in many respects to SEZs; however, the companies located in industrial parks do not share a special regulatory regime, rather they enjoy co-location with other companies in an

industrial setting and share infrastructure and services. **Growth poles** are simultaneous, coordinated investments in various sectors focusing on a larger geographic area (often the entire region of a country, as opposed to the smaller, delimited area of an SEZ or industrial park) which may be anchored on agriculture, mining, manufacturing or services such as tourism. In Togo, the growth pole focus is on agropoles, but implementation is just beginning.

104. **“Points francs”**, often referred to in English under various names such as “bonded warehouses”, “bona fide exporters” or “single-factory free zones” (**SFFZs**) are also included under the umbrella term of “spatial solutions”, however this report will not deal heavily with this instrument given that SFFZs do not leverage the benefits of a group of co-located companies with a zone/park administrator providing infrastructure and services to its tenants. There are also concerns based on other models both in the region and internationally that SFFZs scattered over the countryside outside of SEZ enclaves are problematic because movements in and out are more difficult to control and this can lead to “leakages” of SEZ-benefitted products into the local economy when they were meant for export. This was a major concern of Nigeria’s SEZ regime and the reason why SFFZs were eliminated from the SEZ regime. Any expansion of the country’s SFFZ regime should be based on a cost-benefit analysis of the experience to date and any expected growth models in the development of SFFZs should the model be continued.

105. The following sections describe Togo’s experience to date with special economic zones, industrial parks, and growth poles, and where the country has experienced challenges with each of these spatial tools. What becomes evident through this description is that (a) there has been a number of efforts to facilitate growth using each of these spatial tools, (b) plans to develop these have often been haphazard, and (c) there is little if any central coordination of these plans nor long-term strategy for the development of spatial tools; SAZOF is in charge of SEZs, the Ministry of Industry is in charge of industrial parks and the Agropoles Development Agency (APRODAT) is responsible for growth poles, and there is no overarching strategy for where and how to develop these.

3.2. Special Economic Zones (SEZ)

106. Togo’s free zone regime began operations in 1990, relatively early by African standards. The stated objective was to “encourage the development of export-oriented activities in Togo while guaranteeing enterprises operating under that system a level playing field.” In order to qualify, companies were required to export at least 80 percent of their output. The regime lumped together both (a) a traditional free zone concept where multiple companies are co-located in a physically delineated area, and (b) single-factory free zones (SFFZs, sometimes known as “bonded warehouses”), which are not co-located with other companies but enjoy the same status.

107. There is currently only one operational special economic zone in Togo. It consists of the *Zone Franche* – 112 ha. within the port – and the *Zone Portuaire* – a 900 ha. area adjacent to the port. Fifteen companies are based in the *Zone Franche*, another 30 in the *Zone Portuaire*, while a handful of vehicle importers have a 35 ha. parking area in the *Zone Portuaire* as well. About one

dozen companies are located elsewhere in single-factory free zones. There is no space left in the two zones for additional factories, so potential investors are being turned away, and there is demand for new zones.

108. Although the *Zone Portuaire* and the *Zone Franche* are categorized as SEZs given the co-located nature of the companies in these areas, tenant companies reported that SAZOF supplies few of the central coordination functions of a traditional SEZ operator. Hence, the port location is the principle draw for companies to these two areas as opposed to any shared services and infrastructure.

109. Another principle draw for companies to these areas is the duty-free provision. This is especially attractive for exporters who can import raw materials and other inputs, transform them for interim parts and end products, and re-export them without having to pay the corresponding duties and taxes. Any products sold from the SEZs into the local market must pay the corresponding duties and taxes which would apply to local producers, thus ensuring an even playing field for SEZ companies and local companies vis-à-vis the local market. This is in accordance with international best practice for duty-free SEZs.

110. There have been 372 licenses issued under the free zone regime since its inception, mostly to SFFZs, though only 62 companies were in operation in early 2019. Total sales from these licensed companies represents 58 percent of all exports. As summarized in Table 15, a wide variety of products are produced in SEZ-licensed companies, which bodes well for the potential of new SEZs. Over 90 percent go to the regional market in Africa.

111. The large percentage of exports from Togo that are represented among SEZ-licensed companies, demonstrates the potential for SEZs as drivers of export growth in the country. Internationally, SEZs are known to be drivers of export growth and diversification. Regions such as Central America have leveraged the use of SEZs with export-specific infrastructure and services to significantly increase exports and in some cases broaden the base and diversify those exports.³⁹ Togo finds itself in a position to do the same (See Table 15 below).

Table 15: Distribution of Turnover and Exports by Sector, SEZ-licensed companies, 2017

	Turnover (CFA millions)	Turnover in % of free zone total	% Exports of the sector	% Exports to Europe, Asia, Americas	% local sales from the sector
Chemicals	111 143	43.6	94.4	0.2	5.6
<i>Pharma/Cosmetics</i>	<i>30 919</i>	<i>12.1</i>	<i>98.9</i>	<i>0.2</i>	<i>1.1</i>
<i>Plastic</i>	<i>68 762</i>	<i>27.0</i>	<i>92.8</i>	<i>0.2</i>	<i>7.2</i>
<i>Fertilizer</i>	<i>4 216</i>	<i>1.7</i>	<i>81.8</i>	<i>0</i>	<i>18.2</i>
<i>Lubricants</i>	<i>7 245</i>	<i>2.8</i>	<i>97.6</i>		<i>2.4</i>
Services	24 343	9.6	79.9	10.0	20.1
Clinker	29 666	11.6	77.9	0	22.1

³⁹ Unlocking Central America's Export Potential, World Bank 2013.

Garments - Textiles - Leather	27 579	10.8	98.0	26.3	2.0
<i>Wigs and extensions</i>		9.9			
Agro - processing	32 302	12.7	95.6	14.7	4.4
Wood – metal – mechanics	29 861	11.7	82.4	0	17.6
Dental prostheses	20	0.01	100.0	0	0
TOTAL	254 915	100%	90.2%	5.7%	9.8%

Source: SAZOF database, 2019

112. A major constraint to the growth of SEZs in Togo will be certain provisions of ECOWAS and WAEMU rules, according to which free zone products and services are required to pay normal duties when exporting within the region. Thus, Togo cannot offer companies located in its SEZs the benefit of preferential tariffs within the region while ECOWAS and WAEMU agreements remain as they are. This would be in addition to offering the usual duty-free status assigned to the territory within an SEZ. This could be a hindrance to the development of new SEZs and Togo should push for a change in these provisions if they wish for their SEZs to be competitive.

113. Togo has not traditionally done well in linking their SEZs to the local economy, and their existing special economic zones have tended to be isolated economic enclaves. Little effort has been made to match local producers and suppliers of inputs with the companies that are located in one of the country's spatial solutions.

114. The free zone appears to have stagnated since 2012. As shown in Table 16, investment, sales and exports had all slipped back from previous highs in 2015, though sales have since rebounded somewhat. The most revealing indicator is the number of new licenses issued, which fell to 13 in 2014-2015, the lowest two-year result since 1993. Lack of space appears to have been a bigger constraint, rather than regional trade rules. Hence, more new zones appear to be viable.

Table 16: Evolution of the Free Zone in Togo: 2009-2015

	2009	Best year	2015	% change 2009-2015
Number of companies	57	66 ('13)	63	11
Number of new licenses	12	26 ('97)	7	-42
Number of employees	9 087	15 116 ('14)	14 498	60
Total wages paid (CFAF bil.)	6.3	14.3 ('15)	14.3	127
Investment (CFAF bil.)	126.4	255.1 ('13)	210.9	67
Sales (CFAF bil.)	171.1	250.1 ('12)	235.1	37
Exports (CFAF bil.)	158.2	223.7 ('12)	210.5	33
Local sales (CFAF bil.)	12.9	26.4 ('12)	24.5	90

Local purchases (CFAF bil.)	15.3	22.5 ('12)	16.3	7
Value added (CFAF bil.)	47.9	65.4 ('11)	62 068	29

Source: SAZOF

115. There are a variety of new SEZ projects under development or in the pipeline.

Adétikopé Project

116. A new free zone has been proposed at Adétikopé, where the government has acquired 140-hectares in an area approximately a 25-minute drive (17 km) from the Port of Lomé. A feasibility study for this project has been completed, as well as a master plan. Environmental and social impact assessments have also been conducted for the project. The proposal is to include both manufacturing and supportive logistics services. Adétikopé is being targeted for development by a private company but the government may have to make some preliminary investments in infrastructure. Preparation of the land has not yet been done and improvements must be made to the road in order to provide proper access. The vehicle importers currently within the *Zone Portuaire* area slated to be moved to Adétikopé, which would free up valuable space near the port for manufacturers.⁴⁰ As a result of a demand analysis, the feasibility study projects the establishment of 45 manufacturing companies and 30 logistics and post-manufacturing companies in the first 10 years. The economic rate of return is estimated at 42 percent and the financial rate of return, at 13.6 percent.

China Merchants Ports project

117. In 2015, Togoinvest signed an agreement with China Merchants Ports Holdings for an SEZ in the greater Lomé area which is targeting the energy, clothing and textiles, agribusiness, construction material, phosphate processing, and beverages sectors, among others. This could provide a great opportunity for Togo to learn from the extensive Chinese history with SEZs and gain experience with private development of an SEZ. However, few details are currently available and the track record of similar investments elsewhere in Africa is mixed.

Additional Projects

118. Several other zone projects are at very stages of planning:

- *Zone Franche* Dalabé (83 ha. already acquired, with 300 ha available in an adjacent site)
- *Zone Franche* Agboru-vé (190 ha located 60 kms from Lome)
- *Zone Franche* Kara (35 ha with 2-3 factories currently located there and others which have been allocated space)
- Four other *Zones Franches* at Agboru-vé, Anié, Notsé, Atapamé

⁴⁰ This would also improve customs controls on the vehicle importers, since there is no exterior wall at their current site.

- *Agroparc* in Oti prefecture
- Some 25 new SFFZs are being established.

3.3. Industrial Parks

119. The Ministry of Industry is currently the responsible entity for promoting a system of industrial parks in Togo. Industrial parks, as is the case for the SEZs, are also to be developed and operated by either a mixed private/public company or wholly by the private sector. There are no industrial parks currently in operation, but the following are some of the projects being promoted:

- *Zone Industrielle* Baguida near the border with Benin
- The 46 ha-area designated for an *agroparc* for transformation within the Kara Agropole

120. The management entity of the industrial parks will have the following responsibilities:⁴¹

- planning, construction and / or management of the park,
- lease or sell land within the park
- provision of services to businesses to help them grow,
- coordinating the operations of tenants and other stakeholders,
- promotion of the park

121. The management will be required to pay a percentage of the revenues from leasing or selling to the Ministry of Industry for the administration of the industrial parks.⁴²

122. Since industrial parks do not require any special legal or regulatory regime, they are much easier to establish, once a developer/operator has been identified. The primary benefit would be to provide serviced, industrial land to tenant companies. Industrial parks that are developed and operated by the private sector present very little risk to government, and yet have the potential for significant benefits as they create public goods in the way of infrastructure and serviced, industrial land, using private funds.

123. However, the down-side to industrial parks is that developers and operators often prefer (i) the protection of their investment through an SEZ law, and (ii) the ability to offer special regulatory incentives and a streamlined administrative regime to their tenant companies. It may be more difficult to attract private investors to develop industrial parks than it is to develop SEZs, especially experienced foreign developers who might be better positioned to attract foreign direct investment. However, these parks could be especially useful for investors who wish to take advantage of the ECOWAS free trade regime to export to the regional market.

⁴¹ *Plan Stratégique de Développement des Agropoles au Togo* : 2018-2030, August 2017

⁴² *Plan Stratégique de Développement des Agropoles au Togo* : 2018-2030, August 2017

124. The Ministry of Industry should be encouraged to continue to promote industrial parks, as long as the process does not require significant resources. The priority would be for private developers to develop industrial parks with their own funds.

3.4. Growth Poles

125. In addition to SEZs and industrial parks, the Government of Togo is interested in establishing a series of growth poles, particularly for the agricultural / agribusiness sector. The *Agropoles Development Agency* (APRODAT), created in 2018, is the responsible entity, reporting to both the Ministry of Industry and the Ministry of Agriculture. The vision for the agropoles is to foster the development of value chains through the transformation of basic agricultural products. According to APRODAT's mandate, the private sector is allowed to develop and manage an agropole, and APRODAT will actively seek out private developers. The inspiration for agropoles in Togo seems to be the Bagr pole, across the border in Burkina Faso as well as other growth pole projects in Africa, notably in Madagascar.

126. Ten agropoles have been identified to date, beginning with the following two:

- *Kara Agropole* – located on 165,000 ha of land with 46 ha designated for an agropark for transformation. This is being supported by the African Development Bank, the South Korean government, and the Green Climate Fund. It intends to source production from the surrounding communities, with four broad value chains identified: (i) cashew/sesame, using the Kalyan international group as an anchor company; (ii) meat and poultry; (iii) fish production, (iv) rice, corn, soya. The estimated cost of the project is around US\$43 million.
- *Agropole du Littoral* – around 1000 ha for both production and transformation. This will not be sourcing from the community, but rather generate its own agricultural produce, while inviting other companies into the agropole to transform them. The project will also include tourism and forestry components. This agropole is being developed by Zhongmei, a private Chinese investor who has been promised a 99-year lease. Zhongmei will pay the rent to a group of private owners. Zhongmei has pledged to employ people from the surrounding communities and set up a training center.

127. Drawing on the experience of other countries such as Bagr pole in Burkina Faso and the growth poles in Madagascar, Togo will need to carefully consider the amount of financial and human resources it is willing and able to devote to these projects. Even after 10 years, Bagr pole is still in a preliminary phase, with only irrigation canals constructed, while the construction of roads and the extension of the electric power network is scheduled for the next two to three years. Some of Madagascar's growth poles have enjoyed a moderate success, but many other growth pole projects in Africa have been on the books for years without notable progress (particularly Burkina Faso's remaining dozen growth poles projects).

128. As the authorities in Togo have decided to proceed with plans for agropoles, they would be well-advised to design them in a simplified and streamlined manner, sequenced over a period of 15-20 years, prioritized so that government resources are only allocated to a few priority

projects, and coordinated at a high level of government. If resources are scarce, additional agropoles beyond Kara should probably take a back seat to SEZ projects, which are quicker and place less demands on scarce public resources.

3.5. Rationale for Spatial Solutions in Togo

129. Table 28 in Annex 2 on the rationale for spatial solutions in Togo provides an analysis of whether or not spatial solutions can address the operating constraints that face businesses in Togo in order to determine the relative strength of the rationale for spatial solutions in the country. Constraints are listed in order of importance as per the list of constraints from the 2017 Enterprise Survey from the highest to lowest percentage (based on “Figure 1: Investment Climate Constraints” from Chapter 2 of this report). The purpose of this analysis is to determine the relative strength of rationale for spatial solutions in Togo.

130. Based on the analysis from Table 28 in Annex 2, ***the strength of rationale and justification for a program of spatial solutions in Togo can be described as “moderate” to “weak”***. The top four constraints to private investment in Togo according to the Enterprise Survey 2017 were high tax rates (with tax administration in eighth place), telecommunications, access to finance, and the high rate of informality. Are spatial solutions needed to tackle these priority issues? There are few examples worldwide where spatial solutions have been able to tackle these constraints directly. Moreover, given the country’s recent success in improving its ranking in Doing Business and designation as one of the top 10 reformers in the world, it may be more effective for Togo to enhance its growth through country-wide reforms. The country has demonstrated that it is able to streamline and simplify individual procedures, such as the business registration process which has improved from a ranking of 121 out of 190 countries in 2018 to 15 out of 190 countries in 2020. It should be able to tackle at least administrative procedures that businesses need to follow through similar country-wide reforms.

131. However, SEZs in Togo have been a substantial source of job creation, and there seems to be a great appetite among both private businesses and the government to foster the development of SEZs, especially privately-developed and operated SEZs. The primary rationale for spatial solutions in Togo lies primarily in the ability of the country’s spatial solutions to harness large tracts of land for industrial and commercial purposes, and of SEZs and industrial parks, specifically, to provide improved electric power to their tenant companies.⁴³ These are, admittedly, problems that many companies face, and that when interviewed for this report, private companies mentioned as being major concerns. If the government does continue on the path of fostering a competitive SEZ regime, there is a role for the World Bank to play in reducing the risks inherent in the process and promoting best practices based on international and

⁴³ Some further justification, albeit weak, for a program of spatial solutions in Togo is based on the fostering of some formality within the limits of spatial solutions, the possibility of fostering cross-border trade in spatial solutions located in close proximity to the country’s borders with other countries, fostering skills and technology transfer among the employees of companies located in spatial projects, providing improved logistics, and, in the case of SEZs and industrial parks, providing a safe, secure place for companies to operate. While some spatial solutions have experienced isolated success in doing these things, they have not been traditional areas in which spatial solutions have generally been successful on a wider scale, and therefore do not provide a major justification for SEZs in Togo.

regional models.

132. Of all the spatial solutions available, SEZs present by far the most attractive option for Togo as – in addition to addressing access to land and electric power, enhanced security and improved logistics – they will be able, by advantage of their special regulatory regime, to tackle the numerous investment climate challenges that businesses in the country face and will be able to pilot reforms in a variety of areas already identified in various reports as being a challenge in Togo, such as:

- General import and customs constraints
- Dealing with business licenses
- Obtaining construction permits
- Registering property

133. In general, any regulatory and administrative challenges faced now or in the future by the private sector can be the subject of reforms piloted in the country's SEZs. Reforms which prove to be successful within the microcosm of an SEZ can be rolled out in the general economy to the benefit of all companies.

3.5.1. Special Economic Zones in Togo: Next Steps

134. We now turn to an analysis of the goals, institutions, regulation and management of SEZs in Togo with a view to outlining the way forward.

Objectives

135. The stated objectives of the SEZ regime are the following (from Law No. 2011-018):

- Promote economic and industrial development
- Promote exports and create jobs
- Encourage the use of local raw materials
- Contribute to improving the investment climate in Togo
- Promote Togo as an investment destination

136. This is more or less in keeping with international best practices which is to limit the number of objectives to several priority areas. The objectives above are also realistic and able to be tackled through a program of SEZs in the country. Especially the emphasis on exports under the second objective is in keeping with the priorities of the Government and the findings of Chapters 1 and 2 of this report. Other objectives for the SEZ regime could be to create jobs for women and youth, results of which can easily be tracked through the employment statistics of the individual SEZs.

137. Progress with the stated objectives of the zone regime in Togo should be measured on a

regular basis, as indeed SAZOF, the established SEZ authority does, albeit with a lag. The employment variable could be disaggregated by both gender and youth.

138. In addition to the above objectives, the vision of SAZOF is to make the Free Zone a first-choice destination, more competitive and more socially peaceful.⁴⁴ The social vision of the free zone is to create a more peaceful working relationship between employers and workers by improving working conditions. This is crucial as SEZs are often criticized for exploiting labor, which can lead to unrest and undermine political support. Prior to 2008, wages in the Free Zone were actually higher than outside. When the minimum wage was raised that year, SAZOF revised the wage schedule to bring it in line. SAZOF has initiated, with the support of the Directorate of Labor and the International Labor Organization (ILO), training seminars on mediation and prevention of conflicts and social dialogue and productivity in the free zone. While tensions inevitably resurface from time to time, it appears that SAZOF has been relatively successful in managing this dimension.

⁴⁴ http://www.zonefranchetogo.tg/info/?page_id=25

3.5.3. Institutional framework

139. SAZOF is the established SEZ authority. Its mission is as follows:
- Promotion of Togo as the first-choice destination of the investor,
 - Research and identification of investors to create businesses,
 - Study and evaluation of investment projects and granting of approvals,
 - Assistance to companies in accomplishing their various tasks through its one-stop shop.
140. SAZOF operates as a One Stop Shop to provide the investor with the following services:
- Disseminate information on the advantages of the free zone, the conditions of eligibility, the practical modalities to enjoy these advantages, orientation towards the competent services, etc.
 - Receipt, study and instruction of approval applications to the Preliminary Approval Committee of Exporting Enterprises.
 - Assistance in completing administrative formalities: trade register, building permits, exemption certificates, subscription to public services (electricity, water, telephones), obtaining residence permits, Social Security Fund, etc.).
 - Assistance in the settlement of disputes arising from labor relations between employers and workers with a view to creating a peaceful working environment.
141. The Investment Code of 2012 created the National Agency for Promotion of Investment and the Free Zone (*Agence Nationale de la Promotion des Investissements et de la Zone Franche* (API-ZF)), which was supposed to have superseded SAZOF and also taken responsibility for the administration of the investment code. However, to date this new organization has not become operational, held up by delays in appointing a Managing Director, so SAZOF continues to be the functional SEZ authority. Recently, there has been talk about breaking up API-ZF into two organizations: (a) an investment promotion and export development agency, and (b) a management entity for industrial free zones.⁴⁵ It would seem preferable to avoid the proliferation of agencies, prevent potential duplication, and deal with all investors through a single office.
142. Togo should move quickly to establish the API-ZF. It should be a flat, streamlined organization in order to effectively and quickly respond to market realities. Togo is competing with other countries from both inside and outside the region for scarce investment and must be responsive to the interests of the private sector.
143. API-ZF will have to have the needed capacity to oversee the country's SEZ regime, and institutionally and financially be able to bear the risks (environmental and social, business,

⁴⁵ *Plan de développement intégré du Togo, Document de cadrage stratégique : Support de discussion, July 2017*

reputational, etc.) of zone development. While it will be able to allocate certain risks to the private developers, it is essential that the SEZ authority have the capacity to supervise, and if necessary, sanction private developers. Where this has been lacking, as in the case of some Chinese SEZs in Africa, problems have arisen.⁴⁶

144. API-ZF will have to perform the full range of duties and responsibilities of an SEZ authority:

- (a) Investment Promotion, and coordination with other actors such as TogoInvest, the Ministry of Foreign Affairs and the President's Office.
- (b) Licensing Zone Development to private developers and overseeing licenses to individual tenant companies (whether or not this is delegated to individual SEZ developer/operators)
- (c) Performing pre-feasibility studies and master planning for proposed SEZ projects
- (d) Reviewing existing policies, laws, regulations and rules, and formulating and proposing new aspects of the legal framework
- (e) Coordinating with other ministries and government agencies to ensure that the infrastructure and services needed to operate an SEZ are forthcoming in a timely manner
- (f) Monitoring the performance of the country's SEZs, including the collection of information on employment, investment and exports from SEZs and their tenant companies.

145. The API-ZF should prioritize promoting new SEZs in the country to be run by private developer/operators, beginning with Adétikopé. Thereafter, its approach should be flexible enough to include all kinds of SEZs including export processing zones, free trade zones, agrozones and IT and Tech Parks, guided by the assessment of private promoters, providing they are willing to put up most of the financing and/or accept the financial risks.

3.5.4. Regulatory framework

146. In the last eight years, new legislation has been approved which either regulates free zone activities or has a major impact on them: a law and a decree applying to the investment code in 2012 and 2013, respectively, and a law and decree on industrial free zones in 2011 and 2013, respectively. In addition to creating API-ZF, the export requirement in this legislation has been slightly relaxed to 70 percent of sales.

147. The current legislation has a variety of positive elements, as well as some problematic areas:

⁴⁶ D. Brautigam and T. Xiaoyang, China's Investment in Special Economic Zones in Africa, in T. Farole and G. Akinci, Special Economic Zones, World Bank, 2011.

Table 17: Summary of Strengths and Weaknesses of Togo’s Current Regulatory Regime for SEZs

Positive Points	Problematic Clauses	Problematic omissions from the decree
<ul style="list-style-type: none"> • Provides appropriate incentives which are not overly generous: reduced corporate taxes, and duty- and tax-free importation • Designates as a “zone developer” any individual, private company, government entity or a mix of these. • Can be on public or private lands, retaining the option of 100 percent private zones. • Sets limits on the time the government has to respond to requests to develop zones. • Delegates to the developer the ability to grant permission for individual companies to operate within the confines of the zone they are developing • Requires an Environmental Impact Assessment for the individual companies and for the zone itself to adhere to environmental standards • Limits the time allowed to tenant companies to begin constructing their installations 	<ul style="list-style-type: none"> • The removal of the value-added tax exemption on imports after 10 years is inconsistent with the status of the free zone as lying outside the customs regime • Requires that each company provide a space for customs and tax officers, whereas SEZs usually house these functions in a single office in the common areas (Article 12) • Contains excessive requirements for training, reporting, participation in R&D activities, and student interns, which would be especially burdensome for small and medium enterprises (Chapter VIII). • Includes burdensome requirements for the tenant companies to provide personnel lists to the API-ZF. These will pose a problem notably for large companies with thousands of employees, especially given the likelihood of frequent personnel turnover (Article 38) 	<ul style="list-style-type: none"> • Requirements that zones should comply with the labor laws of the country • Anti-speculation clauses for zone developers, requiring them to begin constructing the zone infrastructure within a certain period of time • A negative list of prohibited activities, products and sectors (which is present in the Investment Code). • Obligations, rights and privileges of all parties: zone developer/operator, tenant companies, SEZ Authority

<ul style="list-style-type: none">• Authorizes zone developers to set the rental and sales prices for plots of land• Does not limit the time during which duty- and tax-free products may be kept in a zone		
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148. One of the innovations associated with the proposed new institution, API-ZF, is to have it responsible for both the SEZ legislation and the Investment Code. The reasoning is that all investors and exporters should be encouraged and that a range of options provided based on the degree to which they plan to export or sell on the local market. Under the previous arrangement, companies outside the SEZ tended to be neglected. It is however essential that the Investment Code and the SEZ legislation be consistent and complementary.

149. At present, the Investment Code contains special provisions for the country's free zones. It is unusual to have free zone provisions spread out among two or more separate documents, as it creates uncertainty among investors in terms of which takes precedence. It is best practice to have a dedicated piece of legislation pertaining to the country's SEZs, rather than including these provisions as a part of a legislation dealing with other themes as well, as is the case with the current Investment Code.

150. The new investment code that the country will be adopting in 2019, which will lay out modified incentives for the free zones, may complicate the regulatory landscape. For example, the new code will reportedly change the current tax holiday for the country's free zones, which were last changed only seven years prior. Togo should move quickly to streamline the regulatory framework under a single SEZ Act or Law with implementing regulations.

151. Perhaps the single most important question about the regulatory framework is whether or not the private sector will be allowed to develop and operate SEZs. While some countries have had success when the government is the primary developer and operator, there are more examples of failure, especially in low-capacity environments. Moreover, some African countries have turned things around by converting from a government-driven to a privately-driven SEZ regime, notably Morocco and, judging from preliminary results, Nigeria. The Togolese authorities have expressed great interest in having the private sector develop and operate both the current and planned SEZs in the country. They are looking at models in Nigeria and Ethiopia and are keen to do this under a public-private partnership. The regulatory framework seems to fully support private development and operation of SEZs.

152. In spite of the fact that a new streamlined, investor-friendly SEZ law or act should be drafted and approved, there are no apparent "deal-breakers" in the current 2013 decree on industrial free zones. But this is only because the 10-year limit on VAT exemptions is not enforced. In principle, this is not consistent with the SEZ status and could be a major impediment for operators. The typical firm imports significant amounts of inputs and exports most of its output. Since no VAT is collected by the company on exports, they would be owed large refunds on VAT paid on inputs. Such refunds rarely get paid on time in low-income countries, and often never get paid.

153. The other incentives are broadly in line with international best practice:

- Exemption from all customs duties and taxes on equipment, including office furniture, spare parts, raw materials, semi-finished products and consumables necessary for the installation and operation of the licensed company.

- Reduction of 50 percent of duties and customs taxes on commercial vehicles used by the company
- Exemption from all customs duties and taxes when exporting products manufactured in a free zone
- Corporate income tax rate of 0 percent for the first five years, eight percent from years 6 to 10, 10 percent from years 11 to 20, and 20 percent as of year 21.
- Exemption from the dividend tax and property tax for the first five years

154. Although tax holidays are usually not advisable because they mean foregone revenue for the Government, in the case of Togo they may be justifiable during the start-up phase of the first five years. In general, and because of the relatively quick phase-out of the complete tax holiday after five years in favor of a gradually-normalized corporate tax rate,⁴⁷ the incentives offered by the country's free zone regulatory framework appear to be competitive. The duty-free status of the zone territory is common for free zones and in-line with international best practice, as long as goods being sold into the local market pay all duties and taxes that apply.

155. The implementation of these incentives is perhaps even more important than their offering. In general, incentives should be properly disseminated / advertised, clearly and unambiguously communicated and easily accessible. This should include websites that are easily accessible to the investor, oral communicated in conferences and meetings, etc. SAZOF should conduct a survey among its beneficiary/member companies to find out what their experience has been in accessing the incentives provided by law. Any gaps and bottlenecks in practice should be identified and an action plan instituted to change any difficulties that have been identified. Also, each incentive should be reviewed to identify whether or not it contributes to one of the stated objectives of the country's SEZs.

156. More generally, consultations with the private sector reveal a certain level of misinformation and misunderstanding about the SEZ regime in Togo. Some of the companies surveyed were not aware of government plans for spatial solutions and specifically SEZs. Others thought that they represent disloyal competition, and that there would be unfair leakages from the SEZs to the local market. Another complaint was that SEZs are mostly for foreign companies, whereas in fact both foreign and domestic companies, as well as mixed joint ventures, are allowed to locate in the SEZs. A stronger communication and outreach program appear to be necessary.

157. Decree No. 2013-090/PR on industrial free zones should be fully implemented as soon as possible, starting with the operationalization of API-ZF. There is room for improvement in the laws and regulations for free zones, and at a later date these should be changed to be in keeping with international best practice. In addition to resolving the VAT exemption matter, it should be made clear that the free zone law is the only piece of legislation regulating the development and management of free zones. Ideally, changes should be made to the Investment Code to take away all reference to free zones.

⁴⁷ The normal corporate income tax rate is 23 percent.

3.5.5. Choice of Sector

158. Governments often ask what sectors they should target in their SEZs. Many SEZs, through industry and sector analysis as well as surveys of potential clients, do determine that their zone will work particularly well for certain industries. Governments also do this, but with much less success, given their limited knowledge of the market, especially at a sectoral level. However, it can be disastrous to hard-wire a specific SEZ (or industrial park) for a certain sector or sectors.

159. In the case of Togo, while agro-processing is likely to be an important component of SEZs in the country, it will not normally be advisable to allow agricultural production to take place within these zones. Serviced land will be scarce and generate a higher return per hectare if used for factories and logistics. Many crops require large amounts of land which does not need to be serviced to the same extent, and can be supported in agropoles, or even existing rural settings. However, high-value export horticulture, which is emerging on a small-scale in Togo, may need special consideration. In particular, it tends to be more intensive in imported inputs than other types of agriculture, and given its export focus, could be confronted with serious problems related to VAT refunds, or lack thereof. This has proven to be a major issue in Senegal, where exporters fought hard to retain this privilege. At least for this type of activity, SFFZs may make sense, unless the authorities can implement an effective VAT refund system.

160. The case of mineral processing is more complicated. Togo has provided Free Zone advantages for the production of clinker and cement from its large limestone reserves. This may have been necessary when these investors began operations in 1996 when the business climate was poor. It is questionable today. Given the availability of local limestone deposits, it is likely that clinker and cement production is viable without the need for extra incentives. Indeed, two companies without Free Zone status produce for the local market.

161. There is also good potential for processing of Togo's extensive phosphate deposits into phosphoric acid. But this should only be pursued if it is economically viable, without jeopardizing the rents earned by the state. Processing should not be pursued in the interest of "value-added" if in fact there is less value for the country than from the raw phosphate exports. This is the risk if corporate tax holidays and other incentives are provided. The new Integrated Development Plan (*Plan de développement intégré*) contemplates the construction of two industrial parks for the transformation of phosphate and limestone. Given the size of existing clinker and cement production in the country, and recent competition from Nigerian imports, it is unclear why an industrial park might be needed for limestone processing. In the case of phosphates, serviced land with the proper social and environmental assessments, may help attract investment in phosphoric acid. But an industrial park rather than a free zone would seem more appropriate. The authorities should review this issue before proceeding with phosphate processing in the Chinese SEZ proposal.

162. In conclusion, private developers and operators of SEZs should be given broad leeway to develop the kind of zone they wish to, according to the network of business contacts they possess. Barring activities and sectors on a short negative list, they should be allowed to allocate land to tenant companies without interference as to the nature of the company, nationality of

the owners, conditions of the contract or rental and sales prices that they charge.

163. The only caveat is that general plans for how the developer/operator will be approaching the establishment and management of the zone should be clearly laid out in the business plan, feasibility study, and master plan submitted to the Government in the application for a license to develop an SEZ. The SEZ authority can use this master plan to monitor the evolution of the SEZ and ensure that it is being done as agreed. Requests for major changes to the plan should be made in writing to the SEZ Authority. Individual SEZ projects must be vetted by proper diagnostics, to ensure that they support the overall objectives of the Government, are located on a site which is viable from an infrastructure, environmental and social perspective, and enjoys strong private sector demand.

164. In addition to enabling the maximum participation of private SEZ developers and operators, private sector involvement in the SEZ regime in Togo should include the following:

- Mapping all private sector stakeholders who have a share in the country's spatial solutions
- Providing information to them including changes to laws, new SEZs and industrial parks licensed and established, etc., through a variety of means
- Setting up a regular (not ad-hoc) public-private dialog mechanism for discussing changes to legislation, investment promotion approaches, and other important aspects.
- Including private representatives on all Boards and steering committees having to do with the country's spatial solutions.
- Providing assistance to the private sector with advocacy of their interests and speaking with one voice to the government.

3.5.6. Social and environmental safeguards

165. SEZs and industrial parks are often criticized for their negative environmental and social impacts, given the concentration of industrial activity within their walls. While this has been true in certain country contexts, governments in the last fifteen to twenty years are increasingly seeing SEZs and industrial parks as enclaves of excellence for environmental mitigation, social practices and labor compliance.

166. Indeed, SEZs and industrial parks can become centers of environmental excellence by incorporating central effluent treatment plants, recycling of industrial waters, solar and other alternative energy sources, etc., into the design of the SEZ or park. From the outset, SEZs should be hard-wired with excellent environmental and social practices,⁴⁸ including the following:

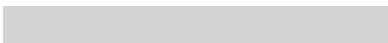
167. Environmental practices:

⁴⁸ See World Bank, *Low-Carbon Zones: A Practitioner's Handbook*, 2014 for a strong framework and practical guide for incorporating cutting-edge environmental technologies in SEZs and industrial parks.

- Obligatory environmental impact assessments (EIAs) for both the SEZ/park as a whole as well as for individual companies
- Environmental monitoring and reporting on a regular basis
- Collaboration with national agencies responsible for environmental protection
- Assigning specific responsibilities for compliance, determining the role of the SEZ developer/operator, tenant companies, agencies responsible for environmental practices, etc.
- Housing representatives of these agencies in on-site offices to maintain closer contact.
- Measuring the SEZ's/park's carbon footprint and maintaining a low footprint
- Incorporating solar and other sources of alternative electric power wherever possible
- Providing seminars and training for the tenant companies in excellent environmental practices, proper storage of hazardous and toxic materials, and emergency response

168. The same is true of fostering SEZs as center of social excellence with the following measures:

- Regular monitoring of labor and compensation practices of tenant companies
- Collaboration with national agencies responsible for labor laws
- Providing seminars and training for the tenant companies in excellent labor relations
- Assigning specific responsibilities for compliance, determining the role of the SEZ developer/operator, tenant companies, agencies responsible for social and labor practices, etc.
- Maintaining excellent health services on-site for the employees and their families
- Deploying medical staff into tenant companies to run maternal and health seminars and monitor the health and well-being of the employees
- Engaging actively with labor unions, addressing complaints, and ensuring that labor unions have a high percentage of female representation
- Preparing emergency plans for epidemics and other health issues
- Maintaining day-care facilities for the employees laboring in the SEZs/parks
- Obligatory social impact assessments (EIAs) for both the SEZ/park and for individual companies
- Preparation of resettlement action plans and compensation plans if resettlement is required



3.5.7. Risks

169. This roadmap is not without its risks, and Togo should be aware of some common pitfalls. The following are possible risks and some measures that can be taken to mitigate them:

Risk / Pitfall	Explanation	Possible mitigation measures
Leakages	Leakages into the local market of products benefiting from SEZ incentives on the understanding that they would be exported.	Ensure that Customs systems are tightened, and that automated systems are designed to reduce leakages into the local market.
Length of time for regulatory reforms	Regulatory reforms take time to draft, pass through the consultative process and be approved. Waiting for further reforms can impede the proper implementation of the new SEZ regime.	The current regulatory framework has no major deal breakers, although certain reforms are definitely desirable. The current framework can serve to implement the new SEZ regime while waiting for regulatory reforms.
Length of time for institutional reforms	API-ZF has already taken more than four years to become fully operational. If a new SEZ regime is to depend on a fully capable institution to regulate it, it may sabotage the new SEZ regime before it starts.	Fortunately, the institutional reform has already been approved, and there is nothing left except to implement the institutional reform. If necessary, funds from donors can be deployed for the purpose of operationalizing the API-ZF.
Private developers can design SEZs and industrial parks that do not necessarily benefit the country as a whole.	There are cases in Africa where international developers designed SEZs and industrial parks to benefit primarily the country from which the developer/operator originates.	The feasibility studies and master plans which all new SEZ and industrial park projects are required to carry out must include a cost-benefit analysis to ensure that whatever resources the government must contribute to the project will be outweighed by the benefits derived.

3.5.8. Conclusions and Next Steps

170. As stated before, spatial solutions are only one option open to government for tackling investment climate challenges. There are numerous other interventions, projects, and programs that the Government of Togo can choose in order to do so. Country-wide reforms and other growth projects should be pursued aggressively independently of government initiatives to foster spatial solutions.

171. However, the government can proceed cautiously with its plans to promote spatial solutions. Any such initiatives should ensure that the private sector is in the driver's seat with regard to the development and operation of spatial solutions, especially SEZs and industrial parks. They should also be based on proper diagnostics and the probability of success, including a compelling business case, assessments to identify suitable sites, demand surveys to ensure likely uptake by the private sector, master plans, feasibility studies, and environmental and social impact assessments.

172. The following are the priority next steps in the short- and medium-term to ensure that the SEZ regime in Togo is on the right track and is likely to fulfill the objectives for using spatial

solutions as an engine of growth:

- (a) **Conduct a cost-benefit analysis** – With urgency, the country should conduct this study in relation to the regime as a whole with all of the incentives offered, for all free zones, industrial parks, and growth poles, in order to determine if the current structuring of the SEZ regime bears more costs to the country than benefits. If the result is negative, the incentives should be adjusted to ensure sufficient benefits to the country. Subsequently, each individual spatial project should be required to complete an economic analysis as part of their feasibility studies.
- (b) **Using the completed Adétikopé feasibility study, engage with private SEZ developers** – the report has already been completed with a demand survey and can be used as an investment promotion tool to interest a private developer/operator who will then complete their own feasibility study against which a license could potentially be issued. Complete environmental and social impact assessments would also have to be submitted by the private developer in order to obtain a license.
- (c) **Conduct additional general diagnostics** – These will enhance the ability of the country to plan for, develop, and promote spatial solutions.
 - a) **Benchmarking** to identify Togo’s comparative advantages and areas for improvement to compete with SEZ regimes in other countries.
 - b) **Value Proposition/Marketing Plan** based on the benchmarking information and geared both toward potential private developer/operators and anchor/tenant companies in the SEZs. This exercise would include primary messages and strategies, target markets, countries, and investor profiles, promotional tools, website, and other marketing channels.
- (d) **Conduct specific diagnostics on priority sites.**
 - i) **Preliminary site assessments:** Conduct preliminary site assessment on additional sites that the government has slated for potential SEZ development. The analysis will include information on the site coordinates, local context and surrounding communities, topography, both on-site and off-site infrastructure, environmental issues, social and resettlement issues, and risks. Finally, a site ranking exercise will be conducted by region, identifying the 2-3 priority projects according to a set of criteria (including economic impact, feasibility and social and environmental risks). These assessments will provide inputs into the prioritization plan for public investments in spatial development.
 - ii) **Demand Forecasting:** For the sites prioritized under the site assessment, identify the demand from potential tenant companies and complete a 20-year demand forecast. This exercise should closely coordinate with TogoInvest to identify potential developers and large anchor companies.
- (e) **Prioritize legal and regulatory reforms and investments** – The measures that are most likely to unlock private investment for specific spatial solutions should be identified as well as the level at which they must be approved (e.g., National Assembly, Ministry of

Industry, SAZOF, etc.). This would begin with Doing Business type reforms and infrastructure investments that are beyond the control of SEZs but impact on investors and would eventually include a realignment of SEZ regulations and incentives.

173. Many of the above-mentioned studies can be conducted simultaneously, and it should be possible to complete them all within a six-month period.

3.6. Summary of Recommendations

174. The following is a summary of the recommendations made throughout this document

Recommendation	Responsible entity	Suggested deadline
Advocate for a change in ECOWAS and WAEMU rules to allow SEZ companies to take advantage of the region's preferential tariffs, as well as the usual duty-free status that exists in the SEZs.	SAZOF / API-ZF	June 2020
For SEZs and industrial parks – include the following as target sectors: <ul style="list-style-type: none"> • transformation of basic agricultural products • light manufacturing • logistics 	SAZOF / API-ZF	Ongoing
Rationalize and streamline spatial initiatives including SEZs, industrial parks, and growth poles, and ensure coordination through a national growth strategy.	Ministry of Industry	Ongoing
With respect to logistics: <ul style="list-style-type: none"> • the regulatory framework and its implementation must ensure that it is easy for logistics companies of all sizes to locate in the SEZs and industrial parks • do not attempt to establish an all-logistics zone or park 	SAZOF / API-ZF Governing Board	Ongoing
Prioritize attracting private developer/operators to specific SEZ projects and industrial parks	SAZOF / API-ZF	Pipeline of at least 3 projects by December 2019
Action items for the regulatory framework for SEZs: <ul style="list-style-type: none"> • Implement Decree No. 2013-090/PR as soon as possible, starting with the launching of API-ZF as a flat, streamlined organization • streamline the regulatory framework under this act. • modify the decree to be in line with international best practice • streamline the regulatory framework to bring all free zone provisions into one legislation • review the experience with SFFZs and potentially limit them to horticulture exporters 	Ministry of Industry SAZOF / API-ZF Governing Board	Full implementation by December 2019 Regulatory modifications by December 2020
Ensure that Customs systems are tightened, and that automated systems are designed to reduce leakages into the local market.		
The stated objectives of the zone regime in Togo should be measured on a regular basis, and at least once a year. The ability of the country's zones to create jobs should be disaggregated by both gender and youth to measure the impact on these two aspects	SAZOF / API-ZF Governing Board	To begin measuring by September 2019
Existing and future incentives available to the country's zones should be properly disseminated / advertised, clearly and unambiguously communicated and easily accessible		Ongoing
SAZOF/API-ZF should:	SAZOF / API-ZF	Survey to be conducted by September 2019

Recommendation	Responsible entity	Suggested deadline
<ul style="list-style-type: none"> • conduct a survey among its companies to find out what their experience has been in accessing incentives provided by law and improve communication and delivery of incentives. • review each incentive to identify whether it contributes to stated SEZ objectives 		Final decision on incentives by June 2020
Vet SEZs by proper diagnostics; only license SEZs which prove to be viable from an infrastructure, environmental and social perspective, and have strong private sector demand	SAZOF / API-ZF	Begin the practice of issuing licenses to SEZs with proper diagnostics by December 2019
Constantly monitor the performance of spatial solutions with information obtained on SEZs and industrial parks (list of companies located there, licenses issued, sales and export volumes, volume of investment, jobs created) and growth poles	Ministry of Industry	September 2019
Report the information obtained on SEZs and industrial parks transparently, ideally in a website	SAZOF / API-ZF	December 2019
Engage with the private sector: <ul style="list-style-type: none"> • Map all private stakeholders • Provide information on spatial solutions in Togo • Set up a regular public-private dialog mechanism • Include private representatives in all boards and steering committees • License SEZ development and operation to private companies • Foster unity among the private sector and a single, united private sector voice 	SAZOF / API-ZF	December 2019
Hard-wire excellent environmental and social practices into the design of all SEZs and industrial parks	SAZOF / API-ZF	December 2019
Work more extensively with TogolInvest as an important potential source of investors and financing.	SAZOF / API-ZF	December 2019
Agropoles should be: <ul style="list-style-type: none"> • simplified and streamlined • properly sequenced over a period of 15-20 years • prioritized so that government resources are only allocated to a few priority projects • coordinated at a high level of government. If resources are scarce, these projects should take a back seat to SEZ projects which can include the transformation of agricultural products.	Ministry of Agriculture	Re-design by December 2019
Delegate oversight of APRODAT to a steering committee under the President's or Prime Minister's office	President's office	Steering committee to be established by December 2019

CHAPTER 4: BUILDING ON TOGO'S ROLE AS A TRADING HUB

4.1 Introduction

175. Togo's important role in regional trade predates colonial times. A prosperous class of traders continued to operate under colonial rule, despite repression. In the 1980s, a booming business in cloth imports was controlled by a small group of wealthy women known as the "Nana-Benz". Togo's central location in West Africa and deep-water port have combined with the import-export needs of land-locked countries in the Sahel to create the foundations for a thriving regional trade. But proximity to the huge Nigerian market was another key factor, even though Nigeria has its own ports. High protection of Nigerian industry, including outright bans, provided fertile ground for a lucrative smuggling business across the long and porous borders between Benin and Nigeria, or indeed from Niger in the north. With little by way of domestic industry to protect in Togo, and competition with Benin for transit trade, government policy favored low tariffs and relatively efficient port management.

176. While Togo plays a role in the exports of neighboring countries, this is confined to some component of the exports of Burkina Faso and Niger, and therefore small compared to the import business, which includes these countries as well as Nigeria and Ghana. Imported goods rarely proceed immediately to other countries. Instead, they are stored near the port either by the importer, or a distributor who buys the goods pending final sale. Once the goods have been purchased, they are declared under one of three customs regimes: domestic use, transit, or re-export. The distinction between transit and re-export trade is not very clear and not consistently applied in practice. In any event, they are similar, both in the way they are treated in terms of rates of taxation, which are low, and the implications for the economy. Both create business for various actors along the logistics chain – whether it be at the port, in distribution, or transport – and offer the opportunity for value-addition.

177. A detailed study in 2010 estimated that imports for transit and re-export had risen between 2000 and 2008 to the point where their value was more than twice that of imports for domestic use and was equivalent to 75 percent of GDP.⁴⁹ Only partial data is available for more recent years. The port of Lomé indicates that the volume of imports for transit averaged 79 percent of the volume of imports for domestic purposes in 2016-2017, but no information is provided for re-exports (see Figure 12 below). Balance of payment data show the value of re-exports as only equivalent to 11 percent of the value of all imports.⁵⁰ Access to customs data would be necessary to get a more complete picture. In its absence, it is likely that the importance of regional trade is substantially under-appreciated.

178. There is also a risk that the value-added from this trade may be under-estimated if it is assumed that all that is involved is putting the cargo on trucks and transporting across the border. As most of the goods are temporarily stored and then resold to the final customer, there is already some value-added, as well as business generated by foreign buyers who travel and lodge

⁴⁹ Ibid.

⁵⁰ BCEAO, Balance des Paiements et Position Extérieure Globale - Togo, 2015 and 2016.

in Togo. But as summarized in Chapter One, in the notable case of used cars, the value-added may reach 40 percent, and the total contribution of all transit and re-export trade may equal 10 percent of GDP.

179. Not surprisingly, then, the transport and logistics sector is considered a priority by the Togo government, both as a sector with a sound potential for development and as a key enabler for the development of manufacturing. This priority is central in the National Development Program 2018-2022 which states that structural transformation of the economy will be achieved through the establishment of a logistics hub for international trade and improvement in the ease of doing business.

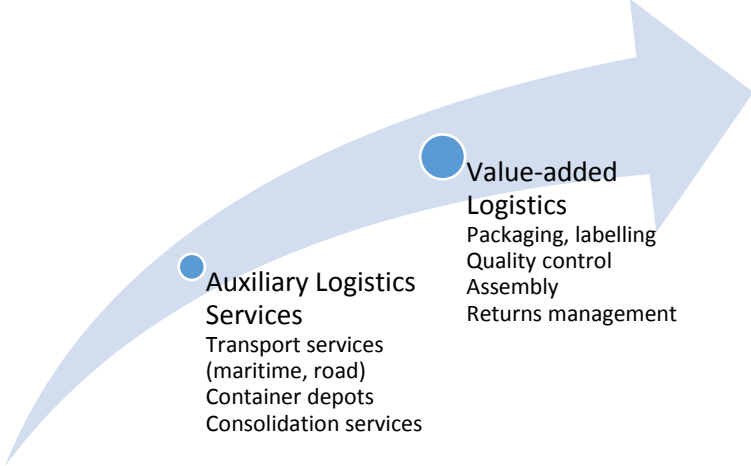
180. To support the Government of Togo in this strategy, the International Finance Corporation (IFC) funded the study ‘Togo logistics hub industry analysis’. A central piece of that study was a stakeholders’ workshop, held in September 2017, that aimed at prioritizing promising sectors on which build the foundation of the Togo logistics hub. This chapter is based on material from the IFC study.⁵¹

Box 2: A few definitions

This chapter will refer to a number of uses of the term ‘logistics’ that require clarification. Two of them (auxiliary and value added) refer to the range of services from basic to increasingly sophisticated, and two others characterize the locations where logistics services are provided.

Auxiliary logistics services primarily process shipments (transport units such as containers, or trucks). Typical examples include freight forwarders, cargo handling companies, trucking companies, etc.

Value added logistics services (VALS) primarily process the goods constituting the shipments. Typically, VALS occur at the nodes of the network, and include services such as inventory management, packaging, labelling, etc. Any type of auxiliary service provider can develop value added functions from its core activity, so the limit between the two is not necessarily clear-cut.



Logistics hub has a local connotation and refers to a location accumulating logistics service providers (both auxiliary and value added). Logistics hubs are ideally located near major platforms (such as ports), industrial zones (providing the support services for efficient industries), or major economic centers (providing distribution and/or consolidation services).

⁵¹ We are grateful to IFC for allowing us to use this report.

Logistics infrastructure has a wider spatial connotation, referring to the way isolated logistics facilities and logistics hub constitute a network serving an entire region or a country.

181. This chapter provides, in a first section, an overview of the status of logistics services, facilities and the regulatory framework in Togo. The second section presents the priority sectors identified by the stakeholders' workshop and the SWOT analysis for logistics in Togo. A final section presents long term strategic pillars for the development of the Togo logistics hub and a short-term roadmap for the implementation of this strategy.

Logistics in Togo: a sound basis but still multiple challenges

182. Togo has a sound basis for expanding the scope of its logistics services, both in terms of its existing assets and its diversified trade flows. However, presently, the logistics industry in Togo is mostly limited to the provision of auxiliary logistics services, except for the re-export of used cars and a few experiments into value-added logistics targeting primarily domestic demand (assembly of motorbikes, packaging for textiles for instance).

The port

183. The port of Lomé was mostly a secondary port on the West Africa coast at the beginning of the millennium. However, the political crisis in Cote d'Ivoire disrupted the traditional transit routes in West Africa and gave the opportunity to Lomé to capture a larger share of the hinterland traffic. Secondly, Lomé managed to secure the position of regional hub for a major shipping line during the wave of concessions in West Africa which saw an influx of investment in container facilities throughout the region. The transformation of the port was dramatic and, aside from Lagos, Lomé is the only port on the West Africa coast to host two container terminals⁵²:

- Togo Terminal, operated by Bolloré Logistics, with a throughput capacity of 850,000 TEUs per year
- Lomé Container Terminal, operated by TIL, the container terminal arm of Mediterranean Shipping Company (MSC), with a capacity of 2.2 million TEUs

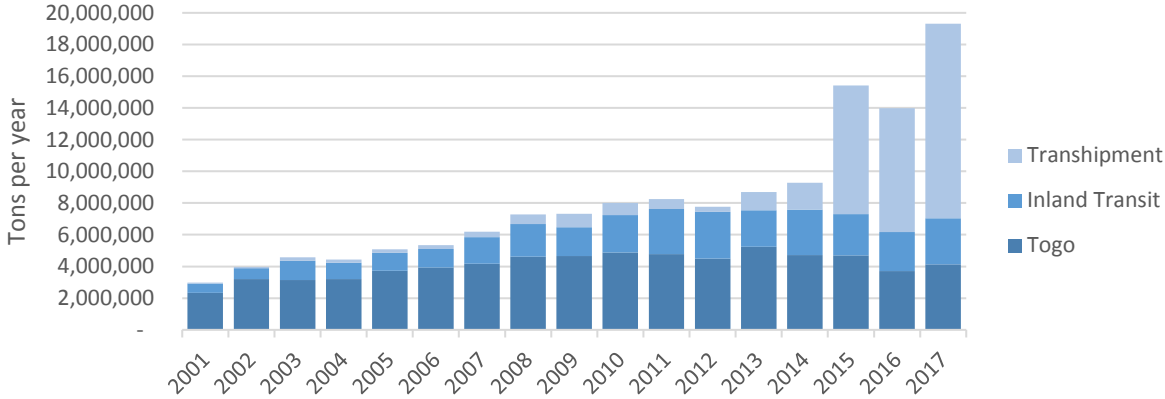
184. The regional reshuffling of hinterland trade routes in response to the political situation in Cote d'Ivoire benefitted all the traditional maritime gateways: Dakar increased its share of Malian transit trade, and Burkina Faso diversified its routes to Ghana and Togo ports. At the height of the crisis, when the Abidjan route was closed to Burkina Faso in 2002, Lomé handled two-thirds of the transit trade to Burkina Faso, but that share has returned to the pre-crisis levels with the normalization of the situation in Cote d'Ivoire. The growth of transit trade through Lomé is now linked to growth of the economy in the hinterland rather than an increase in the share captured by the corridor.⁵³ And in fact there has been no growth of imports in transit, or indeed for

⁵² Tin Can Island Container Terminal, operated by Bolloré Logistics, and Apapa Container Terminal, operated by APM Terminals, both in Lagos port. Arguably, Dakar could be counted as third, as it hosts the Dakar Container Terminal operated by DP World, but the second container facility is the Roro Terminal operated by Bolloré Logistics.

⁵³ The one notable exception is clinker imports which move through the port of Lomé to the WACEM cement factory located immediately on the other side of the border in Ghana.

domestic imports, some of which may be re-exported. The only growth in port activity is due to the dramatic increase of transshipment. This is not caused by traffic diverted from other ports, but instead is the effect of a reorganization of the Asia services of MSC using Lomé as the hub to and from which all other West Africa trade is served. And transshipment creates the least value-added. It appears that the more lucrative transit and re-export trade has stagnated since 2011.

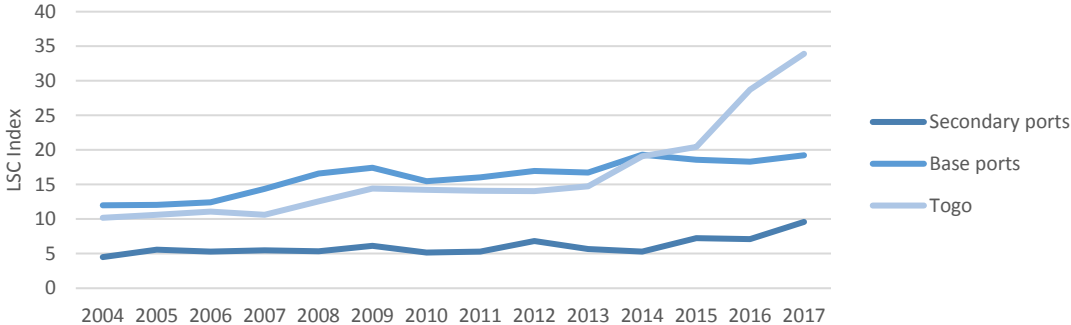
Figure 16: Traffic structure at the port of Lomé



Source: Port Authority of Lomé

185. The development of transshipment in Lomé increased its connectivity score, measured by the UNCTAD Liner Shipping Connectivity Index⁵⁴, compared to its West Africa neighbors. The group of base ports comprises Nigeria, Benin, Cote d’Ivoire⁵⁵ and Senegal. The secondary ports are all others with a TEU throughput below 300,000 TEUs per year.

Figure 17: LSCI West Africa (source: UNCTAD)



Source: UNCTAD, Liner Shipping Connectivity Index

186. The port of Lomé had a definite nautical advantage in the competition to become the West Africa maritime gateway, with a natural depth and safe anchorage outside the port for ships

⁵⁴ The Liner Shipping Connectivity Index (LSCI) is calculated from data on the world’s container ship deployment: the number of ships, their container carrying capacity, the number of services and companies, and the size of the largest ship.

⁵⁵ Cote d’Ivoire’s index combines Abidjan and San Pedro. Although MSC has selected San Pedro as a transshipment hub for its Europe lines, this did not result in a dramatic increase of the connectivity index for the country.

preferring to wait there instead of the piracy prone waters of Benin and Nigeria. But the competition with the other maritime gateways along the West Africa coast (Abidjan, Tema, Cotonou) for the two potential hinterland markets of Burkina Faso and Niger is heating up, with major extension for container facilities planned in Tema and Abidjan. It will be difficult for Lomé to compete effectively with Dakar and Abidjan on the Malian trade.

187. Success in the transshipment market was straightforward, depending only on a strategic decision by a shipping line in full control of the lines and the terminal. Competitiveness in transit, with road as the dominant if not quasi exclusive mode of transport in West Africa, involves many more actors and a larger set of challenges.

Road transport

188. The trucking industry in Togo is in the same shape as in neighboring countries: mostly disorganized, in which small scale operators represent most of the commercial sector, with large freight forwarders, traders and industries having the market power to reserve for themselves the most lucrative activity. But the picture is bleaker for Togo, because its modest domestic market obliges its operators to compete on the traffic of its neighbors, unlike trucking operators from other countries who benefit from a larger domestic market shielded from regional competition.

189. All road transport stakeholders, both the public regulatory agencies and the operators of the commercial trucking sector, agree that major reforms are necessary, and an ambitious reform program has been designed, with the support of the World Bank Group and the European Union, to remedy this situation, through the professionalization of the industry and the restructuring of the transport market.⁵⁶

Air transport

190. The new airport terminal in Lomé was commissioned in April 2016 and direct flights to the USA started in July 2016. It is managed by SALT⁵⁷. It is the hub of the regional airline Asky, associated with Africa's most successful airline, Ethiopian. In the north of the country in the Kara region, the Niamtougou airport is also under expansion. Despite ambitious objectives, the potential for airfreight is limited:

- Combining freight with passenger on Asky flights only reaches the regional market, overall of modest size, and even more limited for goods that can afford or require air transport.
- Long distance freight is controlled by external operators (Air France, and possibly Ethiopian).

191. Lomé can probably maintain a niche positioning as regional hub for passengers, but significant increases for airfreight are likely out of reach. Even for passengers, Togo will have to work hard to maintain its position, given the attractiveness of the much larger national markets

⁵⁶ World Bank, Trade and Logistics Services Competitiveness Project, 2017.

⁵⁷ *Société de l'Aéroport de Lomé Tokoin*, with the State and the Chamber of Commerce and Industry as shareholders.

in Ghana and Côte d'Ivoire.

Logistics facilities and infrastructures

192. The core transport network infrastructure comprises the N1, the north-south road from Lomé to Burkina Faso through the border of Cinkansé, and the N2, the coast road linking to Benin in the east and Ghana in the west. Both intersect in Lomé, where the port, the airport, and most of the economic activity are located. Operating largely in isolation, two dedicated railway links are functional, 37 km between the phosphate mine and a wharf at Kpémé, east of Lomé, and eight km between the port and the WACEM cement factory on the other side of the border in Ghana. The rest of the network is not operating.

193. Consequently, most of the logistics services are in Lomé, concentrating in the immediate vicinity of the port and the airport, or just next to the border with Ghana. But the location of all the services and facilities is mixed with other uses, residential, industrial and commercial, and at best, there are no agglomeration benefits; at worst, the mix of uses is creating negative externalities, with urban congestion negatively impacting freight movements, and vice versa.

194. Togo has a Free Zone regime reserved for industrial activities (that includes assembly⁵⁸) but does not cover value-added logistics activities. This regime is not restricted to a delimited geographic area – there is no location criteria in granting the Free Zone status. This prevents a rationale co-location of industries and logistics services. The situation could change for the better, with the proposal for an industrial and logistics zone in Adétikopé, on the Lomé bypass road with direct connection to the port. The recommendation is to include logistics companies in the zone to support manufacturers located there, as well as to serve the broader economy. In addition, the imported used cars currently parked in valuable lots near the port would be moved to Adétikopé. This will free up space for activities for which proximity to the port is more critical. (See Chapter 3).

The legal and regulatory framework for trade facilitation

195. The government's vision is to reduce the time and cost of importing and exporting by 20 percent by 2022; implement at least 75 percent of the measures in the WTO trade facilitation agreement; achieve 50 percent of all transactions on-line without paper; make the Single Window totally operational; and cut in half the waiting time for trucks after loading.

196. National initiatives have had very positive results: the National Trade Facilitation Committee was established in 2016, Customs has been integrated into a revenue authority, OTR, Customs IT has been upgraded to ASYCUDA World and is now connected with Burkina Faso Customs, a Single Window has been established (although not all border agencies have computerized their functions), and security measures put in place with scanners and GPS monitoring of transit trade. The Customs modernization reform, although well under way, is however not complete, and the authority is pursuing improvement of its risk management

⁵⁸ There are a few companies, operating under the Free Zone regime, that assemble motorcycles and freight vehicles

framework. Five private companies now benefit from streamlined procedures as approved economic operators. Electronic signature is being developed. However, the slow pace of reforms in the ITC sector, which has become critical for trade, may hinder progress.

197. As most reforms in the logistics sector involve more than one agency and many stakeholders, this can slow implementation or even reverse it, if cooperative mechanisms are not in place or are not sustainable. For consistent and broad reforms and improvements in this area, countries must deal with this complexity. There is a strong need for seamless interagency coordination and strong public-private dialogue, via the national trade facilitation committee, which can maintain the momentum on the implementation of trade facilitation initiatives. A forum is in place and operational between Customs and customs brokers.

198. Regional initiatives are however lagging, not entirely due to Togo, but rather due to the collective responsibility of countries and regional economic communities: most transport and trade facilitation instruments are not implemented, are poorly designed, or outdated, and regional standards that would facilitate the emergence of a regional logistics industry are not applied.

199. Togo is taking advantage of multilateral initiatives: it was the second West African country to ratify the World Trade Organization (WTO) Trade Facilitation Agreement⁵⁹ and is among the few ECOWAS countries to have notified all its categories. However, an implementation plan at the country level must be in place and followed closely by the NTFC. Moreover, the NTFC should identify the gaps and measures that will bring Togo closer to the international best practices represented by the WTO TFA. By February 22, 2021, Togo is expected to give definitive dates for Category B designations and arrangements for technical assistance and capacity building requirements for Category C, while by August 22, 2022, Togo is required to notify on the definitive dates for Category C designations and to provide progress on technical assistance and capacity building⁶⁰.

Assessing the logistics potential positioning and market for Togo

200. Logistics is a service industry for manufacturing and trade. Reviewing the potential for developing logistics services for existing and potential trade flows through Togo is therefore the starting point of the assessment. Depending on the nature of the flows and their requirements, the options, which are not mutually exclusive and should be pursued concomitantly, for developing further the logistics services are:

⁵⁹ On October 1st, 2015, after Niger which ratified on August 6th, 2015

⁶⁰ The priority actions taken to date are as follows:

- a workshop was held in September 2018 on Category B measures to identify blockages;
- a workshop was held in January 2019 on Category C measures to identify technical assistance needs;
- a workshop was held in September 2019 to evaluate actions to date;
- documentation was completed in October 2019 for a UNCTAD workshop;
- terms of reference have been prepared for a consultant to develop technical assistance proposals.

- On the intensive margin, expanding the volumes attracted by Togo that require simple auxiliary services.
- On the extensive margin, climb the value-added scale to offer tailored and more complex services to manufacturing and trade.

The diversified trade flows of Togo and their potential to sustain logistics services

201. Transshipment, despite significant volumes, has limited impact on the local logistics industry beyond the container terminal. The flows that matter for assessing potential development of logistics services are the export chains, mostly agricultural commodities, from Togo and neighboring countries, import chains, mostly consumer goods with a potential for regional distribution or re-export, and light manufacturing.

202. Many West African countries have similar resources and products. For the main agricultural commodities exported by Togo, cotton is exported in larger quantities by Benin, Burkina Faso, and Mali. Cocoa and coffee are exported in much larger quantities by Ghana and Côte d'Ivoire and both already have overcapacity in processing. For the non-agricultural commodities, cosmetics are also exported by Ghana, and cement by Benin and Nigeria. The only Togo specific export commodity is phosphates, but Nigeria has plans to develop fertilizer plants that could potentially serve the needs of the region. Most agricultural exports are for overseas markets, though some food crops have potential in the regional market, including in processed form.

203. The stakeholder workshop identified several chains with a potential for the development of logistics services:

- Dry agricultural product in bulk with potential for packaging, and possibly processing but with the caveat that the logistics may already be controlled from the supplier side for grains or buyers for cashew, cocoa and similar products, and not by Togo operators.
- Palm oil, locally produced and imported, destined for the regional markets. Opportunities for VALS are in packaging, and possibly light manufacturing for transformation.
- Textiles, with a potential for light manufacturing in the Free Zone, and packaging and distribution or logistics services.
- Pharmaceuticals with a potential for packaging and inventory management.
- Electronics with a potential for packaging and inventory management, and potential repair
- Vehicles (including spares) with a potential for local assembly (already done but limited), and inventory and returns management, customer service and distribution.
- Humanitarian. The Inter Agency standing committee provides logistics support to humanitarian operations. Two hubs are serving West Africa (in Las Palmas and Ghana) providing a range of opportunities for auxiliary and VALS. The development of this activity in the region could possibly provide a niche market for Togo in specialized services.

Synthesis of the SWOT Analysis

204. The strengths and weaknesses of Togo are relative and need to be assessed against the regional competition. For shipping and inland logistics, Togo’s advantage over competition will quickly disappear, as major terminal expansion plans are under way in Cote d’Ivoire and Ghana, and all countries operate Single Windows either equivalent to Togo’s SEGUCE or with plans to upgrade. However, neighboring countries, except Benin, benefit from larger domestic market to support their operators, and Benin counterbalances this thanks to its access to Nigeria. The argument of larger domestic markets in the neighboring countries applies also to air transport.

Figure 18: Synthesis of the SWOT analysis

Strengths	Weaknesses	Opportunities	Threats
Sound port and airport facilities that help improve air and shipping connectivity	Limited domestic market from which to build a base of logistics service providers	Logistics recognized as strategic priority by the government	Competing ports and airports also upgrading their facilities
Anchor carrier (MSC for shipping and ASKY for air) have selected Togo as hub	Logistics services limited to the auxiliary side of the spectrum	Neighboring (and competing) countries have not yet identified the potential of logistics	Security issues throughout the region
Secure territorial waters	Limited logistics training and skills development programs		Traffic and trade imbalance
Transport sector has ongoing reform program with strong commitment from public and private sectors	High cost of transport and logistics services		Decisions already made that won’t easily be reversed (DHL hub in Cotonou, humanitarian hub in Ghana)
Sound IT for trade (SW, Customs IT)	Open Free Zone regime which has the negative side effect of not promoting agglomeration benefits		
Ratified TFA and notified categories	Challenges with IT infrastructure		

A narrow path for evolving into a logistics hub

205. The SWOT analysis and dialogue with stakeholders show that there is a narrow path for Togo to evolve into a logistics hub, provided expectations are carefully assessed to strengthen the most promising niche markets to build consensus among stakeholders before raising the level of ambition.

Long term strategy

206. The long-term strategy for Togo could be based on five pillars: (a) align public and private sector objectives, (b) build VALS on existing successful logistics business lines, (c) reduce costs for the transport and logistics industry, (d) plan logistics at the national level, and (e) mobilize private sector finance in the development of the logistics infrastructure.

207. The first pillar, and foundation, is **alignment of objectives between the public agencies** in their role of promotion and regulation of the sector, **and the private operators**. The context is favorable as there is momentum for dialogue among stakeholders with a problem-solving approach:

- In the transport and logistics sector thanks to the EU and World Bank Group support to a reform program for the professionalization of the trucking and logistics services
- On trade facilitation, through the steering committee for the single window
- On trade policies, through the National Trade Facilitation Committee under the Ministry of Trade

208. However, in order to sustain that dialogue beyond the implementation of programs, a proper institutional framework should be put in place, with (a) a clearly defined decision-making level, preferably at inter-ministerial level due to the cross cutting nature of the issues to address (Customs, Trade, Transport, Education, Industry, etc.); (b) an executive level, preferably through a dedicated agency; and (c) a monitoring mechanism for both analyzing the evolution of the market and its potential, as well as the impact of the measures adopted to promote the transformation into a logistics hub.

209. The second pillar is **building value added services from existing auxiliary services in selected business lines** with a high potential for success, notably in the shipping and inland logistics and the light manufacturing industry, where the few examples of actual VALS already exist in Togo.

210. The third pillar is **improving the efficiency of transport and logistics services** to trim down costs. In the West Africa region, competition is generally on prices, which threatens a race to the bottom, rather than privileging quality and diversity of services. In that context, it will be difficult to develop and market VALS if the associated costs remain high. In Togo, the current transport and logistics reform program is targeted specifically at that objective, but it is a long-term endeavor.

211. The fourth pillar is **planning the development of logistics at the national level** and not focusing on a single location.

212. The fifth pillar is **promoting private sector investment** in the expansion of the logistics infrastructure.

Short term roadmap

213. In the short term, several immediate actions can be initiated contributing to the different pillars of the long-term strategy:

- a) Design the institutional model for the management of the logistics hub. The many components of the logistics system are currently managed in isolation by several entities: the port authority, SALT, SAZOF, Togo Invest, Ministry of Commerce, Ministry of Transport, OTR and all the private logistics operators. The first step is setting up a multi-

partner task force for the preparation of guidelines for the strategy and validating it once it is complete. This responds to the first pillar.

- b) Define the strategy with logistics priorities. The sooner a strategy document with national priorities and a blueprint for the evolution into a logistics hub is defined, the sooner it will become possible to align the development of each of the components of the logistics system in a manner that contributes to the overall objective instead of disconnected or possibly competing initiatives. This is directly related to the fourth pillar and paves the way for the fifth.
- c) Capacity building for public and private stakeholders. That will enhance the public-private dialogue from the first pillar, but also contribute to the second and third pillars.
- d) Conduct a logistics survey. This will establish the baseline for monitoring progress towards the establishment of the hub and will help define step-by-step targets.
- e) Sensitization and dissemination. The objective is to build a broader coalition beyond the task force and pave the way for the fifth pillar.

CHAPTER 5: MINING: DIVERSIFYING WITHIN PHOSPHATES AND BEYOND

5.1 Introduction

214. The mining industry, and phosphates production, has historically been a pillar of the Togolese economy. The national phosphates company, *Société Nouvelle des Phosphates du Togo* (SNPT), predates Togo's independence as it was originally established in 1957. Under its original name *Compagnie Togolaise des Mines du Bénin*, the company began production in 1961. It quickly became a key source of foreign currency earnings for the young country while also contributing some 10 to 20 percent to the national GDP.

215. Phosphate production peaked at over three million tons in 1988/89 and the company briefly ranked fifth globally in terms of annual production. However, decline quickly set in due to a combination of depleting resources and outdated machinery which caused interruptions in the production line and cut effective capacity to about one third. Despite considerable investments and modernization plans in the early 2000s, annual production capacity is currently below 1.5 million tons (company information) while actual output and exports have hovered around one million tons for almost a decade. The prospects for SNPT production are dim without the foreign investment necessary to develop new deposits.

216. The Togolese mining industry is comprised mainly of phosphate and limestone extraction, supplemented by the processing of limestone into clinker and cement production. 2016 marked a turning point as the clinker/cement industry eclipsed the value of phosphate production and exports. Unless new investment is encouraged in the phosphate sector, the clinker/cement industry is expected to be the leading sub-sector in the years to come. Artisanal mining has also become more prevalent. Other commodities, including iron ore and gold, have attracted the interest of foreign exploration companies in recent years, though with disappointing results to date. Quarrying has exhibited strong growth.

217. The current contribution of the mining industry is modest, but positive developments point to an industry which is diversifying and could regain some of its historic role. A structural change has occurred in the industry as a more diversified group of operators has entered the market. This change promises a more resilient industry which is less reliant on a single dominant operator (SNPT). It holds the potential for greater accountability and a private sector-driven growth model which could attract much-needed foreign investment and add more value through sub-contracting and arms-length governance practices. Operations are more geographically dispersed with benefits, such as job creation and infrastructure development, distributed across the country. Environmental impacts will be less intense with a greater likelihood of balanced mitigation as mining operations are not concentrated in a single area.

218. Nonetheless, Togo does not appear to be as mineral-rich as some of its neighbors and until it is able to develop its carbonated phosphate deposits, the contribution of the mining sector to national growth is likely to be modest. In the meantime, it will be important to improve the governance of the sector. The private sector and foreign as well as domestic investment will play

an important role in this transformation since the public sector clearly does not possess the financial or technical resources to instigate the required modernization of mining operations in terms of exploration and research as well as technological upgrades. The clinker and cement industry are a good example of the positive effects in job creation and economic output on the back of relatively modest inflows of foreign investment.

5.2 Mining Sector Overview

219. The mining industry is only moderately important to the national economy, representing about three percent of GDP, 1.5 percent of public revenue and less than one percent of national employment.⁶¹ But construction materials, dominated by clinker, cement and marble, account for another 2.2 percent of GDP. Exports of phosphates, clinker and cement accounted for 27 percent of the value of all goods exports in 2016 (see Chapter One).

220. Limestone extraction and clinker/cement production have seen the strongest expansion in recent years. Total limestone production volumes have increased with the entry of SCANTOGO (see Table 17). Cement exports declined recently as neighboring countries built their own cement factories, but this then increased the demand for clinker. Foreign capital and technology have been attracted from Germany and India. Additionally, several marble companies are extracting marble and dimension stones which have predominantly targeted the domestic construction industry. Thus, the construction materials sector accounted for one-quarter of manufacturing value-added in Togo and registered average annual growth of 10 percent between 2006 and 2015 (see Chapter One). However, import competition from Nigeria's big Dangote company may dampen cement production in Togo going forward.

221. The volume of phosphates production has fluctuated over the last 15 years, with no discernible trend. The price of phosphates has fluctuated wildly, rising from US\$45 per ton in 2006/7 to briefly surpass US\$400 in 2008. After further ups and downs, it stabilized around US\$120 in 2015-16, before sliding to US\$100 in early 2019. Thus, there has been significant growth in the value of phosphate exports, even though volumes, and hence real growth, has stagnated.

222. Iron ore mining was piloted around 2010, but due to disappointing exploration campaigns, low production capacity which failed to achieve scale efficiencies, and a fall in world prices, production ceased in 2015. The statistics for gold production and export (15 to 21 tons of gold reported per year) are in fact misleading as the clear majority comes from the gold-producing neighbors of Ghana, Burkina Faso and Mali. Despite multiple exploration campaigns, no industrial-scale deposits have been identified in Togo. Nonetheless, diamond and gold mining are pursued by an increasing number of artisanal and small-scale miners. Alluvial deposits provide livelihoods for a large and increasing part of the rural population. The limited oversight by government agencies means that sector statistics and reliable figures are not available for artisanal mining. Tens of thousands of rural households rely on mineral extraction for parts of the year to supplement agriculture production. Formalization and better planning of these

⁶¹ Extractive Industries Transparency Initiative (EITI) report for 2018.

activities hold the potential to improve job quality and value creation.

223. The Togolese mining sector has seen several positive indicators over the past decade. First, the number of extractions permits more than doubled from 27 in 2010 to 66 permits in 2018. The volume of aggregates has grown rapidly until 2017. The value of total sales from the mining sector has risen, though with a partial reversal in 2016. From a fiscal perspective, revenue to the Treasury remained constant at around CFAF 17 billion per year until 2016, or around 1.5 per cent of total government revenue. 2016 saw a significant drop in revenue of 24 percent to CFAF 13.6 billion, due primarily to a fall in both output and world prices for phosphates.

Table 18: Mineral production statistics: 2010-2018

		2010	2013	2014	2015	2016	2017	2018
Phosphates (tonnes) SNPT		695	1,214	1,086	1,150	850	733	1,020 ⁶²
Lime-stone (tonnes)	WACEM	1 656	1 608	1 808	1 011	1 424	1 049	
	SCAN-TOGO	-	-	353	1 676	2 054	2 288	1 456 ⁶³
Iron ore (tonnes)		-	79 868	88 574	-	-	-	
Gold (kg)		10 451	21 086	20 582	15 372	15 663	19 320	
Diamonds (carats)		-	23	22	46	-	2	
Aggregates (m3)		128,341	239,726	420,502	369,923	560,968	294,446	143,757
Value of sales (millions of FCFA)		N/A	89,180*	94,855	123,596	105,214		
Revenues to the state (millions of CFAF)		N/A	17 907	17 283	17,910	13,611		

Sources: EITI and DGMG

224. Togo continues to hold very promising potential for phosphate extraction. Deposits of carbonated phosphates (as opposed to the rock phosphates at the SNPT site) are found adjacent to existing operations around Kpémé. These resources are estimated to allow 50-100 years of production at a scale which would be three to ten times larger than current production levels. Because of different physical and chemical characteristics, SNPT machinery and technical expertise would not be adequate for processing carbonated phosphates. Nor does SNPT or the government have the financial resources needed. Attempts to attract investors to develop the carbonated phosphate deposits have been unsuccessful so far. Substantial resources and investment will be required to fully evaluate, delineate and exploit these mineral deposits. The deposits are relatively shallow but at the same time dispersed across a large territory. For this reason, social impacts including resettlement and land compensation would require elaborate planning. Transport and shipment solutions could build on existing rail and port facilities.

225. There is also good potential for the transformation of some of this phosphate into phosphoric acid. But provision of reliable gas and electricity supplies will be essential. A strategy for development of the phosphate sector was approved in 2009 but unfortunately it has yet to

⁶² SNPT data not verified

⁶³ SCANTOGO data not verified

be implemented. As explained further below, investor interest in the Togolese mining sector remains subdued because of uncertainties about the legal and fiscal framework and contractual terms. This represents a major loss of export earnings and government revenues. It remains the best opportunity for the mining sector to regain its historic role as a growth driver in Togo.

226. The mining sector can be divided into three types of operations:

- a) Industrial-scale mines extracting phosphates, limestone, marble and until recently iron ore;
- b) Small-scale quarrying companies which are exploiting sand and aggregates for the construction industry;
- c) Artisanal and small-scale miners of gold and diamonds as well as construction material.

227. Table 18 summarizes the evolution of exploration and exploitation permits. Large-scale activities appear unchanged over the past five years, although in fact some operations have ceased or suspended production without terminating the mining permit. At the level of small-scale and quarry operators, a considerable increase of permits has occurred (from 30 in 2014 to 59 in 2018). The value of this production is negligible compared to the large-scale operators, but the formalization of this industry segment means that inspection of and compliance with environmental and labor standards have improved. This has a positive effect on employment opportunities (and quality of jobs) at the mine sites. It can also be expected that surrounding communities develop a more harmonious relationship (sale of products and services and mitigation of negative impacts) with a company that is duly registered. Likewise, the up-tick in artisanal permits indicates an acceleration of formalization – if not an increase in activities. The total of 66 mining permits (excluding the artisanal miners) has only a marginal impact on the national labor force but formalized artisanal and small-scale operators constitute only a fraction of the actual number. As of 2016, less than one per cent of the workforce was employed in the mining industry (EITI, 2018). However, the employment contribution is increasing. Increased formalization should be accompanied by training and awareness programs as well as improved access to equipment and finance. This can improve productivity and environmental compliance.

Table 19: Evolution of Mineral Permits: 2014-2018

		Exploration permits	Exploitation permits			Quarrying
			Large-scale	Small-scale	Artisanal	
2014	Awarded	0	0	3	1	2
	Cumulative	41	7	7	1	23
2015	Awarded	4	0	0	0	23
	Cumulative	45	7	7	0	32
2016	Awarded	6	0	1	0	15
	Cumulative	22	7	8	0	42
2017	Awarded	14	0	3	25	9
	Cumulative	32	7	11	25	50
2018	Awarded	16	0	1	25	11
	Cumulative	35	7	9	50	50

Source: MME, DGMG

5.3 Sector policy and planning

228. Togo adopted a National Development Plan (NDP) in 2018 with the objectives to accelerate sustainable economic growth, create employment opportunities and promote all dimensions of human development, within a timeframe ending in 2022. The NDP identifies the mining industry as one of the strategic growth poles for the national economy with the objective to accelerate job creation as well as government revenue collection. It is envisioned that Togo should move up the value chain of phosphate production to produce not only concentrates for export but also initiate domestic production of end-product fertilizers. As mentioned earlier, such a strategy would require availability of gas supplies as well as reliable and low-cost electricity. It is not clear that such energy provisions can be secured within the five-year timeframe of the NDP. Experience from previous attempts to mobilize financing for mining investments in Togo has shown that investor interest has been limited or required excessive fiscal incentives. Accordingly, it may be more prudent to expect that the period from now to 2022 would lay the foundation for development of the phosphate industry, by doing a lot more geological work to assess the deposit, plan the necessary infrastructure and identify a credible partner/investor. Actual commercialization of carbonated phosphates may only be achieved beyond 2022.

229. A second strand of the mining sector growth pole concerns promotion of small and medium-scale enterprises, both in the fields of mining activities (limestone, clinker and construction materials), as well as suppliers or service providers to the mining industry. It is likely that this second part of the growth strategy could generate more tangible results for the Togolese economy in the 2022, considering the sizable increase in the number of formalized mining operations and the potential for backward linkages. Togo could draw on the Guinean experience in promoting sub-contracting through a *Bourse de sous-traitance*, which provides a virtual marketplace as well as training for suppliers.

230. There are already positive signs in the field of sub-contracting since both skills and industry structure exist in such areas as catering and hoteling, construction, transport and other services which are in demand by the mining industry. There is a solid growth potential for mining or mining-related small and medium enterprises (SMEs) if the recent improvements in the business climate are further strengthened (Togo's Doing Business ranking in 2018 jumped from 156 to 137). Notwithstanding, it is reported that several mining operations rely predominantly on a foreign workforce (*Politique Minière*, 2019). Competition for available domestic mining expertise comes from neighboring countries such as Ghana and Burkina Faso which have more vibrant mining sectors. *Université de Lomé* in early 2019 launched a revitalized 3-year professional degrees in Geology and Geo-chemistry in the interest of better responding to the needs of the industry.

231. Togo does not host a Chamber of Mines or other industry association representing investor and industry interests. Instead, sector dialogue between government, operators and civil society takes place through the Extractive Industries Transparency Initiative (EITI) and other ad hoc or informal groupings, which are often supported by civil society organizations to facilitate or represent local-level interests. The sector lacks a platform for dialogue which can at the same

time promote sustainable industry development while safeguarding the interests of local stakeholders, including communities living near mining operations. While EITI could, in principle, be the convening power to facilitate this dialogue, neither government nor civil society or the private sector perceive the EITI as a platform for high-level policy dialogue but rather as a tool for local awareness-raising consultations. It is a very positive sign that the Department of Mines and Geology (*Direction Générale des Mines et Géologie, DGMG*) in late 2018 initiated a process of developing a national mining sector policy and strategy (SOFRECO, 2019). The absence of such guiding priorities is likely to have constrained sector development both in terms of attracting investors and in strategically managing environmental and social impacts of the industry (SOFRECO, 2018). The inconclusive negotiations to develop the carbonated phosphate deposits have been particularly disappointing. The lack of strategic priorities has also delayed formalization of the artisanal and small-scale operators because no areas had been designated for development. At the same time, no guidance or implementing regulation existed for official authorization of artisanal miners. Moreover, the “Mineral Promotion and Development Fund” which was envisioned in the Mining Law (Article 56) as a tool for domestic industry promotion has never been established.

232. The mining sector policy and associated strategy, which are under preparation, are intended to fill these policy gaps. The preliminary outline proposes a comprehensive framework for sector strengthening and reform which includes all stages of mineral development from early research and data management through mine site development, value addition, sub-contracting and sustainable economic and social outcomes from mining operations. Implementation of these policy recommendations, with the full implication of all relevant stakeholders, will be critical for a more coordinated management of the sector.

233. **Recommendations:**

- Government agencies should continue the formalization and capacity building of artisanal and small-scale operators, including identification of areas with proven mineral occurrences, and facilitation of sales channels to secure regulated conditions of operations and trading
- Private sector exploration should be encouraged through an improved investment framework which would offer more certainty to investors about terms of investment, including property rights in case of successful exploration activities
- Promote carbonated phosphate development, beginning with geological surveys by means of strategic partnership with foreign investors which hold proven experience in the industry;
- Promote other prospective deposits (e.g. gold, iron ore) by systematic publication of existing geological data and maps.

5.4 Institutional structure

234. The Ministry of Mines and Energy is tasked with:

- a) Planning, development and control of all activities related to mining;
- b) Responsibility for sustainable development and value creation of sub-soil resources;
- c) Management of the interests and stakes of the State in state-owned enterprises and commercial partnerships; and
- d) Regulatory control and oversight of all enterprises involved in development, extraction or commercialization of mineral resources.

235. The organizational framework of government agencies in the mining sector is generally in line with international good practices. A limited number of institutions have mandates for direct oversight and enjoy roles and responsibilities which are reasonably well defined and with due consideration to line ministries and specialized agencies. Local authorities are also represented in the institutional structure, although resource constraints are reported to limit their engagement and effectiveness. There are increasing efforts to decentralize administrative roles and responsibilities (per the Law on Decentralization of 2018), but the results of these efforts have yet to materialize.

236. Despite the structural clarity, resource constraints are a key factor negatively impacting the effectiveness of the national administration. Staff numbers in the respective departments of Ministry of Mines and Energy (MME) are often insufficient compared to the tasks at hand, and in some cases, divisions are composed of only a single person. Moreover, severe shortages of financial and technical resources are prevalent. IT hardware and software are generally outdated, equipment for laboratory analysis and field surveys is lacking, and restrictive operational budgets curb regular functions in the ministry. The consequences of these resource constraints are further described in the section on oversight below.

237. Besides MME, several other ministries and agencies are intimately linked to sector management.

238. **Office Togolaise des Recettes** (OTR) is the autonomous agency responsible for fiscal administration and fiscal policy advice. OTR is responsible for tax assessment and tax collection from all commercial enterprises, including mining companies. OTR has very limited experience in the mining industry. This may hamper effective controls and tax audits, although general competencies are reported to be satisfactory. It is also a positive indicator that tax disputes are reported to be rare. One key concern which has been raised is OTR's exclusion from contract negotiations with mining investors.⁶⁴ This has resulted in several directly negotiated contract terms and tax exemptions which reduce not only the transparency of the industry but also the actual tax receipts collected by OTR.

⁶⁴ EITI report for 2018.

239. **Agence National de Gestion de l'Environnement (ANGE) and Ministère de l'Environnement et des Ressources Forestières (MERF).** The National Agency for Environmental Management (ANGE) is responsible for compliance with environmental assessments, impact studies, and environmental audits. The Ministry of the Environment and Forest Resources (MERF), on the other hand, is tasked with overall management and planning of environmental and forestry resources, including strategic planning and assessments. As such, ANGE is leading monitoring and control of environmental and social management plans in the mining sector. ANGE is also the certifying agency which has the authority to approve or revoke environmental compliance certificates for investors and operators. Such environmental certificates are a condition for definitive investment approvals. While the initial environmental certification for new mining investments follows a systematic process and is generally in line with deadlines, subsequent inspection and compliance monitoring is lacking due to the resource constraints. A series of mine site inspections and enforcement missions have been undertaken jointly by ANGE and DGMG but these initiatives remain informal since no procedures or template reporting formats have been adopted between the two agencies.

240. **The President's Office** is another influential player in the industry, especially on all issues which pertain to investment promotion and negotiations of investment agreements. Decisions and negotiations related to the new carbonated phosphate deposits as well as SNPT investments and other large-scale projects are all led by the President's Office. This situation creates uncertainty about regulatory authorities and the direction of sector development in general.

241. In summary, the strategic planning which is articulated in the NDP across the entire national economy has not yet been translated into a consolidated policy or strategy in the mining sector. This policy void is expected to be filled before the end of 2019 since considerable efforts involving inter-ministerial working groups are currently articulating policy priorities. A draft Mining Sector Policy was released in March 2019, with expected validation and publication by mid-2019. Delegation of regulatory mandates across government agencies is generally clear. Notwithstanding, lack of resources substantially constrains most ministries and regulatory bodies from fulfilling their responsibilities. Moreover, the dominance of the President's Office in all major investment decisions complicates sector planning. In combination, these constraints have delayed the diversification and liberalization of the mining industry. It is also likely to have negatively affected investor perceptions and the business climate in the mining industry.

Recommendations:

- There is a need to publish a clear sector policy which details key objectives of the Togolese mining sector (including job creation and benefit distribution) and defines an action plan for sector development and investment promotion;
- The MME should fill the regulatory gaps which have constrained sector development – including inter-ministerial coordination of environmental and social compliance, tax assessments and others. Such clarifications would minimize investors' and operators' risk perception and improve regulatory efficiencies;
- The MME must further assert its central role as leading agency responsible for planning and regulation – as has started with the formalization of artisanal and small-scale miners and the

current drafting of a sector policy. This should be followed by better monitoring of SNPT and taking control of carbonated phosphate development.

- Government must acknowledge that a larger part of the revenue generated from the mining industry should be reinvested in sector agencies with the dual objectives of better sector governance and attraction of international investors. Currently, resource constraints (staffing and equipment) represent a main impediment for most agencies to adequately fulfill their designated mandates. The gradual introduction of IT systems is an opportunity to rationalize operational efficiencies, but such systems rely on actions by sector experts and field presence to ensure enforcement.

Investment promotion

242. The sub-soil resources in Togo have not received the same level of interest from international mineral exploration companies as have other countries in the West Africa region, such as Ghana, Burkina Faso, Cote d'Ivoire and Mali. This means that geological information is limited to lower resolution regional prospection data which has been produced by government or financed through technical assistance. The ministry website (togo-mines.com) contains references to geological data and low-resolution maps with the possibility for prospective investors to purchase, albeit the quantity of available data remains minute.

243. A concerted effort is currently under way to systematically register and publish all existing geo-science information through a Geological and Mineral Information System. This effort also includes compilation of data sets which have hitherto been preserved by other agencies, including foreign survey agencies, such as the French BRGM. The digital information system is scheduled to be on-line in the middle of 2019. This milestone will mark an important progression of DGMG's investment promotion and transparency. Besides the value of geological data to international investors, the acquired knowledge will also be essential to the planned promotion of national artisanal and small-scale mining which depends on identification of mineral-rich areas that can be designated for them.

244. In addition to the exploration activities undertaken by the national authorities, some investors have conducted exploration campaigns of mineral deposits over the years. In theory, such data should complement the existing government data sets, but government's ability to compile and analyze investors' data has been sporadic. The failure to capitalize on the data generated by investors is a matter of lack of institutional capacity and enforcement since the Mining Law (1996) clearly stipulates the obligation of investors to transmit all geo-scientific and hydrological data to the national authorities. It is expected that the Geological and Mineral Information System will initiate a drive for more systematic data collection.

245. Besides the digitization of geological maps and data, DGMG has initiated another digital modernization with the development of a Mineral Cadaster System (MCS) to manage all stages of mineral permitting. Design and programming have started with expected operational launch in early 2020. The MCS will streamline application procedures, expedite decision-making and strengthen inspection arrangements. The MCS will feature an electronic database which will

allow real-time monitoring of operators' and investors' production and reporting obligations. From an investor perspective, the MCS will add a level of certainty that procedures are followed in a transparent manner and on equal terms for all investors. The MCS will also adopt the official digital mapping system for uniform geographical location of all mineral permits to avoid permit overlaps and other potential conflicts over competing land use. The digital management of mineral permits will be markedly different from the current system which consists of paper maps and simplified databases. Experience from other countries, such as Mauritania, Burkina Faso and Tanzania, shows a direct correlation between the introduction of a digital permit management system and investor interest.

246. That Togo has not yet established itself on the map of mining investment destinations is reflected in the fact that Togo is not included in the Fraser Institute Investor Perception Survey, which produces an annual survey of approximately 100 mining jurisdictions across the world. Besides hosting a geology which appears to be less mineral-rich than neighboring countries, the investment framework contains a considerable number of uncertainties and room for discretionary decisions which discourage both foreign and domestic investors. The main weakness lies in the absence of implementing regulation to codify the principles and legislation which are presented in the Mining Law of 1996 and updated in 2003. It is natural that Togo could benefit from a revision of the law which is 25 years old, but the immediate need concerns issuance of detailed regulations on delegation of authority and procedures for implementation and enforcement of the law.

247. The legal framework lacks a comprehensive set of implementing regulations to confirm and formalize procedures as well as rights and obligations. First and foremost, uncertainties about permit holders' security of tenure diminish investors' interest in large-scale research and exploration campaigns since a promising exploration permit may not be converted to a mining and production permit. In other words, there is a risk that initial investments in research and development cannot be recovered if the mining permit is denied. Competing permit claims may be introduced or land area restrictions may limit the size of the mining permit. Moreover, in case of ownership transfer (or inclusion of new investors), government approval processes may delay or even block further development and production. This uncertainty is compounded in the absence of clear requirements or decision criteria for award or rejection of a mineral permit application. This means that investors subject themselves to discretionary decision-making in a process beyond their own control.⁶⁵

248. The muted interest from investors has been further accentuated by government agencies' lacking proactivity in mineral permit oversight and management. As mentioned above, authorities have failed to collect geological data from private exploration campaigns to build up a national inventory of geo-science. Additionally, very limited monitoring and enforcement of inactive or non-performing licenses has taken place. As an illustration, the number of exploitation permits has remained constant over the past five years, although several mine sites have ceased production. Moreover, a number of exploration permits are pending progression to production

⁶⁵ The decision in 2009 to reallocate some of WACEM's limestone deposits to SCANTOGO may give some investors cause to hesitate.

stage because mine development and construction activities have stalled. Contrary to most mining countries, Togo does not impose escalating land rental fees to encourage exploration activities and gradual relinquishment of the least prospective land holdings. Therefore, potential sites for exploration and development or alternative land uses are held up by inactive land holding which may be held for speculative purposes only. Notable examples of inactive permit holders include the deposit of carbonated phosphates as well as iron ore deposits and marble quarries. A more pro-active management and compliance enforcement of these sites could attract new investors with the potential for job creation and increased economic activity.

249. The sub-sector of artisanal and small-scale miners would also draw important benefits from increased formalization. As illustrated in Table 18, this sub-sector has experienced important progress in 2017 and 2018 as artisanal, unmechanized mining has seen the formalization of the first 50 artisanal mining sites, which previously operated informally. Quarrying licenses have also increased by around 50 percent. The formalization brings several benefits: (a) financially: formal land assets can be used as collateral in certain financial institutions; (b) legally: the formal recognition of land-use rights brings certainty which allows for better medium to long-term planning; and (c) technology-wise: the Bank-financed MGDG offers technical assistance to artisanal and small-scale miners on efficient and sustainable mining techniques. All these initiatives contribute to efficiency gains and improved working conditions for the sub-sector. With a total workforce estimated to be between 20,000 and 100,000, these initiatives have a strong potential for the Togolese economy.

Recommendations:

- Geological information and maps must be published through electronic media and relevant industry events to raise awareness and interest among potential investors;
- The MCS must be completed to streamline application procedures, expedite decision-making and strengthen inspection modalities;
- Mineral permit procedures must be revised to ensure “security of tenure”. If successful exploration companies are not guaranteed the right to mining, investors will not be willing to commit necessary investments in exploration and research;
- Introduce transparent criteria for mineral permit application and approvals; and
- Pro-active enforcement of permit holders’ obligations would reduce the number of inactive mine sites, and if warranted, cancellation of permits would free up land for other investors.

Taxation and fiscal terms

250. Tax and non-tax payments are systematically reported in the annual EITI reports, the latest of which dates from December 2018. In this report, fiscal receipts for 2016 amount to CFAF 13.6 billion, this represents a drop of 24 percent compared to 2015 predominantly due to lower output and global prices for phosphates. Data from the years 2017 and 2018 are not yet available, but a rebound in phosphate output from SNPT of some 20 percent could improve revenue collection as the limestone and cement producers are also reporting production increases.

251. A more detailed analysis of sector statistics reveals that government revenue from the mining industry is dominated by levies on production rather than taxation on profits since more than three-quarters of collections stem from VAT and export duty together with a variety of flat fees.⁶⁶ On the other hand, tax on company profits represents less than 20 percent of total receipts.

252. Fiscal obligations are in principle in line with the general tax regime and other countries in the region. However, mineral development agreements in Togo have benefited from a variety of tax exemptions, which are prevalent in the mining industry but deprive government of a considerable share of sector profits.⁶⁷ These exemptions have targeted corporate profits by means of tax holidays over an extended number of years, contributing to the low ratio of corporate income tax relative to other taxes and fees collected from the industry. Consequently, the profile of the fiscal regime is markedly regressive in the sense that corporate profits may increase without a corresponding increase in the tax receipts. Other unintended consequences of the chosen fiscal regime are a risk of aggressive “front-loading” of mineral extraction to optimize the tax holidays without consideration to long-term planning and sustainability of operations. As duty- and VAT-free imports of material and equipment could discourage local procurement and development of domestic sub-contracting, domestic inputs used in the production of mineral exports should be exempt from VAT or assured of rapid reimbursement.

253. While mineral development agreements are individually negotiated with investors, no model contract is available to form the foundation for these negotiations. Instead, negotiations appear to be initiated at the behest of investors. Until recently, no financial or tax model existed to inform the authorities of the impact and trade-offs associated with proposed tax exemptions. The absence of these analytical tools may explain the unintended consequences of the negotiated agreements.

254. The President’s Office has traditionally taken the lead in negotiations with potential investors with limited coordination or implication of the line ministry and the tax authorities. It is therefore unsurprising that the interests of investment promotion appear to dominate over administrative concerns such as tax efficiency, sector planning and employment creation. The disconnect between decision-makers and implementing agencies explains a large part of the challenges facing the sector.

255. Tax administration in the Togolese mining sector has played a marginal role historically given the long dominance of SNPT which was subjected to a special tax regime that focused on export duties collected by the customs authorities and dividends collected by the Treasury. It is only the emergence of other, private operators in recent years which has triggered the need for specialized tax inspectors and auditors. No dedicated agency or specialists exist to assess tax declarations or sales statistics from the mining operations. In an illustration of this dilemma, three differing production and export statistics are reported by MME, customs authorities and the national statistical agency, respectively. This situation clearly puts authorities at a

⁶⁶ EITI report for 2018.

⁶⁷ This analysis has not had access to detailed terms of mineral development agreements. Instead, the analysis is based on data reported in the EITI Report (2018)

disadvantage in the control and audit of company reports. Until recently, virtually no on-site inspection of production or tax records took place to verify operators own tax declarations. It is only financing from the Mineral Governance and Development Project (MGDP) that has allowed regular inspection of mine operations. Also, under the auspices of the MGDP, a program of capacity building for tax and mine site inspectors within OTR and DGMG is under implementation with the objective of strengthening control and audit functions and identifying the areas having the highest risk of tax avoidance or system failures.

Recommendations:

- In-depth modeling and analysis of fiscal terms should be initiated to understand the full impacts and fiscal costs of the current tax exemptions;
- Based on agreed policy objectives, a revised fiscal framework (and possible tax incentives) should be proposed to promote the industry and encourage company behavior in the desired direction;
- OTR and MME need to plan risk-based controls and audits of mining companies to verify tax declarations; and
- Comprehensive capacity-building of tax and mine site inspectors should be continued since the return on these investments is expected to be high.

Operational oversight and local impacts

256. The Togolese mining industry has a legacy of abandoned mine sites which have not been properly rehabilitated, and community relations have been characterized by conflicts and grievances rather than consultation and collaboration. Historically, SNPT has been able to operate without the same level of scrutiny afforded to other companies, while many quarry owners have functioned informally without official authorization, independent of the standard monitoring and enforcement mechanisms. Nonetheless, recent progress towards formalization and EITI reporting has contributed to transparency about operational impacts and revenue declarations. Individual operators have also faced a stronger level of accountability towards host communities. This, in turn, has generated a more constructive debate about mining development.

257. Important improvements to environmental and social management have been realized in the years following the adoption of the Environmental Law in 2008. The law created the National Agency for Environmental Management (*Agence Nationale de Gestion de l'Environnement* (ANGE)) with a gradual expansion of its mandate and improved resource allocations over the following decade. The law also introduced the requirement of Environmental Impact Assessments and Environmental Audits for all existing and new mineral permit holders. These requirements were further codified through the decrees on procedures and scope of EIAs and EAs issued in 2011 and 2017. As a result, as of 2018 all holders of exploration or exploitation permits had completed either an EIA or an EA in compliance with the requirements of the Environmental Law. One essential part of these assessments is the drafting of a management plan for monitoring and mitigation of observed or potential impacts.

258. Notwithstanding, monitoring and enforcement of these management plans is currently posing an important challenge. While EIAs are required by law, there are no legal provisions regarding mine inspections, such as regulations, inspection guidelines, frequency, guides for inspectors, standardized reporting format or others. No mine inspection was recorded before 2017, because the DGMG did not have enough resources to carry out controls in the field. Only "visits" supported by the mining companies took place. The inspections really started in late 2017 when the DGMG, together with the ANGE, initiated a program of regular inspections of mining companies with the financial assistance of the MGDG. These inspections are currently carried out on quarterly basis, and a systematic framework for reporting is being developed.

259. The adoption of regular inspections is an important step towards improved management of the adverse effects of mining. However, authorities continue to face several obstacles to enforcing sustainable practices. No national norms or environmental standards exist in Togo. To compensate, international standards for effluents, water and air quality, etc. are used. However, these standards are not included in the mining agreements nor in the legal texts. They are included only in the EIA or audit reports approved by the ANGE. This poses a problem for control and enforcement of the management plans as these plans do not clearly establish the pollution thresholds not to be exceeded. A second concern which inhibits effective environmental and social management relates to poorly defined mandates and delegations of responsibility between ANGE, DGMG, local authorities and other authorities. Procedures are currently under preparation, but enforcement and compliance management remain weak if agencies cannot refer to legally confirmed mandates.

260. The recently completed strategic assessment of environmental and social issues identified the following principal negative impacts facing the industry and the surrounding communities:

- Erosion and landscape alterations due to abandon mine sites or inadequate land rehabilitation efforts;
- Water contamination and alteration of stream flows impacting agriculture, fisheries and freshwater access;
- Biodiversity (marine and land-based) is endangered by encroachment of protected areas and discharge of chemicals and tailings to fragile biospheres;
- Air pollution in communities in the immediate vicinity of mine sites or processing facilities;
- Unfulfilled compensation obligations and community consultation plans;
- Occupational health and safety incidents due to inadequate labor safety measures and non-compliance with established standards.

261. A recurring complaint being raised by stakeholders and community representatives pertains to the weak practices of community consultation and the mining industry's scant engagement with external stakeholders and local communities. Such concerns cut across all sectors of the economy and should be addressed in primary legislation under the auspices of environmental, labor and social welfare authorities to ensure nationwide standards. A decree on public participation in preparation and review of EIA and EA was adopted in late 2017, but no

other formal guidance exists regarding community consultation prior to or during operations. Modalities for compensation and resettlement are in the process of drafting to formalize and unify compensation practices which have previously been negotiated case by case in individual investment agreements. This practice has led to uneven procedures and wide differences in unit rates for compensation of lost property. The absence of mandatory consultation procedures has also caused problems in the dialogue between companies and the local population – leading to preventable resentment in affected households and villages because community members have had no designated contact person in the company. Consequently, grievance mechanisms have remained opaque - at best – or in most cases simply non-existent. This break-down of the channels of communication has at the same time escalated tensions and led to missed opportunities for sub-contracting and local employment creation within the host communities. In an environment of more open coordination and collaboration, mining operations would have the potential to generate a more virtuous cycle of economic development in the surrounding communities.

262. Similar obstacles are reported in the planning and management of mine closure and rehabilitation activities. The majority of operations have no detailed provisions for mine closure and land rehabilitation besides generic planning. Experience from Togo and elsewhere shows that this absence of planning entails a high risk that companies will evade accountability of mine closure obligations and eventually result in abandoned mine sites with high risk of erosions and potential contamination from residual chemicals. In response to these concerns, DGMG is currently in the process of developing inventories of abandoned mine sites with an ambition to rehabilitate and convert the sites to alternative land uses.

Recommendations

- Mine closure and planning for rehabilitation of abandoned mine sites are fundamental first steps to improve the public perception of the mining industry;
- Compliance mechanisms and formalization of regulatory mandates to enforce environmental and social obligations are essential to complete the regulatory framework for environmental and social compliance;
- Introduction of grievance mechanisms and standardized consultation practices are essential elements for the operators to gain a more positive perception among the wider public and facilitate a platform for economic development;
- Most mining sites operate as economic enclaves and could play a more conducive role to local economic development if consultations with local business communities and village representatives were codified;
- Local benefit-sharing must be introduced to ensure that the directly impacted communities receive a share of the benefits from the operations.

Conclusion

263. The mining sector has historically enjoyed semi-autonomous status with limited regulatory oversight and large discretionary power at the state-owned SNPT. Other small-scale

operators, often with political connections, extracted minerals other than phosphates with little regard to fiscal, environmental or social obligations. This situation is undergoing gradual reform with the entrance of new foreign players willing to inject necessary capital to enhance productivity, identify new resources and potentially promote employment. In parallel, government agencies are gaining increasing regulatory powers to monitor operations and enforce the law. The current drafting of a Mining Sector Policy and strategy for its implementation are important contributions to further formalization and regulation of the industry. The draft policy proposes several essential steps which can promote the sector as a source for future growth of the economy. These steps include:

- (a) Address the legacy of environmental degradation and social grievances caused by mining operations to date, including provision of additional resources to inspection and enforcement agencies. Mine closure and rehabilitation of abandoned mine sites are essential, but expensive, actions to rebuild public trust;
- (b) Make existing geological information accessible to potential investors to attract investment capital and technical know-how to further explore and develop mineral resources;
- (c) Improve the investment framework in terms of certainty to investors about property rights, fiscal conditions and other areas of general permitting;
- (d) The proven deposits of carbonated phosphates hold the strongest potential for development and should receive dedicated facilitation to attract strategic partners with financial and technical capacity to develop the potential;
- (e) Artisanal and small-scale mining and quarrying represents a special strand of the industry which requires specialized formalization and capacity-building to enhance productivity and environmental performance;
- (f) Transparency and consultation with public and private stakeholders must be encouraged to promote equitable and inclusive sector development; and
- (g) In-depth modeling and analysis of fiscal terms should be initiated to identify the most desirable incentive schemes to promote investment in productive assets and infrastructure while ensuring a stable revenue flow to government.

CHAPTER 6: AGRICULTURE: TIME TO FOCUS ON EXPORTS AND VALUE-ADDITION⁶⁸

264. Agriculture is an important pillar of the Togo economy, responsible for about 30 percent of GDP and occupying more than half of the active population. Because of weak private sector capacity and inability of institutions to overcome the many market and governance failures that exist within the country. Togo remains an agrarian economy that largely produces for domestic markets and subsistence consumption. Therefore, most farmers are under the poverty line, and the rate of rural poverty is 69 percent. Given its large share of the economy and of poor households, Togo will need a dynamic agriculture sector to raise its overall growth rate and make inroads on poverty.

265. **Crop production in Togo has been quite concentrated in roots and tubers** such as yams, cassava, which together with maize comprise nearly three-quarters of crop production by volume, as can be seen in the Table 19. These few commoditized products that dominate the sector are stockable products that have long shelf lives and low values. While their increased production has allowed Togo to gain a measure of food security, concentration in relatively few crops destined for the local market has created intensive competition in these commodities between domestic producers, which drives producer prices down.

266. **Recent performance of the agriculture sector appears disappointing** if one judges by the national accounts as reported in Chapter 1, Table 2. Real growth in crop production was only 0.74 percent per annum between 2006 and 2015. Cash crops – primarily cotton, coffee, cocoa and oil palm – grew only slightly faster than food crops (1.28 percent compared to 0.68 percent), with little effect on the overall growth rate of the sector given their small share of total agricultural production. The one bright spot is livestock, which grew at 7.1 percent per annum.

267. Yet there is significant potential for growth in this sector which could contribute to overall national growth and help reduce poverty. The National Program of Agricultural Investment and Food Security (PNIASA) has a target of six percent growth for the agriculture sector. The picture is indeed more optimistic if one looks at production figures or the indicators such as the RCA, though here it depends on the choice of the starting year. As summarized in Table 20, production has doubled between 2005-6 and 2017 for cotton and coffee, with a smaller increase for cocoa. However, 2005-6 represented a low point in cash crops. If one goes back just a few more years to the turn of the century, it becomes apparent that cocoa and coffee are merely regaining lost ground, while cotton has yet to return to historic highs. Indeed, cotton production reached 188,000 tons in 1999. Therefore, export crops have certainly been more dynamic than the national accounts suggest, but only recently and not by historic standards. The recovery really began only in 2014. And the volumes remain modest compared to regional neighbors, and in fact relatively insignificant in the case of cocoa.

268. Basic food crops have enjoyed a more stable progression in volume terms, with more

⁶⁸ The first part of this chapter draws heavily on the 2017 update of the Diagnostic Trade Integration Study, *Mise à Jour de l'Étude Diagnostique de l'Intégration du Commerce au Togo*, prepared by Togo Ressources. Philip English, who wrote the first part of this chapter, was the principal author of the chapter on agriculture in that report.

moderate rates of growth than export crops, but better than the negligible rate recorded in the national accounts. This reflects the fact that Togo has achieved self-sufficiency in most of these crops, so output is expanding roughly in line with population growth (2.7 percent p.a.) plus some growth due to rising real incomes.⁶⁹ Only beans and rice have shown a higher growth rate. Rice has achieved faster growth as there is room for substitution of the large import volumes in addition to rising domestic demand. However, it is not clear if this is economically viable and may depend on protection or subsidization going forward.

269. **The revealed comparative advantage (RCA) index** is used in international economics for calculating the relative advantage or disadvantage of a certain country in a certain class of goods or services as evidenced by trade flows. It can help reveal where the industry currently holds such potential. The RCA⁷⁰ indicator for Togo's fruits and vegetable exports was 3.76 in 2017, whereas animal products had a value of 0.66. Values above one reveals a comparative advantage and shows that Togo's factor endowments are well-suited to horticultural production. However, at present the production of higher value fruits and vegetables is limited, with tomatoes and pineapples being the two most important products.

Table 20: Evolution of Main Crops and Livestock Products: 2000 – 2017
(‘000s of metric tons, except for livestock)

			2000/1	2005/6	2017	Growth rate per annum
Export crops						
Cotton			168	53	117	7.0
Coffee			17	8	18	7.0
Cocoa			10	9	12	3.0
Food crops						
Cassava			700	769	1,070	3.1
Yams			563	603	848	2.9
Maize			482	524	861	4.4
Millet/sorghum			192	258	312	1.4
Beans			42	60	208	13.3
Rice			62	74	149	6.3
Livestock						
Poultry ('000s of heads)			9,969	13,562	38,252	8.7
Eggs (billions)			227	349	911	8.7
Sheep/goats ('000s of heads)			1,178	1,500	3,154	6.5

Source: Ministry of Development Planning, National Accounts, February 2018.

⁶⁹ It has been estimated that Togo has had a structural surplus in these crops, varying between 13 and 21 percent, since 2009.

⁷⁰ The revealed comparative advantage (RCA) index is used in international economics for calculating the relative advantage or disadvantage of a certain country in a certain class of goods or services as evidenced by trade flows. It is the ratio of a product share in country exports compared to its share in the world trade. An RCA value above one in good (or sector) of a certain country means that the country has revealed comparative advantage in that sector or good. The index ranges from one to infinity for products in which a country reveals comparative advantage, but only from zero to one for comparative disadvantage products.

270. Research has shown income generation in export-oriented agriculture to be more poverty reducing than other sectors. Countries that complement a successful structural transformation (declining share of agriculture in the economy as they develop) with a successful agricultural transformation (declining share of staples in agricultural value added) experience the fastest decline in poverty. Households involved export crops production had a higher consumption than farmers growing non-export crops, even after controlling for other factors such as household characteristics and location. For Togo it clearly appears that the best way to boost agriculture and economic growth will be through exports.

271. This chapter will focus on assessing Togo’s traditional export products (cotton, coffee/cocoa and cashew) and the horticulture sector given its favorable factor endowments along with the knowledge that it is underperforming against global benchmarks. The analysis will emphasize strategies that enhance export competitiveness as it could be an exogenous source of growth for Togo. The analysis will provide an assessment of the structural factors of competition and Togo’s ability to compete given these factors.

6.1 Agricultural Exports

272. Export production in Togo has been skewed towards cotton, cocoa, and coffee in the last few decades thanks to government support and suitable agro-climatic conditions. The progress in exports by value since 2005 is summarized in Table 21. A distinction is made between the average of 2015/16 and 2017 due to a surprising drop in exports of cocoa and coffee, which appears temporary. The progress appears consistent with the evolution of volumes in the case of cotton. The slightly higher rate of growth in the value of exports reflects an improvement in world prices by about 20 percent.

Table 21: Evolution of principal agricultural exports: 2005-2016 (FCFA billion)

	2005-2006	2015-2016	2017	Rate of growth (%) 2005/6-2015/16
Cotton	15.9	35.1	42.3	8.4
Cocoa	9.2	11.4	3.1	2.1
Coffee	2.0	8.0	1.5	15.0
Cashew	3.0	3.7	3.7	2.0
Fruit and vegetables	0.3	1.7	4.6	17.0
Total	30.4	59.9	55.2	7.0

Source: BCEAO, *Balance des Paiements et Position Extérieur Globale, 2008, 2016, 2017*, except for cashew which was estimated by the author based on the MAEH report, *Analyse de la Filière Anacarde au Togo, 2015*.

*Exports in 2018 recovered somewhat to CFAF5.1bil.

**Exports in 2018 rebounded strongly to CFAF6.7bil.

273. The evolution of exports is not consistent with production trends in the case of cocoa and coffee. Cocoa enjoyed a doubling of world prices up to 2016 so one would expect to see a larger jump in the value of exports. Then production continued to grow in 2017 but exports fell dramatically – more than can be explained by the fall in world prices. Cocoa exports are not

always closely aligned with domestic production due to flows into and out of Ghana. The 2005/6 figure may have been inflated by smuggled cocoa. On the other hand, the strengthening of the CFA franc in 2017 may have prompted outflows into Ghana.⁷¹ It is harder to explain the drop in the value of coffee exports in 2017 given the improvement in world prices. Cashew exports are becoming significant; however, the authorities do not yet track them separately. Fruits and vegetable exports have been growing fast, albeit from a very low base. The remarkable increase in 2017 suggests a promising future. There are probably non-negligible exports of maize to neighboring countries, but since most of this goes through the informal sector, reliable data is not available.

6.2 Cotton

274. Cotton is a strategic crop for the Togo economy, the main cash crop and the only one widely cultivated across the country and notably in the poorer, northern provinces. It occupies some 275,000 farmers, supporting, directly or indirectly, almost 2.5 million persons. It is thus a key factor in the fight against poverty. After years of mismanagement, the sector is rebounding strongly with annual growth in sales of eight percent since 2005. While recent progress is encouraging, there is potential to do much better, starting with improved yields. Simply returning to the production levels achieved at the turn of the century would have a significant impact on the income levels of many poor households. Cotton is a high priority for the authorities and a new cotton policy was adopted in 2013 with a clear and ambitious vision:⁷²

275. “By 2022, the cotton sub-sector remains integrated, enjoying good governance, and is competitive, attractive and sustainable, with professional actors, who work together to produce annually 200 000 tons of good quality seed cotton, making a significant contribution to agricultural GDP”.

276. The strategy contained five pillars:

- a) Reinforcing the governance and institutional framework of the sub-sector. This includes several components: (i) professionalization of farmers and their organizations; (ii) strengthening the role of farmers and employees as shareholders in the ginning company.
- b) Support to productivity. The goal is to raise yields from 800 kg./ha. to 1,600 kg./ha. through improved distribution of inputs, technical support, research, mechanization and secure access to land.
- c) Development of infrastructure and equipment. This requires: (i) modernization of industrial equipment; (ii) modernization of trucks fleet; (iii) improvement of storage facilities, and iv) better risk management.
- d) Marketing and value-added. The strategy calls for: (i) improving the quality of seed cotton; (ii) local transformation of seed cotton; and (iii) participation in sub-regional programs.

⁷¹ There is also evidence of stock-piling by exporters in anticipation of a recovery in world prices.

⁷² Republic of Togo, *Document d’Orientation stratégique de la Filière Coton au Togo*, juin 2013.

- e) Financing. An innovative financing mechanism is needed involving national and international financial institutions, including a guarantee fund and insurance.

Markets

277. The international market for Togo's exports remains open with relatively strong demand. The price of cotton has improved since the early 2000s and averaged almost \$2.00 per kg. in 2018. It is expected to decline slightly in real terms but remain well above the level of 2015. However, American cotton subsidies are still a problem, stimulating overproduction in the USA which leads to exports and reduced world prices. Negotiations in the Doha Round of the WTO have failed to properly address this issue.

Recommendations

278. Strategies are often undermined by weak monitoring and evaluation. The current strategy has a strong framework on paper, though there have been some weaknesses in its implementation.

279. Successful implementation of the strategy calls for:

- a) a system of performance contracts between different actors in the sub-sector,
- b) information and knowledge sharing between the ginning company and the farmer's organization,
- c) an annual review of the cotton campaign,
- d) attraction of a majority private partner into the ginning company. A private investor would bring in badly needed financing to modernization the infrastructure, facilitated access to bank finance, and help address some governance concerns.

6.3 Coffee / Cocoa

280. The second traditional cash crop sub-sector is coffee/cocoa. Both are grown by smallholders, so have potential to alleviate poverty. They are the main source of cash income for many farmers in the central part of the country. Cocoa has been very successful in neighboring Ghana (800 000 tons on average) and Côte d'Ivoire (up to 2.0 million tons depending on the year.) Exports from Togo are negligible in comparison, and some of them originate from Ghana. The government's goals were to achieve 26 000 tons of cocoa and 30 000 tons of coffee by 2020. A large program of replanting has been initiated, with support from the World Bank, the EU, and IFAD, which helps explain recent progress.⁷³ But production is likely to fall short of these targets. Output reached only 18,476 tons of coffee and 12,289 tons of cocoa in 2017 (Table 20).

281. Low volumes and poor-quality control hamper the reputation of the sub-sector and the country's ability to build solid partnerships with international buyers. The responsible agency for

⁷³ World Bank, Togo : Agriculture Sector Support Project.

quality control lacks the means and expertise necessary,⁷⁴ but the challenge begins with extension work at the field level to improve farming practices. The large decline in exports in 2017 will further weaken Togo's reputation with buyers and needs to be addressed urgently.

Markets

282. The price of cocoa rose dramatically after 2008 with two peaks in 2012 and 2016. This has encouraged production in Côte d'Ivoire and Ghana, leading to an inevitable downturn in prices in 2017. Nonetheless, the price remains high enough to sustain the profitability of the sub-sector, especially if taxes are limited as in the case of Togo. The real price is expected to be stable or even rise moderately over the next ten years. Chocolate companies worry about adequate supplies of cocoa given the old age of farmers in West Africa while global demand continues to grow. On the other hand, the price of Robusta coffee is expected to decline somewhat. Furthermore, this lowland coffee does not offer the same potential as arabica coffee for high-value niche markets.

Recommendations

283. There are no significant export taxes (as in Côte d'Ivoire) or large parastatal marketing board (as in Ghana), which is an advantage over neighboring countries and should allow for a higher producer price. Voluntary contributions have been approved by the *interprofession* (*le Conseil Interprofessionnel du Café et Cacao, CICC*) and collected since 2014. These are intended to finance the development of the sub-sector, the activities of the *interprofession* and research. These contributions need to be managed in a transparent and effective manner to avoid the problems experienced in Côte d'Ivoire. Among other things, this will require a strong and representative voice for farmers so that their interests are adequately promoted. At CFAF60/kg. exported, some CFAF1.2 billion was generated in 2015. These taxes are paid to the Coordinating Committee for the Coffee and Cocoa Sub-sectors.

284. The stakeholders would be advised to differentiate between the two crops in this sub-sector when it comes to these fees. The world price of coffee is typically lower than that for cocoa, while the costs of production are 50 percent higher.⁷⁵ Applying the same fee structure will penalize coffee. It would be preferable to adopt a different fee for the two crops and one which is calculated as a percentage of the FOB price. In this way, the impact of a fall in the world price would be shared between the farmer and the *Interprofession*. But if the world price for cocoa remains superior to that of coffee, and the production costs of coffee cannot be reduced, it may make sense to concentrate efforts on cocoa going forward. This has been the clear trend in Côte d'Ivoire.

285. In addition, the following measures are needed:

- (a) rehabilitation and extension of the nurseries which produce high-yield seedlings at the Technical Unit for Coffee and Cocoa in the Center for Agronomic Research – Forest Zone (CRAF/UTCC);

⁷⁴ Noelle Terpend, Analyse des filières café et cacao du Togo et propositions d'amélioration, décembre 2015.

⁷⁵ Ibid. This calculation applies to intensive cultivation; the difference is even greater for extensive cultivation.

- (b) replacement of old plantations and the extension of others with new high-yielding and resistant varieties;
- (c) establishment of a better system of research and extension including the reinforcement of the technical unit of the Center for Advice and Technical Support (ICAT) and relaunching of research programmes at Togo Institute for Agronomic Research (ITRA);
- (d) implementation of a system of credit;
- (e) reinforcement of cooperatives, district unions, and the national federation of cocoa and coffee producers;
- (f) creation of an organism responsible for regulation of the sector.

6.4 Cashew

286. Cashew production has taken off because it is not demanding and yet quite profitable. While not ideal, it can manage without inputs or maintenance once the trees begin to bear fruit. Production costs are only one-third of revenues in the traditional system. No processing is necessary and international buyers are easily found. Like cotton, cashew can thrive in the poorer northern regions of the country, thereby contributing to poverty reduction.

287. Data are seriously lacking for this new but fast-growing sub-sector.⁷⁶ Production reached 6,268 tons in 2014, and the value of exports was estimated at CFAF3.7 billion. However, recent reports estimate current production level at 24,000 tons,⁷⁷ and the government has set an ambitious target of 60,000 tons by 2022. Surprisingly, the sector already has some transformation capacity. The company *Cajou Espoir* processed 2,400 tons in 2014, roughly 38 percent of total production. A second plant was opened in 2016, giving a current capacity of 7,000 tons. This processing is very labor-intensive: the first plant employs 700 workers, 75 percent of whom are female.

288. With better farming practices, improved seedlings, and some fertilizer, profits could triple. There is much room for improvement as yields are far below potential: 400kg./ha. versus 800kg./ha. in Ghana. Progress is being made thanks to a partnership between the Togo Institute of Agronomic Research (ITRA) and the Program for Rural Development and Agriculture (ProDRA), along with support from the Africa Cashew Initiative.⁷⁸ Further training through Farmer Business Schools will help sustain growth in the sector.

289. Expansion of processing is problematic given the lack of real competitive advantage for local processing. Local processors compete with buyers of raw nuts who typically export to India or Vietnam. These countries are very efficient and have the advantage of being able to buy locally

⁷⁶ This section relies heavily on the MAEH study, *Analyse de la Filière Anacarde au Togo*, of October 2015. It provides a figure for processed cashew but not for raw nuts, so we made our own adjustment.

⁷⁷ See government website : [https://www.republicoftogo.com/Toutes-les-rubriques/Economie/La-filiere-noix-de-cajou-a-de-grandes-ambitions M](https://www.republicoftogo.com/Toutes-les-rubriques/Economie/La-filiere-noix-de-cajou-a-de-grandes-ambitions-M)

⁷⁸ Le ProDRA, ainsi que l'Analyse de la Filière Anacarde au Togo, ont été appuyés financièrement par la coopération allemande, GIZ.

as well as from various international sources at different times of the year thereby minimizing storage costs. A local processor in Togo faces the challenge of buying and storing enough inputs to operate throughout the year, rendered even more difficult if they are obliged to borrow at the high local interest rates. Some African countries have opted to impose taxes on exports of raw nuts, or even ban them outright. This has the inevitable effect of reducing the farmgate price and penalizing poor farmers.

Recommendations

290. This crop could do much better if it benefited from concerted support from the government in the following areas:

- (a) definition of a clear strategy;
- (b) farmer training in good farming practices;
- (c) research, production and distribution of higher yielding varieties of seedlings;
- (d) organization of the actors in the sub-sector; and
- (e) an efficient warehouse receipts system to address the financing obstacle. It would allow a processing company to borrow using its stocks of raw nuts as collateral

6.5 Horticulture

291. **Fruit and vegetables is the fastest growing agricultural export sub-sector. It also holds the potential for the highest level of value added and the most stable world prices.** The range of horticulture crops produced in Togo is concentrated in tomatoes and pineapples, but also includes mango, papaya, banana, orange, avocado, guava, pepper, onion, okra, carrot, cucumber, cabbage, and lettuce. Some of these other fruits and vegetables may be the most likely to contribute to commercialization of the sector.

292. **To assess the full range of potential products that could be commercialized, it is important to look at the natural factor endowments, which support productivity of the sector.** Togo as a country has 3.72 million hectares (ha) of arable land (48% of the total landmass) with an average plot size of just 0.35 ha. The tropical climate supports at least five different agro-ecological zones as defined by the FAO.

293. Some of these crops require more intensive water resources than others. Several notable production regions include Maritime and Plateaux regions. Indeed, in the Maritime region, vegetable production is mainly near the coast where the availability of water is permanent, thus favoring the right temperature conditions for market gardening crops. The Plateaux region, in its western part, also offers favorable climatic conditions for market gardening.

Post-Harvest Losses

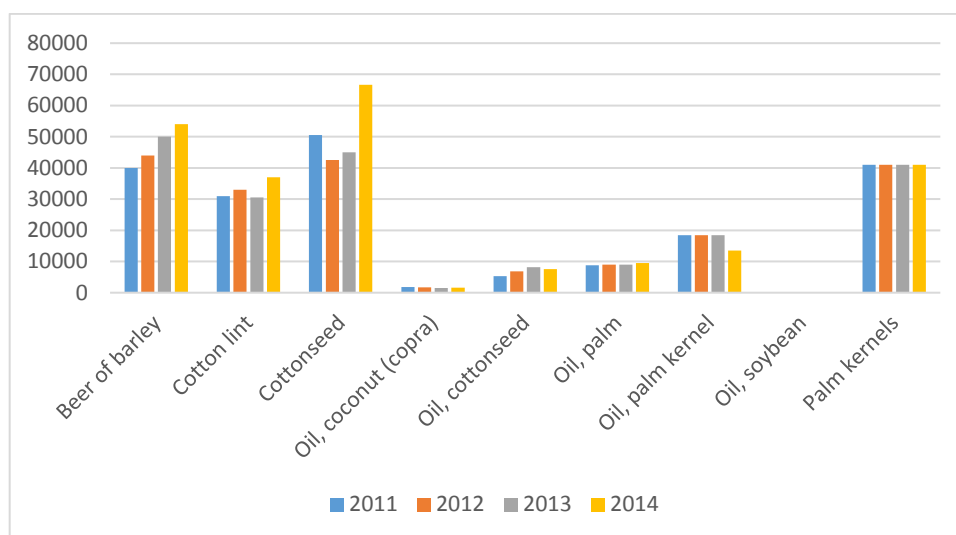
294. **Togo has struggled with post-harvest losses in other fruit and vegetable categories due to poor storage facilities and handling procedures.** Some indicative studies have shown that for the year 2017, the losses related to the production have amounted to about 51 percent of

primary production: 16 percent on average in the field and, and 35 percent on average across distribution channels.

Food Manufacturing

295. **Food processing activities are more limited to a sub-set of commercialized crops, such as tree nuts (cashews and shea), sugar, pineapples, rice, and palm oil among other assorted fruits and vegetables.** FAO statistics can capture some of these products as depicted below. The figures show an agro-processing industry which is dominated by the cotton sector. Beer of barley and oil palm are also processed in notable quantities.

Figure 19: Evolution of Processed Crops: 2011-2014



Concentrated Export products

296. **Togo’s participation in formal export trade of horticultural produce is limited.** While informal cross-border trade is much more prevalent – and thus official statistics underrepresent true exports– the proportion of primary production that is exported formally is relatively low. The limited ability of Togo to export through formal channels is thus symptomatic of weak competitiveness.

297. Table 22 shows the HH concentration index for Togo’s horticulture sector, recording both the export product and market concentration. The Herfindahl-Hirschman Product Concentration Index is a measure of the dispersion of trade value across an exporter’s products. Similarly, the Herfindahl-Hirschman Market Concentration Index is a measure of the dispersion of trade value across an exporter’s partners. Thus, it is an indicator of the exporter’s dependency on its trading partners and of the danger it could face should its partners increase trade barriers. In absolute terms, values above 0.18 show a relatively high degree of concentration. Herfindahl index for all Fruit and vegetables (HS06-15) confirms that exports are highly concentrated in a small number of products. This suggests that Togo could be vulnerable to trading shocks including global supply gluts or a reduction in demand.

Table 22: HH concentration index for Togo’s horticulture sector

HS Codes	Herfindahl Market Index			Herfindahl Product Index		
	2015	2016	2017	2015	2016	2017
Fruit &Vegetables Products (HS06-15)	0.1121	0.0576	0.0721	0.2921	0.1959	0.2552

298. **Togo’s exports of all horticultural produce in 2016 is estimated at \$ 22.6 million, which amounts to slightly more than 0.001 percent of this global trade.** This is limited not only in comparison to the world, but also in relation to comparator countries like Morocco, which exported more than \$3 billion worth of fruits and vegetable in 2016. Countries like Morocco are competitive in their fruits and vegetable exports, not only due to the proximity to their export destinations, but also because they have achieved some critical threshold volumes which enable trade (Chemnitz & Grethe, 2005). These values are important for understanding the scope of the world market and the proportion that global trade plays in this market, especially given an emerging need for achieving scale in trade.

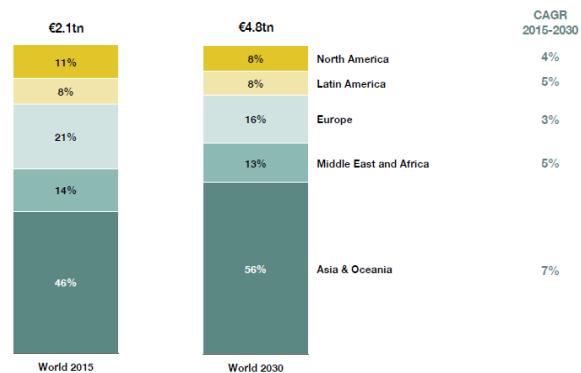
6.6 Opportunities for Togo in New Segments

6.6.1 Demand Trends give indications that the Market will Grow.

299. **More generally, growth in the market for horticultural goods is expected to double by 2030.** One report, issued by Oliver Wyman, suggests that global demand for fruits and vegetables is expected to stand at 4.8 trillion euros by 2030.⁷⁹

300. This value assumes that markets will grow at six percent per annum, which is more than double the current global GDP growth, which stood at only 2.492 percent in 2016 (World Bank).

Figure 20: Consumer Spending on Fruit and Vegetables by Geography, 2030 (Trillion Euros)



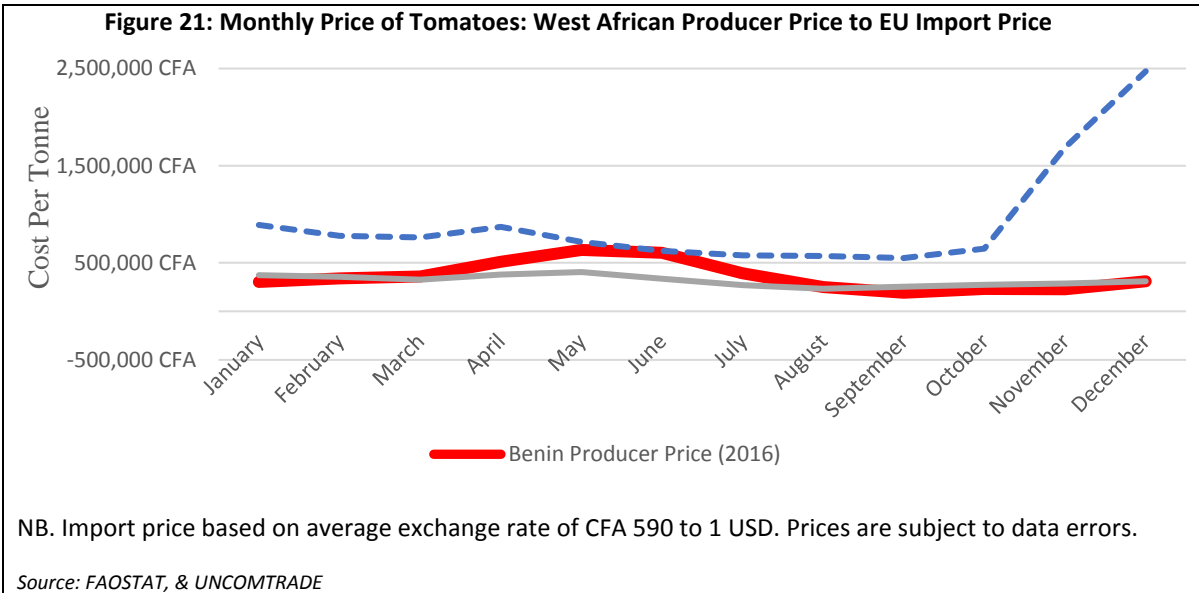
Source: (Oliver Wyman, 2018).

301. **These perishable products not only have a higher price, but they also allow the retention of profit in producer accounts, even in lieu of the typical power of the lead firms.** Lead firms in perishable segments tend to make margins of between four percent and ten percent. However, farms which can produce and properly handle perishable products still have the negotiating power to keep some margin themselves given that the switching costs of buyers are quite high. Farms engaged in production of perishable products can often make upwards of eight percent margins given that competition is naturally less intense and more highly localized within producing regions.⁸⁰ (A more complete discussion of the issues around perishability is presented in Annex 2).

⁷⁹ Oliver Wyman, 2018.

⁸⁰ Lapres, A Strategic Segmentation of the Horticulture Sector, 2018.

302. Moreover, seasonality between different producing regions of the world further reduces the number of direct competitors for the marketing time in question. Since product can only be stocked for a limited time, buyers are forced to pay more in seasons where product is scarce⁸¹. Take for instance Tomatoes, a crop which is perishable. In Togo most harvests are between August and November, while the southern part of the country can yield until March. However, without distribution channels to high value market these harvests create a localized supply glut that drives producer prices down (see Figure 21). Thus, during this harvest period, the price drops given that tomatoes are in more abundant supply. However, at the same time other parts of the world face a relative scarcity. This can be observed when comparing the producer prices to the average EU import price⁸² during different months of the year. Such price differentials suggest that it may be feasible to compete if the cost of transport, insurance, and other services could be contained to the gap between the producer price and the average EU



import price. In months where the gap narrows, it may be more likely to compete in regional markets given the lower transport costs associated with truck transport. For example, in the months of May and June such cost containment seems very unlikely, however there may be more scope for participation in November and December. Luckily, in December the clear majority of product is harvested in the relatively close Maritime region.

Markets

Adjacent Geographic Markets

303. Togo as a West African nation is a member of the Economic Community of West African States (ECOWAS), which attempts to promote economic integration across the region. Countries that are a member of this trading block thus form the primary ‘natural’ market for Togo

⁸¹ The need of buyers to constantly restock their produce further has the effect of limiting the monopolistic position typically seen with stockables.
⁸² The import prices include CIF (Cost, Insurance and Freight). This means that all reported values include the transaction value of the goods, the value of services performed to deliver goods to the border of the exporting country, and the value of the services performed to deliver the goods from the border of the exporting country to the border of the importing country.

given their proximity (see

304. Table 23: ECOWAS Country Profiles) and the push to harmonize standards and reduce non-tariff barriers to trade. The extent of the integration still needs much improvement, but this trade block represents the most easily accessible market given its proximity and commitment to trade integration. However, protectionist barriers are still quite common amongst the region.

Table 23: ECOWAS Country Profiles (2016)

Country	Population (thousands)	GDP (nominal) (millions USD)	GDP (PPP) (millions intl.\$)	GDP per capita, PPP (current US \$)
Togo	7,606	8,583	22,567	2,168
Nigeria	185,989	404,652	1,090,101	5,861
Ghana	28,206	42,689	121,075	4,292
Cote d'Ivoire	23,695	36,372	87,519	3,693
Senegal	15,411	14,683	39,548	2,566
Mali	17,944	14,034	38,251	2,126
Guinea	12,395	8,200	24,375	1,966
Burkina Faso	18,646	11,693	33,023	1,771
Gambia	2,038	964	3,418	1,676
Guinea-Bissau	1,815	1,164	2,920	1,609
Benin	10,872	4,400	11,337	1,491
Sierra Leone	7,396	3,736	10,918	1,476
Niger	20,672	7,528	20,387	986
Liberia	4,613	2,101	3,749	813
Cape Verde	539	1,617	3,534	6,551

Source: Google Maps and WDI.

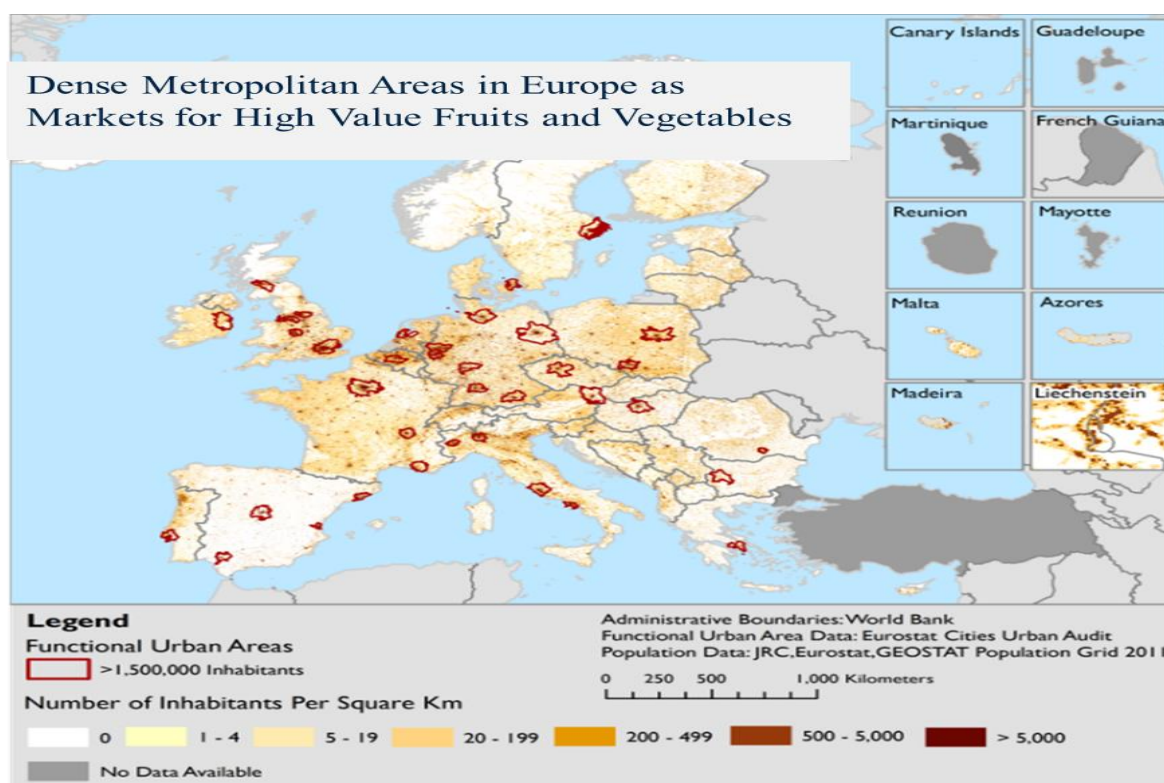
305. **Some of Togo's most proximate neighbors – namely Nigeria and Ghana – boast some of the region's highest GDP's per capita along with the regions' largest populations.** The main centers of consumption are the agglomerations of Lagos, Ibadan, Lomé and Accra, along the coast, which are characterized by accelerated urbanization and increasing demand. The relatively short driving distance from Lomé the economic center of Togo, to these consumption centers further makes these countries the natural 'first' market for Togo's fresh exports. Demand for fresh produce is typically highest in cities, where there is not only a concentration of people, but also a concentration of wealth and youth. One study in Nigeria found that demand for fresh fruit increased 14 percent for every 10 percent increase in household incomes (Ogundari & Arifalo, 2013). The same study also found relatively higher demand for fresh fruits amongst younger populations (ages 25-39), which is also consistent with findings in other parts of the world as well.

High Value Global Markets

306. **Advancements in logistics have opened a new set of opportunities, which can allow companies in the Global South to capture value in trade with markets in the Global North.** These markets often pay a premium for fresh fruits and vegetables given their relative scarcity and the higher purchasing power of these economies. However, the markets within Europe are not all the same. In fact, the highest income countries of Europe, such as Denmark spend 145 percent more than the EU average, while relatively poorer countries in the EU like Poland spend just 63 percent of the EU average (Eurostat 2015). This is largely due to the consumption basket

which is more geared towards perishable foods in Western and Northern Europe.⁸³ Trends in the consumption of fruits and vegetables are also particularly high in the cities of Europe (see Figure 22). Thus, understanding the scope of the market (and where high value markets are located) can help understand the opportunity for various export markets. However, these markets are also sometimes more difficult to access because of quality requirements, food safety standards and other access constraints which will be discussed in the following sections.

Figure 22: Dense Metropolitan Areas in Europe as Markets for High Value Fruits and Vegetables



307. In the long run, products with greater levels of perishability hold more value than those products that are highly stockable. However, creating a horticulture industry in Togo that can compete in perishable segments will take some considerable policy actions, which could then be followed up by a set of investments in capital and knowledge.

Constraints and Challenges

308. The challenges facing the horticulture sector are many:

309. **Land markets are poorly functioning resulting in farms that operate below the minimum efficient economies of scale in terms of acreage.** Most farms that do produce fruits and vegetables are small with an average of 0.35 hectares. Global benchmarks suggest that to be competitive in exports, farms would have to be much larger. Therefore, Togo lacks a substantial

⁸³ Lapres and Bacic, A Strategic Segmentation of the Food Sector: Food Production and Processing, 2017.

cadre of farms and firms that are capable and qualified for export.

310. **Downstream in the value chain**, the number of aggregators and food manufacturing firms are limited and most of them are informal.

311. **While great advancements have already been made recently with the establishment of a single window for trade**, exports or imports paperwork still require too much time to process. Valuable time for perishable produce that needs to make it to foreign markets on short order.

312. **Market for perishable logistic providers is almost non-existent in Togo**. There are relatively few local logistic providers operating in Togo that service the horticulture sector. Those that do exist only use unrefrigerated trucks that (for the most part) lack any sanitary controls. As a result, farmers that wish to export would have to deliver their products to the airport in Lome using uncontrolled logistics – often occurring over long distances and on bad roads – that increase food spoilage and reduce traceability. Regarding air transport, DHL, Air France, and Brussels airlines provide some chilled transport in cargo or passenger jets (held at 8 degrees Celsius). However, these firms do not currently manage logistics of products from farm to the airport.

313. **Lack of cold storage infrastructure at Lome airport**. Time spent at Lome airport packaging and pelleting fresh produce onto planes create exposure to elements that increase the rate of perishability and reduce the quality. Moreover, slow customs processes further add to the time spent exposed to the elements. High value items with greater perishability characteristics (e.g. tomatoes and okra) would not be suited for such uncontrolled logistics.

314. **One of the biggest challenges for all horticulture exports is meeting the high standards required in European and other foreign markets**. The EU blocked 25 shipments in 2016 and 10 Togolese companies were affected. The main problem was plant health regulations (as opposed to human health). The EU raised its concerns with the relevant international body and advised that it would be obliged to impose broader restrictions unless appropriate action was taken. This led to a study and action plan.⁸⁴ The report found serious deficiencies across the system of quality control and certification, and no instances where export shipments were ever rejected by inspectors in Togo.⁸⁵

Recommendations

315. If the government of Togo were to prioritize the competitiveness of its horticulture industry it will need to focus on the development of capacities that would allow it to compete on the global market.

316. **As a starting point**, Togo would need to develop solutions to improve diversification of

⁸⁴ B. Samb et S. Devlieghere, « Diagnostic du système national de contrôle et de certification phytosanitaire des végétaux et produits végétaux togolais destinés à l'exportation vers l'Union européenne et appui à l'élaboration d'un plan d'actions pour le renforcement de ce système national de contrôle et de certification phytosanitaire », 2017.

⁸⁵ This report is summarized in the update of the Diagnostic Trade Integration Study of 2017 available on the WTO website for the Enhanced Integrated Framework program.

agricultural production since currently productive factors are concentrated in only a few commoditized crops and processed products. A range of high value, perishable products could be considered.

317. Crop selection decisions would also have to be made based on: (a) market-demand analysis of the type presented above; (b) the current production patterns in the country given the need to start from some basis; and (c) the water intensity of the crop given that irrigation is often a challenge in the dry season.

318. **Moreover, if Togo were to become competitive, it would have to resolve constraints related to the economies of scale.** Currently Togo's horticulture sector is faced with both small farms and low marketable volumes. As such, it may be necessary for a few larger farms to lead the effort at export. Relatively large farms can achieve some degree of professionalization, which leads to an investment in on-farm capital and ultimately to a critical mass of marketable volume. For its part, government should assess land registration and leasing markets to understand if there any constraints are prohibiting farms from reaching this scale.

319. **Togo will need to attract a qualified full-service perishable logistic provider that can assist in the distribution of product to its highest potential market.** Once a critical mass of such large firms is enabled, they can then jointly market produce through designated 3PL/4PL agent(s) and brokers as needed. After such relationships are established, then a set of smaller firms may be able to benefit from the flow of goods. Therefore, to build an enabling environment for perishable logistics more generally, it will be necessary to improve the skills base that can be employed in the sector. It will also be necessary to build the capacity of local 2PL firms in being able to carry out cold chain operations. This could involve training and some form of incentivized investment.

320. **Beyond improvement in the soft logistic capacities, Togo will also have to work on improving its connectivity.** It will be particularly necessary to decrease the time that it takes for product to get from farm to market, wherever those markets may lie. In international contexts, trade with Europe in perishable products would require road and (air)port infrastructure.

321. **As discussed in the earlier sections, growth in the horticulture sector will likely be driven by exogenous sources of demand rather than domestic sources.** As such, trade will be key to enabling growth of the sector. Government's role in supporting the growth of the sector will thus need to focus on implementing the recommendations listed in the updated Diagnostic Trade Integration Study (DTIS).

322. **Besides the procedures and administrative capacities needed to process paperwork at the borders and** to ensure traceability, it is also critical to ensure that products have sound National Quality Infrastructure (NQI) to back them up. Supporting the restructuring of the current NQI system to become more effective could help improve access to foreign markets.

Conclusion

323. Togo is blessed with good agro-climatic conditions which have not been properly

exploited due to poor policies and an unfavorable investment climate. Progress has been made recently in agricultural exports, but so much more could be achieved. A two-pronged export strategy for agriculture should now be adopted. The first component is a more concerted effort to promote traditional exports (cocoa, coffee, cashew etc.) which offer the advantage of supporting millions of rural farmers and their families. These build on decades of farmer experience and well-understood strategies for improvement, drawing on successes in neighboring countries.

324. The second component is new exports such horticulture. Horticulture exports represent a vision of the future as a modern, technology-based sub-sector, much more complex but also more lucrative once mastered.

CHAPTER 7: TOURISM: NEGLECTED OPPORTUNITIES

7.1 Overview

325. Togo emerged as a charter-based sand, sea, and discovery destination in the 1980s due to heavy investment in government-owned resorts and city properties. Between 1960 and 1980, the Government of Togo built 18 hotels with 1,295 rooms throughout the country, concentrated in Lomé and its adjacent coastline. This led to a growth in inbound tour operators, charters, activity providers and related suppliers. The principal volume clientele were package leisure tourists from continental Europe, mainly French and German, visiting for beach holidays. Civil unrest erupted in the 1990s and its tourism sector went dormant. Charter flights were discontinued, and international tour operators turned elsewhere, and have yet to return. A few Togo's key anchor hotels fell into disrepair.

326. With the return to peace and political stability in the mid-2000s, economic growth restarted, and tourism earnings became a significant source of foreign exchange. By 2016, total export earnings from tourism were estimated at CFAF70.7 billion, exceeding the largest goods export, clinker and cement. Now Togo is poised to usher its tourism sector into its next iteration, with many of the preconditions met, Togo is well-poised to position itself as a MICE (Meetings, incentives, conferences and exhibitions) destination complemented by niche multi-country package tours.

327. This chapter begins with a diagnostic of Togo's tourism sector, including its impact, demand, governance, and supply status. It is followed by an analysis of its challenges and opportunities, an assessment of high-potential segments and exploration of development paths. The final section, supported by national and sectoral development plans, stakeholder consultations and industry insight, outlines a long-term strategy, then detailing a short-term road map to harnessing its comparative advantage in MICE tourism.

7.2 Tourism Demand and Economic Impact

328. As potential sources of growth, holiday and conference tourism have a special role to play in Togo as they are susceptible to promotion through public policy and can enjoy high rates of growth under the right circumstances. Business travel, different from pure conference tourism, is driven by activity in the rest of the economy, while visits to friends and relatives (VFR) is often driven by the independent decisions of the diaspora but can inject leisure expenditures where such activities and sites are developed. Neither is likely to experience rapid growth. Unfortunately, reliable data along these lines is not available. Central bank data only distinguishes between professional and personal travel spending, with an even split between the two. Personal travel earnings undoubtedly include holiday visitors, but probably those visiting family and friends as well. As explained below, the latter may account for most personal travelers, though not necessarily most of the spending in this category, since holiday tourists tend to spend considerably more per person.

329. It is also difficult to be precise about the evolution of the tourism sector over time. Total export earnings jumped improbably by 83 percent between 2008 and 2009 (see Table 24).

Professional travel spending doubled in 2009 and again in 2011, while personal travel spending more than doubled in 2012. This may be the result of changing definitions and categorizations. This impression is further reinforced by national accounts data which shows a significant decline in the contribution to GDP of the hotels and restaurants sub-sector between 2006 and 2016 (see Chapter One.)

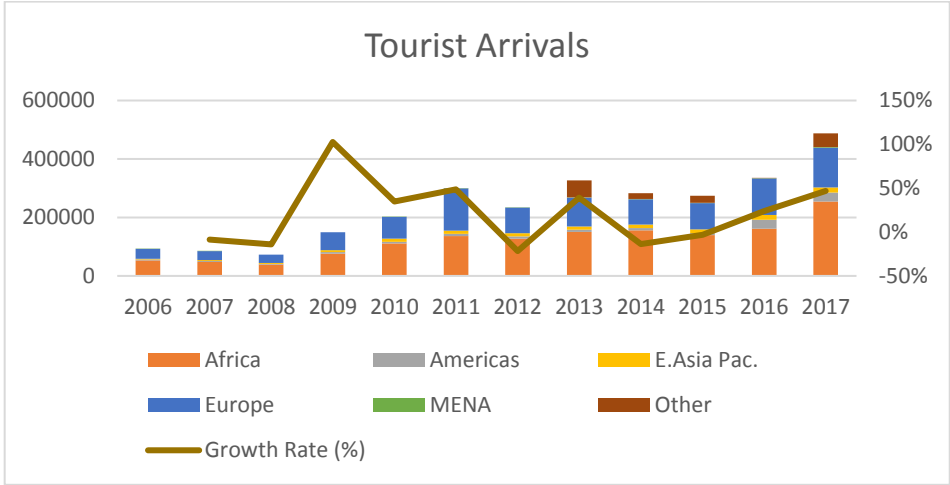
Table 24: Tourism Export Earnings: 2008-2016

	2008	2009	2010	2011	2012	2013	2014	2015	2016	2017
Personal travel	11.2	18.8	16.9	11.4	28.7	31.9	31.5	34.3	36.0	36.2
Professional travel	6.5	13.4	15.5	34.7	28.1	30.1	30.4	32.9	34.8	43.9
Total	17.7	32.3	32.5	46.1	56.8	62.0	61.9	67.2	70.7	80.1

Source: BCEAO, Balance des Paiements et Position Extérieure Globale, 2012, 2016 and 2017.

330. Data on international arrivals can usually provide a more reliable sense of the general direction of the tourism sector, assuming spending patterns do not change markedly from year to year. These data show a significant growth between 2008 and 2011, and again in 2017. The first growth spurt seems consistent with the stabilization of the political and economic situation. Growth in 2017 appears to be driven by African markets, suggesting that it is mainly business related. Average length of stay is very low at two days, reflecting the dominance of business and transit passengers.

Figure 23: Togo Tourist Arrivals 2006-2016



Source: UNWTO Compendium of Tourism Statistics 2012, 2019 Editions

331. Togo’s current main visitor markets are the following:
 (a) **International business:** According Colliers International, this accounts for 77

percent of all visitors.⁸⁶ It covers a wide ranges of business persons, from those associated with multinational companies to traders from neighboring countries involved in the vibrant transit and re-export trade. This provides a relatively stable demand base for Lomé's lodging sector.

- (b) **Meetings, conferences, incentives and exhibitions (MICE):** No data is available on the importance of MICE in Togo's tourism sector, although it is likely included in the international business category. The country has had some success in attracting large conferences, notably the African Union Extraordinary Summit on Maritime Security and Safety and Development in 2016. The Government is interested in developing this activity; however, efforts to date have been on an ad-hoc basis, often relying on the President or Minister of Foreign Affairs to utilize their networks.
- (c) **Visiting Friends and Relatives:** There are two million Togolese in the diaspora worldwide, living in neighboring countries and France. They often visit for extended periods of time around holidays such as Christmas and during the European summer.
- (d) **Transit:** At fifteen percent of total arrivals,⁸⁷ this includes air transit arrivals, flight crews and those driving between Ghana, Burkina Faso or Benin. The majority (80 percent) of Asky Airline's customers use Lomé as a transit point rather than a destination.
- (e) **Regional and International Leisure:** Most leisure travelers are French or West African, due to the proximity of, and relatively good road access to, its coastal neighbors. Many international tourists visit on regional circuits for multi-country package tours (i.e. Ghana-Togo-Benin). These tourists usually undertake overland regional trips with interests in adventure, cultural heritage, and nature tours, estimated to account for six to eight percent of arrivals.⁸⁸ In the Togo leg of their tour, most holiday tourists use Lomé as a base due to hotel quality, and undertake day trips to Kpalimé, Lake Togo, Togoville, and the slave house in Agbodrafo.

7.3 The Tourism Value Chain

332. According to World Economic Forum rankings, West Africa is the least competitive tourism region in the world,⁸⁹ due to i) costly and infrequent air access, ii) a negative destination image and low visibility, and iii) poorly developed and operated attractions, facilities and enterprises leading to sub-par and undiversified experiences. Despite a difficult context, the West African region possesses important tourism potential and its governments are increasingly recognizing the strategic and growth impacts that tourism can bring, if developed and managed in a responsible manner.

333. The Togo National Tourism Strategy identifies Ghana and Benin as its immediate

⁸⁶ Togo Tourism and Hospitality Review, Colliers International, 2016.

⁸⁷ Ibid.

⁸⁸ Ibid.

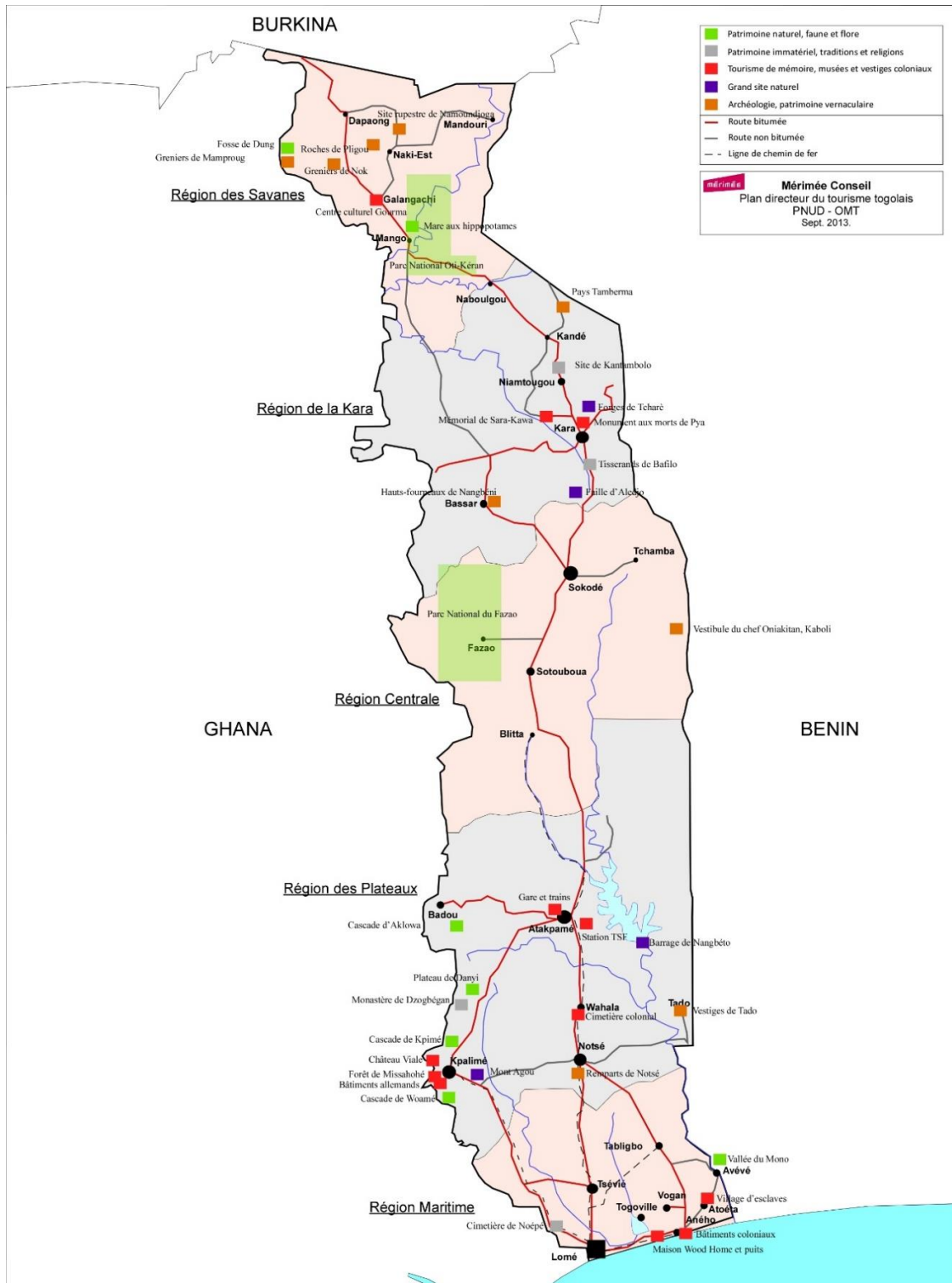
⁸⁹ World Economic Forum, Travel and Tourism Competitiveness Index, 2013.

competitors, both due to their neighboring location as well similarity in asset base. Benin is a particularly close competitor, with similar natural, cultural, coastal, intangible and historical assets as well as its francophone character. Benin is considered to have better national parks (W and Pendjari), a more completely documented history of slavery, the seat of the Abomey kingdom and visible voodoo roots, as well as being located closer to Nigeria, a major potential source market. Nevertheless, Benin's tourism sector has long been stagnant while Togo's, mainly due to pent-up investor demand, has experienced a growth momentum in recent years, spurring interest based on its growth trajectory. While Togo has fewer natural or cultural assets, it makes up for it with improved air access, port operations, better primary road infrastructure, and a tourism legacy, which includes its portfolio of state-owned hotels.

334. One of Togo's advantages is that it possesses a range of tourism products in a relatively small area. These include a palm-fringed coastline, forests, caves, waterfalls, lakes, heritage sites related to slavery and its colonial past, as well as living heritage and tribal cultures. Togo has one cultural UNESCO World Heritage Site and 92 Natural Protected Areas, two designated internationally, and three nationally, notably the Keran and Fazao Malfakassa National Parks (see Figure 19). Lome, the country's political and business hub, is well-dotted with a variety of lodging types and qualities, well-connected to the sub-region, is relatively safe, compact and navigable, and has ready to use world-class meeting facilities, such as the conference venues of the Hotel 2 Février.

335. Togo's natural and cultural tourism sites are generally in very poor states of upkeep, with limited last-mile access and minimal infrastructure and services to justify their appeal. Not surprisingly, visitation rates are very low (from a few hundred to a few thousand). Furthermore, it is difficult to distinguish a comparative advantage for Togo in relation to its neighboring competitors (Benin and Ghana), which have similar, but better developed, assets. Togo is frequently overshadowed on multi-country tourism circuits, often used as a mere transit point, or to access the National Parks in the north of Benin given Togo's better road infrastructure. One specifically under-valued asset is the beachfront along Lomé's downtown, which could be developed into a comparative advantage for a diverse set of segments, from conference, leisure and business travelers, to residents.

Figure 24: Key Tourism Sites of Togo

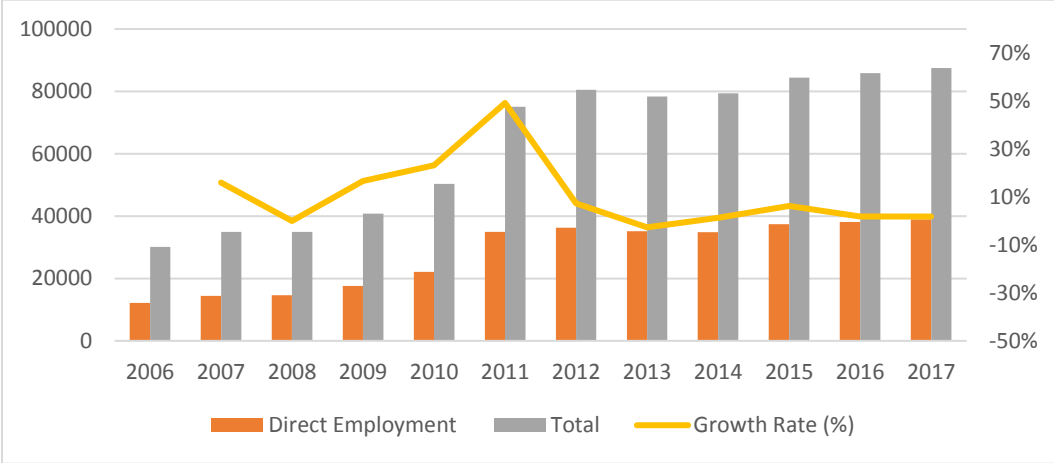


Source: Togo National Tourism Strategy (2015)

336. As with other aspect of the tourism sector, data on employment in the tourism sector is unreliable. The best available source combines travel and tourism and is presented in Figure 25.

According to this source, employment grew between 2008 and 2011, most likely due to a release of pent-up demand by all types of visitors, as is often the case for destinations that return after a period of crisis. Subsequently, growth in tourism employment has plateaued.

Figure 25: Employment in the Travel and Tourism Sector



Source: World Travel and Tourism Council Data, 2016.

337. **Inclusiveness:** Data on the inclusiveness of the sector, and its impact on communities, women, youth and indigenous people is scarce. Anecdotally, it is known that the tourism sector is geographically concentrated mainly in Lomé and its surrounding coastline, with a relatively shallow, or limited, value chain. Many MSMEs are either directly or indirectly benefitting from the sector, especially at the lower price points, however the low volume and variety of visitors stunts the reach of this impact. As in many similar destinations, women and youth are highly present in the lower skilled jobs in the sector and under-represented in management.

338. **Togo’s lodging supply:** Togo has 600 hotels and 291 Airbnbs with 7,576 rooms; 53 percent of all rooms are in Lomé.⁹⁰ The majority of rooms are unlicensed, catering to local and sub-regional clientele in a poor-quality condition. The government has invested in state-owned hotels throughout the country. However, of the 1,323 rooms in these hotels, only 243 are operational, and most require rehabilitation. Official overall occupancy figures have hovered around 25 percent in 2014 and 2015, dropping to 14 percent in 2016. When filtering for ‘quality rooms’ of three stars or higher in Togo, performance improves to over 55 percent occupancy over the past four years. In 2016, top performing hotels had occupancy levels around 70 percent.⁹¹ Occupancy rates improved in 2016 due to increased seminars, business travel and port activity. However, this dropped in early 2017, in the face of mounting political tensions and a fresh injection of quality rooms; average quality occupancy also dropped to about 40 percent.⁹² Digital distribution remains in its infancy in Togo, with 3-star and above rooms listing on leading travel websites such as bookings.com, and with Airbnb offerings. It is still rare to utilize digital marketing

⁹⁰ UNWTO Compendium of Tourism Statistics, 2016. Lomé currently has 1,180 quality rooms, the rest of the market supply is sub-standard.

⁹¹ Togo Tourism and Hospitality Review, Colliers International, 2016.

⁹² Interviews, 2017 and 2018.

channels for promotion and targeting outside of the top branded hotels.

339. Since 2016 there has been a major expansion in hotels with international backing and/or brands that are popular with European markets. This included the Hotel 2 Février (briefly managed by Radisson Blu, 5-star, 320 rooms), Onomo (a West African midscale chain), and the Olodge beach hotel. These joined an existing Ibis-branded hotel. However, international brands have not survived. All government-owned hotels have separated from their brands: the Sarakawa, which was a Mercure (Accor Group), the Hotel 2 Février, and the Hotel Ecole Le Benin, formerly Ibis (Accor Group). This volatility has had the result of sending mixed signals to international investors and brands, which are crucial to attracting international travelers and conferences.

340. **Tour operator supply:** International tour operators largely disengaged from Togo after the 1990s. The few that returned now sell Togo primarily through Beninese or Ghanaian ground operators, resulting in value chain leakages. In a 2013 survey of 26 international operators, 19 sold Togo exclusively and nine sold multi-country circuits including Togo.⁹³ There are only two majors local (inbound) operators: Alba Travel Service and TransAfrica. Together they accounted for 8.6 percent of leisure arrivals in 2012, the most recent year for comprehensive tour operator data.

341. **The Lomé seaport:** As the only natural deep-water facility in West Africa, and now with an upgraded container terminal, the port is a key demand generator in the sub-region. There exists potential to grow cruise tourism, specifically for Cape Town - Dakar routes during the bi-annual repositioning of cruise ships to the Indian Ocean. Cruise ships already dock with mainly American tourists, bringing eight ships and 1,871 passengers in 2012, the latest year with comprehensive cruise data.⁹⁴ Cruises continue, with 600 American tourists disembarking in January 2018.

342. **Air transport:** Togo is growing into a sub-regional transport hub with the establishment of Asky Airlines' headquarters and the opening of a new airport terminal in 2016 in Lomé. It is well linked to West and Central Africa, as well as hubs such as Addis Ababa, Casablanca, Paris and Brussels. The airport serviced 758,794 passengers in 2016,⁹⁵ the latest year with complete data. Recently, Asky Airlines announced new plans to connect Togo with destinations in Europe, which up until now Air France and Brussels Airlines have dominated. However, Asky has not played a significant role in the tourism value chain to date as over 80 percent of its traffic through Lomé is in transit. The connections provided by Asky could be a useful asset in promoting conferences for the sub-region, where air connections are often problematic. Conversely, a growing tourism sector in Togo could also help ensure that Asky retains its base in Togo.⁹⁶

343. **Investor interest:** Pent-up investor demand has manifested strong interest following the end of Togo's unrest and its return to stability. Several hotel investments that were conceived in

⁹³ Government of Togo, National Tourism Development Strategy, 2015.

⁹⁴ Ibid.

⁹⁵ Arrivals and departures; Togo Airport Authority.

⁹⁶ There is a risk that Asky could be attracted to Ghana where the national market and feeder operations are considerably larger.

2009, or shortly after, started coming to fruition beginning in 2015, with new and refurbished hotels coming online and boosting the premium travel accommodation segment.

344. However, in early 2018, instability and an immediate room glut depressed occupancies and pushed down rates. Investor confidence remains cautiously optimistic, and this interest is likely to be sustained in the short-term (2+ years) as the economy continues to recover and arrivals increase, coupled with the country's emergence as sub-regional air transit hub, and growing natural resources and maritime trade sectors. This optimism, however, is fragile, and the sector will need to show serious signs of prioritization and a drive to raise demand in the short-term to translate this optimism into tangible growth.

345. A notable project is proposed by Barcelona-based Pefaco Hotels, along with a local sponsor, who plans to build a resort, [*Pefaco Hotel Prestige Lomé 5**](#), consisting of a 198-room hotel, 36 bungalows and an international conference center on the beach. It was set to open in 2018, but they exited their financing contract with the West African Development Bank in 2016 and are currently searching for partner investors to complete their financing or to refinance.

346. According to Colliers International research (2016), Lomé has room for around 300 additional three-star rooms, 40 four-star rooms, but no five-star rooms up to 2020.⁹⁷ On-the-ground sentiment and low occupancies suggest that this investment will materialize on a delayed timeframe of three to five years. Additional inventory gaps are longer term (2025+); around 400 three-star and 400 four-star rooms. However, access to appropriate sites in Lomé for less than 5-star properties is difficult due to government priorities, which are looking to allocate prime vacant public land only to 5-star, luxury products. The market does not find such products viable in the short or medium terms.⁹⁸

347. Togo's private tourism investors can be split into three general profiles, as follows:

- (a) **International investors.** There are three international investors currently operating hotels in Togo. Kalyan Development Togo Sau, based in Dubai, has leased the Hotel 2 Février from the state. With the departure of Radisson, it was, in 2019, negotiating an agreement with a new brand and management company. Onomo Hotels Group, based in Dakar, which owns and operates 3-star business hotels in five countries regionally, including in Lomé. Olodge is the third example, and the only one outside of Lomé.⁹⁹
- (b) **Togolese diaspora:** The diaspora invested over CFAF154 billion in 2010.¹⁰⁰ Investment is spread throughout the country but concentrated in Lomé. In tourism, around 15 establishments with 210 rooms, or four percent of the total, are diaspora-owned along the coast.
- (c) **Local investors:** Many of which own other businesses and have diversified into

⁹⁷ These projections were made taking into consideration the rehabilitated 2 Fevrier Hotel.

⁹⁸ Interviews in 2017 and 2018, and Colliers International 2016.

⁹⁹ It is not far from Lomé, just down the coast on Lake Togo.

¹⁰⁰ GoT, Togo National Tourism Strategy, 2015.

tourism as a type of real estate investment (Lydia Ludic, individual investors). Most don't have prior experience in tourism, consequently resulting in a mismatch between the quality of product offered and what is demanded.

7.4 Government Objectives

348. The Poverty Reduction Strategy of 2009 lists tourism as a sector to contribute to “increasing the competitiveness of its tertiary sector”, through the “development of a new tourism economy harnessing its cultural potential”. Generally, the strategy’s goals were to reduce poverty in line with the Millennium Development Goals and recalibrate regional disparities. Based on these two goals, the Strategy for Accelerated Growth and Promotion of Employment (SCAPE) was developed in 2011, as well as the Territorial Development Plan. In the SCAPE, tourism is one of three focal service sectors.

349. The National Tourism Strategy of 2015 outlines tourism as a tool to increase economic growth and employment, improve regional integration and reduce social and geographic inequalities, with a focus on improving social cohesion driven by lessons learnt from past civil unrest. The tourism sector’s progress in reaching its goals is difficult to assess given the dearth of reliable statistics, but appears minimal and unplanned, with the absence of necessary public sector actions. Togo’s new National Development Plan (2018) strives to make the country a regional hub, included for business and conferences, and thus has refocused the tourism sector toward MICE tourism.

7.5 Policy and Institutions Context

350. The government has given mixed signals about the prioritization and direction of the tourism sector. Between 2009 and 2015, it increasingly positioned tourism as a priority sector, upgrading its airport terminal and elaborating a tourism strategy. In the SCAPE 2013-2017, tourism was labeled as one of the “sectors with a strong growth potential”. However, this prioritization receded in 2016 with the budget tightening and refocusing on the social agenda, illustrated by the renewed downgrading of the authority in charge of tourism from the Ministry of Tourism to the Ministry of Commerce, Industry, Private Sector and Tourism, and the lack of substantial progress on implementing its tourism strategy. In 2018, tourism was once again restructured, this time as the Ministry of Industry and Tourism, thus giving tourism more prominence, then re-reorganized in 2019 as the Ministry of Culture, Tourism and Recreation (MCTR). Its operating budget, however, remains meager.

351. On paper, the ministry responsible for tourism is charged with sector policy and regulation, although in practice it is largely ineffective and underfunded. Its five specific missions are: (a) to develop and promote tourism sites and infrastructure; (b) develop domestic tourism; (c) develop international tourism in coordination with the Ministry of Foreign Affairs and the Ministry of Transport; (d) marketing and promotion of the country; and (e) to regulate tourism businesses. The Ministry of Finance manages the portfolio of state-owned hotels and their development/privatization.

352. The tourism ministry had five directorates and four agencies and commissions to carry


out these tasks, however it is currently in the process of being reorganized. It has been largely unable to undertake its mandate of regulation and has not implemented any destination development actions in at least the past four years given a lack of funds and capacity. The ministry has taken strong ownership of the 2014 tourism strategy, which has outlined a road map, action plan and key initiatives to take to develop the sector. This strategy, although comprehensive, is supply driven, focusing heavily on developing Togo's leisure tourism sites across the board, with insufficient filtering for market demand, competition or feasibility of developments. Despite an official institutional structure for the tourism sector, many formative decisions on tourism are taken by a small cadre of advisors at the level of the presidency, such as the impetus and conditions for concessions/ management contracts of state-owned hotels, the positioning of MICE promotion, and air-transit hub conditions.

353. On the private sector side, there are four sector associations, two of which are hotel associations, resulting in disjointed sector dialogue. The major hotels are represented in the Association of Large Enterprises of Togo. Most private sector activity has been in the development of hotels, mostly concentrated in Lomé and the coast. Recently, several community groups have emerged and taken the initiative in conservation, site management, guiding, and even tour operation at the local levels, given that most tourism attractions are locally owned.

7.6 Challenges & Constraints

354. Togo's tourism sector constraints exist both at the macro-level for the sector, as well as for each high-priority target segment. At the sector level, Figure 26 indicates the degree to which factors enable (green) or constrain (red) the tourism sector, based on the National Tourism Strategy rankings, supplemented by additional research.

Figure 26: Togo’s Tourism Sector Enablers and Constraints

Sector Management and Governance			
Vision	Enablers	Private Sector	
Sector Policy	Training & Education	Tourism Enterprises Cluster (Jobs and Growth)	Endowments
Sector Strategy – Public Sector Expenditure	Legal and Regulatory	Goods and Services Supplying Tourism (MSMEs)	Resource Base (Sustainability)
Public Institutional Arrangements	Licensing and Standards	Access and Transport	Natural Environment
Private Sector Institutions	Investments and Access to Finance	Accommodation	Culture and Heritage
Community-based & Civil Society Involvement	Image and Marketing	Activities, Facilities & Attractions (including built environments)	Urban Areas
Planning and Monitoring Results Framework	Physical Infrastructure	↓ ↓ Jobs, Investments, Growth in Tourism Economy, Improved Local Quality of Living, Improved Sustainability of Endowments	
Environmental & Cultural Management	Security, Health and Safety	Key: More Positive  More Negative	
Platform/vehicle for Public Private Dialogue	Information and Statistics		
	Business Efficiency & Competitiveness		

Source: Compilation of Togo Tourism Strategy sector rating and author’s research.

355. The most important sector constraints can be summarized as follows:

- (a) **Lack of Government prioritization and leadership on tourism**, with shifting priorities, institutional instability, and lack of funding. The Ministry remains critically weak, with low capacities in planning and a poor implementation track record. This has inhibited it from carrying out its core mandate, with some key functions either poorly executed or completely absent. The MCTR is highly centralized – which is probably appropriate – but it has virtually no presence at the regional and local levels. There is no formal inter-ministerial coordination mechanism, despite several attempts to establish one. This is an important bottleneck given the particularly

scattered tourism sector responsibilities: The Ministry of the Environment oversees parks, Ministry of Finance holds the state-owned hotels portfolio, The Ministry of Foreign Affairs has been leading the conferences agenda. Similarly, there is no formal Public-Private Dialogue mechanism.

- (b) **Ineffective positioning/marketing and a lack of quality tourism attractions** to take advantage of increased quality lodging and growing airlift options. In the 1980s and 90s Togo had a positive and relatively known image as a tourism destination, which has not survived the subsequent years of neglect. Since then, the destination is rarely featured in international tour operator packages and lacks a clear image and destination marketing approach. Current marketing materials are insufficient and obsolete due to lack of capacity and funding.

356. Other secondary constraints are the following:

- **Existing Accommodation:** Low sector-specific knowledge among owners and operators, insufficient construction and licensing guidelines as well as a general lack of enforcement by authorities has led to a mass of poor-quality lodging products, unfit to attract value-added markets. Many establishments, particularly upcountry, are not graded and are poorly maintained, with even newer structures requiring rehabilitation and improvements in security, hygiene, and grading norms to stay relevant. Several state-run properties in choice locations are closed, dormant or in disrepair.
- **Licensing and Standards:** The Ministry is virtually absent in regulating and enforcing tourism enterprises from the project approval to the classification stage. The licensing process can be cumbersome and lengthy (see Box 3), however this was not flagged as a major bottleneck to investment by the private sector during interviews. The lack of implementation of regulations seems to decrease the cost and burden of opening a business, although at the same time resulting in a lower quality offering for smaller non-branded establishments. The hotel grading and classification system is outdated and there is public as well as private consensus on the need to update it.

Box 3: Regulation, licensing and classification of tourism establishments

The Decree 89-37-PL from 1989 establishes the classification of tourism establishments. Regulations exist for restaurants, tourism guides, travel agencies, and a code for alcoholic drinks control. However, these regulations are outdated and do not consider new forms of tourism establishments, nor do they differentiate between Travel Agents and Tour Operators, for example. On paper, there is a two-step process to becoming a licensed tourism establishment. First, a technical and financial dossier is submitted to the MCTR, which issues a provisional authorization (valid for 6 months) until the business is operational.

Second, once the business becomes operational, an indefinite license is issued, and the establishment is graded and classified by the National Commission for Classification based on inspection criteria. However, the National Commission for Classification – enacted in 2008 – never became operational, the classification guidelines and standards are incomplete, and the texts do not specify the methodology of grading and inspection or the norms. As a result, the Tourism Authority's Direction of Classification is currently issuing the provisional 6-month authorizations for an indefinite time.

Source: Government of Togo, 2017

- **Training & Education:** Skill levels are extremely low across the board, from the public sector to private operators. The skills development system comprises a handful of loosely regulated private institutes whose graduates often have trouble being hired. Due to a lack of formal education, many new tourism entrepreneurs start small-scale businesses without experience or basic sector knowledge, which creates mismatches between supply and demand. Togo's National Hotel Training School, funded by donors in the 1980s, has closed, and the MCTR lacks the capacity to start the dialogue on reforming and reviving the tourism training system. On the public side, the MCTR has identified the following areas for critical capacity building: statistics, site management and development, promotion and marketing, hotel inspection, and guiding.
- **Investments and Access to Finance:** the current banking system provides access to a few long-term financing options, boosted by having the West Africa Development Bank and ECOWAS Development Bank headquarters in Lomé. Financing challenges mirror those in the sub-region, with high costs, the perceived high risk of tourism investments, and short repayment timelines. Land acquisition is often a large constraint to investors and especially in relation to the large-scale tourism projects (coastal development, for example).
- **Information and Statistics:** Statistics gathering capacity remains very low. Hotels and border points do not report their arrivals, flight disembarkation cards are not linked to the tourism statistics system, the tourism statistics unit is understaffed and lacks information technology equipment to carry out their functions fully. There has been no recent survey of tourist spending. As described above, it is not clear how many visitors come for MICE purposes, with little disaggregation between visitor types.
- **Access and Transport:** Regional air access and connectivity is strong, however on international routes there remains a lack of competition on some routes (especially Europe), which result in elevated costs to reach Togo from outside of the subregion. The government is yet to adopt the Open Skies agreement. Paved road access covers the essential Ghana-Benin and Lomé-Burkina routes, as well as access to most tourism sites of importance. However, a lack of maintenance particularly after heavy rains can inhibit last-mile site access.
- **Activities, Facilities & Attractions:** Sites remain critically under-developed, most lacking basic facilities, interpretation, signage and general upkeep. Togo's heritage management and conservation frameworks are inadequate, lacking skilled manpower.
- **Natural Environment:** The coastline is under-utilized, and with solid waste concerns in certain areas, but has the potential to be a key asset. Protected areas are mostly not equipped for touristic use in terms of facilities, services, trails or activities.

7.7 Constraints to Growing the MICE Market

357. Many preconditions to developing Togo's MICE sector are already in place, as proven by the organization of several high-profile conferences since 2016. However, key constraints remain if Togo is to grow the segment in a consistent and high-impact manner:

- **Institutional Framework:** Lack of a MICE-focused institution. Most conferences and events have not been attracted and organized in a strategic or coordinated manner, but rather have depended on the connections and initiatives of different high-level officials such as the President, the Minister of Foreign Affairs and others. It is difficult to fill an annual calendar, utilize venues efficiently, and build a sustained product of MICE tourism with ad-hoc actions, and without a Conventions Bureau with a strategy, that oversees promoting Togo's MICE offering, attracting events and conferences as well as being a focal agency, internally for coordination and externally to facilitate and interface with meeting planners and event organizers internationally. Such bureaus are typically parastatal ventures to ensure proper coordination between all the actors.
- **Image and Marketing:** Lack of targeted and sustained marketing efforts. Togo currently lacks a positioning strategy and the marketing materials, campaigns and personnel to sell itself as a MICE destination internationally, both to attendees and to conference organizers/event companies. The lack of branded hotels may also be a constraint, as they offer a certain guarantee of familiarity and quality.
- **Few MICE-related service providers:** Given the small, but growing size of the MICE segment, there are few service providers with experience in the needs of the segment. This includes a shortage of quality transport providers, information technology and business services, and professional services.
- **Lack of attractive leisure offering as MICE add-ons:** Destination attractiveness and leisure potential are important factors for organizers when selecting MICE venues. Currently Lomé lacks a leisure or entertainment area for attendees, as well as structured leisure opportunities/excursions that can be marketed along with MICE events.

7.8 Opportunities: The Way Forward

358. Despite several constraints faced by its endogenous assets and emerging status, the tourism sector has several strategic strengths that can be utilized to create market-ready opportunities for increased sector growth and impact. Togo has a burgeoning competitive advantage in the MICE segment with superior air access and facilities, an existing variety of quality rooms in Lomé, a 2,500 seats conference center, and a relatively safe, compact and navigable city. Lomé is already the seat of various sub-regional organizations (West Africa Development Bank, ECOWAS) as well as banking and corporate headquarters, such as Ecobank, which can provide a stable demand base for MICE facilities and services.

359. A focus on MICE is a positioning that can be activated in the short-term, since Togo already meets most preconditions for its development, while providing long-term growth prospects. Importantly, the focus on MICE tourism is a natural fit with Togo's National Development Plan, which aims to position Togo as a banking and business hub.

360. A secondary market of interest is improving the value proposition of multi-country leisure tours (circuits involving Togo and one or more sub-regional neighboring countries). Such markets are already a small but growing part of Togo's tourism sector, and with increased support, financing and promotion, they can grow to help disperse the benefits and impacts of tourism

across the country. Targeting MICE and multi-country leisure tourists will involve a phased development of select leisure sites of interest to these markets, upon which the country may build for a broader set of leisure segments.

Table 25: Key Target Markets and their Needs

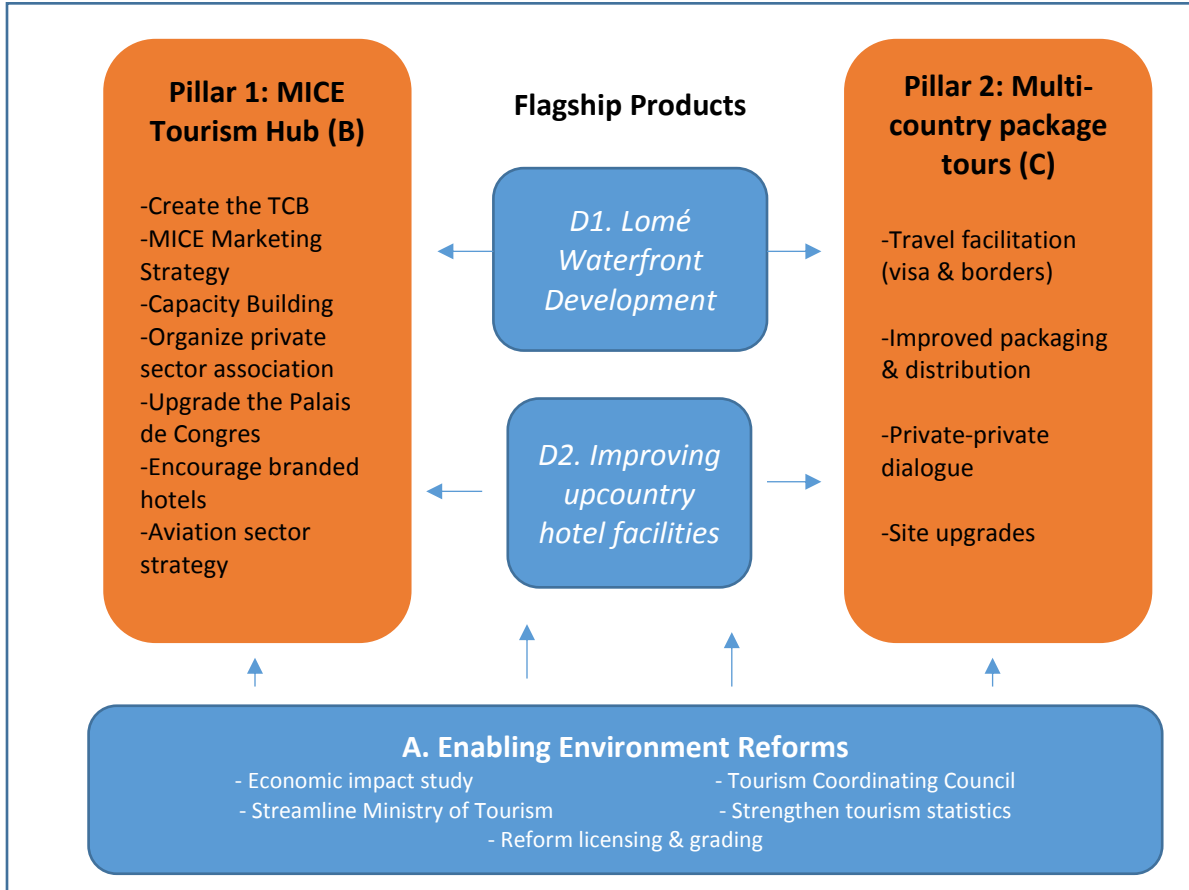
Market Segment	Origin	Characteristics	Revenue Potential	Product Needs	Enabling Environment Needs
Sub-Regional MICE	ECOWAS/ WAEMU countries; Sub-Saharan Africa; francophone markets	Institutional conferences, corporate meetings, associations, events and trade shows	High	3-4-star lodging and quality meeting facilities; consistent internet; 3-4 add-on excursion sites; in-city entertainment and leisure corridor (waterfront); transport, catering, ICT services	MICE bureau; MICE Association, public-private dialogue; targeted marketing; supporting SMEs
Multi-Country leisure tours	French, German, Belgian markets	1-2 day stay/transit, often packaged with Ghana and Benin, 40+ age group, soft adventure	Medium	3-4-star lodging, upgraded tourism sites along circuits, last mile site access, leisure/entertainment corridor (waterfront)	Visa reforms, border facilitation, stakeholder coordination (packaging), marketing

7.9 Strategic Pillars and Positioning

361. Togo has a narrow and segmented path to tourism development focused on i) becoming a destination for MICE tourism and ii) as a secondary market, niche leisure segments, beginning with multi-country package tours. These two pillars will strengthen economic impacts in Lomé, where job creation for youth and women is critical; while supporting the geographic and value-chain dispersal of benefits to areas of high natural and cultural value in a realistic and phased manner (see Figure 27).

362. These pillars will need to be supported by a strategic reorganization of sector institutions and frameworks, a consistent focus on targeted markets, and the development of flagship products, such as the Lomé waterfront, with strong private sector involvement.

Figure 27: Strategic Pillars



7.9.1 Pillar 1: Positioning Togo as a MICE Hub

363. Togo’s competitiveness in the international conference and incentive travel market is in part dependent upon the extent and quality of its infrastructure. Indispensable to the international MICE tourism sector is frequent, direct air links between African countries and key markets, which Togo possesses through Asky Airlines, and holds a geographically central position in West Africa, with good accessibility from Central Africa. It also offers price-competitiveness, an increasingly refreshed room supply, a relatively safe city, and an accessible, though undeveloped, downtown waterfront.

364. According to the International Congress and Conference Association, the global leader in measuring business tourism, the past decade has shown a 35 percent growth in meetings in Africa. The growth in telecom, mobile banking and healthcare sectors in the region have contributed to high demand for conference and incentive travel events. Increased civil society organizations and the growth of professional membership organizations (of which at least 25,000 exist on the continent), as well as the increased prominence of regional integration initiatives further increase the demand for MICE facilities.

365. A 2019 World Bank study, “Togo MICE Sector Strategic Diagnostic”, estimated \$25m in

direct economic impacts within the first three years of structuring the MICE sector and establishing the Togo Convention Bureau, with an estimated Return-on-Investment (ROI) for the creation and funding of the TCB of 11 to 1, and a ratio of two to one for government revenues compared to expenditures (see Table 26). This does not include any public costs for upgrading and maintaining the conference center. The government would be well advised to seek private sector participation through a public-private partnership, concession arrangement or management contract for any conference or convention center upgrade, for example. This can both reduce the costs to government and create incentives which improve the chances of success.

Table 26: Projected Economic Impact of MICE Tourism

	Year 1	Year 2	Year 3
Number of MICE events	17	24	35
GDP contribution (US\$)	4.8 million	7.5 million	12.9 million
Togo Convention Bureau budget (US\$)	591,100	820,405	840,675
Gross Return on Investment	Total direct economic impact: US\$ 25 million Operating budget: US\$ 2.25 million = 11:1 return after three years		

Source: Togo MICE Sector Strategic Diagnostic; The World Bank, 2019

366. The potential benefits of focusing on MICE for Togo include: (i) delegate spending within Togo; (ii) future tourist spending from returning visitors; (iii) enhancement of a destination’s reputation; (iv) intangibles and other benefit flows (e.g. media exposure, other sales and investments, academic grants); (v) exposure of local delegates to international research and industry best practices (e.g. local skills transfer and capacity building); and (vi) increased air links and augmented competitiveness as a corporate hub.

Box 4: Case Study – Rwanda as a MICE destination

The growth of African MICE demand is an important opportunity for destinations, many of which have realized the potential and have begun investing in and positioning themselves to capture a portion of this lucrative market. Togo is well positioned to take advantage of the MICE market but must invest in facilities, institutions, and infrastructure to become competitive in this field.



Rwanda has invested in its iconic US\$300 million Kigali Convention Centre, and has attracted several brand hotels such as Kempinski, Marriott and Radisson Blu. The Rwanda Convention Bureau, launched in 2014, coordinates the country's MICE actions, undertaking marketing and lobbying to attract conferences and coordinating stakeholders on the ground to facilitate successful events. In 2018 over 35,000 international delegates attended 192 MICE events, generating \$52 million.

By hosting these conferences, Rwanda has more than doubled the revenue that would be generated from having only leisure tourists visiting the country. Two-thirds of business travelers also extend their trips for pleasure, and the country has recently diversified its MICE offering to secondary cities, including Musanze, Rubavu, Huye and Nyagatare. However, the cost of the convention center was high, and it remains a challenge to fill it consistently to ensure a return on investment.

Source: Rwanda Development Board, 2019

367. Growing the MICE segment would entail developing tailored and modular conference facilities, setting up sustainable and market-responsive institutions, the Togo Convention Bureau, and facilitating the growth of SMEs offering MICE-related products and services, along with attracting more branded hotels and upgrading the Lomé waterfront to increase the attractiveness of Lomé as a conference hub.

7.9.2 Pillar 2: Improving the value proposition of multi-country package tours

368. As a secondary product, and complementary to the MICE and waterfront focus, multi-country tour package tours can be a medium-term entry point to fostering leisure tourism growth for Togo, given its narrow path to competitiveness in this area. By packaging Togo with its neighbors, it is better positioned to compete internationally for soft adventure culture and nature tourists, as well as regional visitors.

369. Most international leisure visitors to Togo already arrive on regional circuits, but this number remains minimal (around 6-8 percent of arrivals). Enabling reforms and initiatives such as longer, multiple entry visas and border facilitation, stakeholder coordination, marketing, packaging and promotional activities can grow this component and create jobs in leisure tour-related businesses. For example, visas on arrival are only valid for seven days, do not permit re-entry, and are not available for all nationalities. This makes them of little use for multi-country package tours. In the long-term, as the volume of these travelers increases, and the quality of lodging and activities outside of Lomé is incentivized to improve, it can pave the way for Togo to stand on its own as a leisure destination.

370. Beach tourism, although a prior with some potential, is not currently recommended due to (a) the lack of competitive advantage in this field, including dangerous swimming conditions in much of the coastline; (b) the head start that many West African destinations have over Togo; (c) the fast-changing nature of the segment, and iv) the low-cost low-returns nature of the kind of beach tourism Togo would be able to attract. Beach tourism can always be an add-on to complement a well-rounded package, however Togo is not in a position to compete with similar beach destinations at this stage, particularly given its financial and capacity constraints. The Pefaco resort project, however, could help begin bridging the gap between business and leisure

tourism, given its location on the Lomé waterfront, amenities and standing. The government may want to explore ways to bring it to fruition, without financial support, provided it has been properly evaluated, and is consistent with general plans for the waterfront.

7.10 Short-Term Road Map

371. To reach these strategic objectives, several activities are recommended that cover enabling environment reforms, investment promotion, marketing, capacity building and destination development. They are grouped into three categories based on the enabling environment, positioning for MICE development, and flagship products:

A. Enabling Environment: The strategic reorganization and streamlining of tourism sector institutions and frameworks

- (a) Undertake an economic impact study of the Togolese tourism industry to increase prioritization, budget allocation and effectiveness of sector agencies. Study outputs can include:
 - i. Economic impact of tourism on the Togolese economy, employment and investment, including direct, indirect and induced impacts
 - ii. Projected economic impacts of possible key sector reforms and investments, if implemented
 - iii. High-Level Tourism Impact Forum to disseminate report and raise awareness
- (b) Putting in place a coordinating council on tourism for sector prioritization and coordination, as well as a public-private dialogue mechanism, both are part of the Tourism Ministry's strategy but are yet to be implemented.
- (c) Reposition, restructure and streamline Togo's Ministry of Tourism. Undertake studies to design the most efficient and effective development institutional arrangements to manage a narrow tourism sector. Explore possible models like the Rwanda Development Board, to create an effective travel and tourism development body, or a more streamlined and targeted Conventions and Visitors Bureau (CVB). A phased approach may be the most politically feasible solution, which is to create a parastatal CVB in the interim to act as an implementing arm of the Ministry while studying the best reform scenarios.
- (d) Strengthen collection of tourism statistics:
 - i. Collect data on arrivals distinguishing between business, MICE, leisure, visiting family and friends, cruise passengers, and others
 - ii. Conduct regular surveys of tourist spending, demographics and behavior
- (e) Reform of the tourism licensing and grading process:
 - i. Updating of regulatory texts to consider new forms of tourism enterprises and additional categories within each form, and their related application texts
 - ii. Updating of grading criteria and norms

- iii. Restructuring of the grading and licensing process to ensure consistent and efficient handling of dossiers
- iv. Publicizing the grading norms and processes for obtaining certification, including sensitization workshops

B. Positioning: Focus on becoming a MICE Hub

- (a) Based on the recently produced *Togo Convention Bureau Business Plan* (World Bank, 2019), structure and launch the Togo Convention Bureau (TCB), anchored under Togo Invest and financed by dedicated and consistent revenue streams.
- (b) Develop a MICE marketing strategy.
- (c) Facilitate the creation of a MICE association and build the capacities of private sector MICE operators.
- (d) Upgrade the Lomé Conference Center (Palais de Congrès) through a public-private partnership or management contract with a private operator. If private financing interest exists, though unlikely now, explore the feasibility of constructing a new purpose-built conference venue.
- (e) Encourage the return of internationally recognized hotel brands.
- (f) Develop an aviation sector strategy and policy paper: including an action plan to develop and sustain Togo as a sub-regional air transit hub, studying policy and regulatory streamlining to increase air access and competition, particularly on international routes.

C. Promote multi-country package tours

- (a) Implement travel facilitation efforts, which include a multiple entry visa on arrival for Togo and its neighbors and facilitate land border crossings.
- (b) Improve the packaging and distribution of leisure tours, by undertaking B2B marketing efforts, providing training to the private sector on packaging, digital distribution and inbound operation and facilitate travel trade exchanges.
- (c) Encourage private-private dialogue for improved sector coordination within Togo and with its neighbors.
- (d) Upgrade key tourism sites by improving last-mile access, visitor facilities and interpretation.

D. Developing flagship products that set the stage for an expansion and growth of the sector

D1. Development of the Lomé Waterfront

372. Lomé is one of the few West African capitals that has a waterfront and beach with downtown public access. The structuring and careful development of this asset has potential to transform the zone into the city's leisure and entertainment focal point, providing attractions for

MICE visitors, business travelers, leisure tourists as well as residents. This development will also support and generate investment in a wide variety of SMEs in the process, from informal sellers, kiosks, bars, restaurants to hotels, sports and leisure areas; and concert venues, among a variety of additional impacts.

373. The development of the underutilized Lomé waterfront into a leisure and entertainment area can have wide-ranging impacts for all tourism types – MICE, multi-country tours, and cruise ships – by improving the attractiveness of the destination, providing visitor services and experiences, and serve as an anchor attraction. For the MICE market, it can serve to position and market the destination for MICE events, as well as increase the economic impact of visitors. MICE visitors often require dining, bars, attractions and shows in close walking proximity to their event venues, which helps stimulate SME growth. However, similarly to other sites, it is in a poor state with sewage, lack of lighting, facilities, structuring or tourism infrastructure such as boardwalks, kiosks, signage, etc.

Figure 28: The Central Lomé Waterfront Area, proposed pilot zone



Source: Lomé Waterfront Master Plan (World Bank, 2019)

374. It is recommended that the waterfront development be undertaken in phases, beginning with the upgrading of public spaces for a 2km stretch between the Boulevard roundabout (West of the Palais de Lomé) and the N1 turnoff. This area requires public space and infrastructure upgrades to improve its attractiveness as a product, including a boardwalk, lighting, sports and leisure facilities and landscaping. The possibility of the government-owned land north of the boulevard to be developed, through PPP arrangements, into a mixed-use, residential, lodging, retail, food and beverage and entertainment area should be explored. A Lomé Waterfront Master Plan, produced in 2019, outlines a phased approach, with institutional and financing arrangements for the waterfront upgrading.

Box 5: Waterfront Development as a Source of Growth

The development of waterfronts into vibrant mixed-use spaces has become an international best practice to generate transversal, broad based economic as well as quality of life impacts for residents and visitors alike. Both in the sub-region and globally, waterfronts have provided recreational and entertainment spaces, revitalized urban areas, created tourism hubs, promoted a destination's image and have created jobs and revenues through the establishment of restaurants, retail, housing, hotels, cultural and entertainment venues. Due to the scarcity of impact studies on waterfronts in emerging economies, the following case studies have been selected.



Cape Town: The most well-known and successful waterfront in Africa, Cape Town's V&A Waterfront is the most visited destination in South Africa, and in 2016 it contributed US\$ 2.7bn to the country's GDP, sustaining 21,790 direct and 57,616 indirect jobs and 294 businesses within the waterfront. It has positioned Cape Town as a vibrant tourism destination and increased the competitiveness of its MICE offering. It is the kick-off point for many boat and land tours, contains curate crafts markets, food halls, hotels, condominiums, museums and event amphitheatres all within a compact, pedestrian-only core zone.



Accra, Ghana: The city is currently developing Marine Drive, a mixed-use tourism project at a long-neglected stretch of publicly owned prime waterfront real estate in the center of Accra, which has larger scale parallels to the government-owned waterfront land in Lomé occupied by the previous presidential palace and administrative areas. Through land swaps and PPP arrangements, the 240-acre zone will be majority private sector financed and will include mixed-use tourism and entertainment zones as well as public cultural facilities, parks, promenades and a beachfront.

D2: Improving upcountry hotel facilities

375. There is presently a lack of quality travel facilities outside of Lomé. These impacts both the development of upcountry business and conference travel as well as leisure circuits. There are eight state-owned hotels in upcountry destinations, but most are closed or in a state of

disrepair. Both leisure and business tourism could be stimulated by facilitating quality hotels (2-3 stars) in secondary cities and around tourism sites through the privatization of existing state-owned stock. Better up-country hotels would encourage cultural and eco-tourism; and improve Togo's attractiveness in multi-country tours. This also has the potential to increase investor confidence in upcountry destinations and serve as anchors to support the growth of other sectors and regions.

376. For several years, the government has signaled the interest to privatize or concession eight state-owned hotels in secondary towns, however, efforts have been supply-driven, with minimal investment promotion or structuring of the offer. There is an opportunity for the MCTR to take a market-based approach in structuring privatization deals by identifying investor demand, followed by investment promotion and generation if the initial study shows favorable conditions.

377. A summary of intermediate interventions is provided in Table 27. Some other medium and long-term investment ideas are described in Annex 3.

Table 27: Summary of Immediate Interventions

Activity	Timeline	Priority
Undertake an economic impact study of tourism	4 months	Immediate
Establish a Tourism Coordinative Council	6 months	Immediate
Develop a MICE strategy after a market study	9 months	Immediate
Create and support a Conventions and Visitors Bureau	8 months	Short-term
Build capacity on attracting and promoting MICE visitors	12 months	Short-term
Structure the upgrading and management arrangements of the Lomé Conference Center	6 months	Short-term
Elaborate a waterfront development plan after a feasibility study	9 months	Short-term
Prepare an aviation sector strategy	6 months	Short-term
Broaden visas on arrival & work with neighbors on regional visas	9 months	Short-term
Upgrade the Lomé Conference Center	14 months	Medium-term
Improve the collection of statistics	18 months	Medium-term
Reform and streamline tourism licensing and grading process	12 months	Medium-Term
Explore the possible privatization of upcountry hotels	14 months	Medium-Term

Annex 1: Comparison of Various Spatial Solutions

Definition of Terms

The subject of this report is an area the World Bank refers to as “spatial solutions”, that is, economic tools and instruments that many countries use to foster economic growth and development that have a particular geographically-defined aspect. Among the most important of these instruments

SEZs: These are defined as defined geographic areas for industrial, commercial and service purposes with multiple co-located companies, an on-site zone management, and a special legal/regulatory regime which provides special incentives and conditions to the companies located there. This is an umbrella term which includes “free export processing zones” (the nomenclature given to zones in Togo’s 1989 law), export-processing zones, free trade zones, agri-zones, IT and High-Tech Parks, and any other variety fitting this definition.

Single-Factory Free Zones (SFFZs): Single factories or companies, not co-located within the walls of an SEZ that share the same or many of the benefits that are usually accorded to SEZ companies. They are usually exporters wishing to take advantage of duty-free status.

Growth Poles: Growth poles are simultaneous, coordinated investments in various sectors focusing on a particular geographic area to support self-sustaining industrialization in a country. They help exploit agglomeration economies to spread resulting prosperity from the core of the pole to the periphery. These can develop organically (such as the IT sector in Bangalore) or as a result of deliberate government/donor actions (such as the tourism growth pole in Puerto Plata in the Dominican Republic). By definition, this would include the agropoles currently in Togo’s development plans.¹⁰¹

Industrial Parks: The definition of an industrial park is similar in many respects to that of SEZs, however, the companies located in industrial parks do not share a special regulatory regime, rather they enjoy co-location with other companies in an industrial park setting and share infrastructure and services. This category would include agro-industrial parks which are common and popular all over Africa and which are being spoken of as possible economic tools in Togo.

Special Economic Zones (SEZs)

The main advantages of a special economic zone can be summarized as follows:

- i) ***Access to serviced land:*** Finding appropriate land, determining who is the legitimate owner, completing the sale or rental agreement, and obtaining the title can be a laborious and risky procedure. Identifying land which is already serviced with road, power, water and sewage connections is all the more difficult. Ideally, at least for exporters, the land will be close to the port.

¹⁰¹ Plan Strategique de Developpement des Agropoles au Togo : 2018-2030

- ii) **Reliable, preferably low cost, electric power:** High-cost electricity subject to frequent cuts is a recurring problem across Africa and beyond. Special zones often have dedicated power supplies to ensure regular service. Occasionally they can offer lower rates, though this is likely to imply subsidies of some sort.
- iii) **Smoother regulatory process:** Without offering special privileges, the manager of any spatial solution can provide an important service if it is able to offer an effective one-stop-shop for obtaining the necessary approvals and facilitate connection to public utilities. Ideally, it will go further and help with operational issues such as dealing with customs and the tax authority, and labor relations.
- iv) **Special incentives:** Only SEZs can go a step further and offer advantages which may be critical for more challenging activities such as exporting. For example, exemption from customs and VAT on imported inputs can be essential for exporters, since the alternative of VAT reimbursement is often not available or involves untenable delays. Corporate tax holidays are also common. Streamlined regulations should also be offered and may be even more important.
- v) **Logistics services:** All manufacturers, but especially exporters, need a variety of logistic services, including storage, packaging, courier services, etc. Indeed, the feasibility study for the new Adétikopé zone recommends that it be explicitly designed as an industrial and logistics facility.

While some of these advantages can be provided by any spatial solution, only SEZs can offer a special regulatory framework of incentives and streamlined procedures. The success of the free zone in Togo is largely a consequence of its contributions in this area, as well as providing serviced land close to the port. It has been less effective to date in power supply. With no dedicated power plant, it has relied on subsidies in the past, but operators now complain that their rates are actually higher than outside. It has also been weak on logistics services. Moving forward, the authorities would do well to pay more attention to these two issues. In fact, it is now generally recognized that successful SEZs focus more on the combination of services and infrastructure provided and less on fiscal incentives. Tax holidays are irrelevant if the business environment precludes making a profit, and minimizing incentives ensures that the government recoups some of its investment. Indeed, global research on SEZ success found that infrastructure reliability had a significant impact, but incentives did not.¹⁰²

At the same time, spatial solutions have little if any ability to improve or tackle other constraints: tax administration, poor access to finance, political instability and corruption, low competitiveness in the ICT sector, regulatory constraints such as protecting minority interests and enforcing contracts, and difficult access to local or international markets. In these areas, Togo should consider alternative means of tackling them, and pursue broader reforms in parallel with SEZ development. Ideally, SEZs are part of a longer-term, nation-wide reform agenda.

Special Economic Zones would appear to provide the best combination of attributes among the different spatial solutions. But before analyzing the way forward in greater detail, it is important

¹⁰² T. Farole, Special Economic Zones in Africa, World Bank, 2011.

to review the case of single-factory free zones.

Single-Factory Free Zones (SFFZs)

The current SEZ legislation allows for the allocation of free zone status to factories located outside the main free zone at the port if they meet the export criterion. However, the organization, promotion, management and impact of these SFFZs are very different from SEZs, and therefore their inclusion in the SEZ law is often problematic. There are various reasons why SFFZs are inferior to a proper SEZ in a delineated geographic area:

- SFFZs must look for their own land and do not benefit from the quick and streamlined access to land provided by an SEZ
- The ability of the on-site zone developer/operator to directly monitor the compliance with environmental and labor laws and standards among the companies located within their walls
- The efficiency of shared, on-site infrastructure and services; there is no better way of providing targeted electric power to a group of companies, given that it is easy to identify which companies will be using the electric power (i.e., those within the walls of the zone), what their capacity needs are, ensuring that the power service is of better quality than that outside the zone (e.g., fewer blackouts and brownouts), leverages larger economies of scale, and incorporates “green” power into traditional power provision for a more sustainable and climate-sensitive approach.
- The advantages of a community of businesses who can meet on a regular basis (as they often do through the zone investors associations) to coordinate training, pooled export promotion, and security.
- The advocacy role of the zone operator/manager in tackling problems that multiple companies are facing by approaching the relevant government agency, such as road access to the zone.
- Leakages from SFFZs into the local market are far more common, given that they are not co-located with other companies and do not have a full-time customs agent on-site to monitor their compliance with the conditions of their permit. Customs officers only arrive when called by the company to process exports, and when they are not on-site there is far more likelihood that what is produced may find its way into the local market.

Consequently, some countries have abandoned the SFFZs option. Nigeria has in recent years dismantled its system of SEZ-incentives to over 400 SFFZs because it was concluded that they would be exporting regardless of the incentives they enjoyed, and that these incentives were too costly. On the other hand, horticulture exporters in Senegal have enjoyed strong growth thanks to their ability to locate wherever the agro-climatic conditions are best, while still benefiting from free zone incentives.¹⁰³ It has not been possible to do an assessment of the SFFZ experience in

¹⁰³ It is true that better controls were needed to weed out fictitious horticulture companies who were taking advantage of the access to duty- and tax-free imports.

Togo but the government would be well advised to conduct a proper cost-benefit analysis and consider whether there should be greater restrictions on the use of this status.

Growth Poles

Growth Poles tend to be large integrated projects, often with extensive infrastructure and a complex project design, and countries have yet to find an acceptable formula for bringing these projects forward. Major lessons learned from failed growth pole / agropole projects in Africa have been the following:

- ***They tend to be unrealistically ambitious.*** They are nearly always designed in a way that is too complex, with too many parts, under the assumption that they are a silver bullet that will solve all the problems of an entire region. It is often better to implement discreet projects that nonetheless have synergies, rather than a single project with too many sub-projects.
- ***Results are expected in too short a time period.*** Projects of the size and complexity of growth poles are long-term commitments. A programmatic approach is deemed to be more effective for such projects, which structures and sequences a series of projects over a period of 15 to 20 years.
- ***Countries make the mistake of developing too many at the same time.*** This diverts scarce resources to multiple large-ticket projects usually spread out over a large geographical region. It is best to prioritize a very limited number of growth poles before rolling out others.
- ***They require high-level coordination.*** A growth pole project requires coordination among several – sometimes many – ministries including industry and trade, transport, agriculture, and energy, so coordination from a single line ministry is problematic. More convening power is attained by placing the coordination in a steering committee, or even the implementation unit, directly under the president's or prime minister's office. ***It is much more difficult to find a private developer / coordinator for growth poles.*** Whereas private developers can be found for small, focused SEZs and industrial parks, governments are typically the primary coordinators of growth poles / agropole projects. If they succeed in securing private developers, it is often only for subsets of the master plan, such as the small industrial park within the Bagré Growth Pole which will focus on the transformation of agricultural product

Industrial Parks

Industrial parks afford many of the same advantages as SEZs, notably access to serviced land, low-cost and more reliable electric power, waste water treatment, telecommunications and other infrastructure through shared facilities, and superior services. However, industrial parks do not enjoy a special regime, and hence they cannot offer special incentives to the companies located within their walls. This limits their ability to attract investment, particularly foreign direct investment. They are also limited in their ability to offer streamlined administrative procedures to companies, as they cannot tap into a special regime.

Annex 2: Rationale for Spatial Solutions in Togo

Table 28: The ability of spatial solutions such as an industrial estate or FZ to address the private sector constraints of Togo

Constraints to the Private Sector	Spatial Solutions able to address constraints			Other interventions able to tackle the constraint	Comments
	Ind Estate	SEZ	Growth Pole		
Excessive tax rates and tax administration	(no)	(no)	(no)	Countrywide reforms of the tax system, improvements in tax declaration especially with on-line systems.	In Togo this constraint will be addressed most effectively through a non-spatial, preferably country-wide reforms that improve tax administration for all companies, rather than a limited elite in a geographically delimited area.
Low competitiveness in the ICT and Telecommunications sector	(no)	(no)	(no)	Country-wide private sector liberalization of the ICT industry, granting of incentives to all ICT companies, installation of hard infrastructure such as fibre optic cables and enhancement of redundancy	ICT sector constraints are usually related to lack of skills in the labor pool, lack of electric power and other infrastructure, and regulatory constraints. It is preferable to spearhead these initiatives in country-wide reforms in Togo.
Poor access to finance and getting credit	(no)	(no)	(no)	Financial management project; on-lending through commercial banks, microfinance programs	Country- or region-wide or initiatives with identified financial institutions are more effective than spatial solutions; Togo should seek other solutions to this challenge
High percentages of informality	To a limited degree	To a limited degree	To a limited degree	Tax reform to make the declaration and payment process more SME friendly; SME financing and benefits	The companies located in Togo's spatial solutions will be subject to a more rigorous review and licensing process, ensuring that most of them

Constraints to the Private Sector	Spatial Solutions able to address constraints			Other interventions able to tackle the constraint	Comments
	Ind Estate	SEZ	Growth Pole		
					will be formally registered. However, spatial solutions will not tackle directly the broader issue of a high rate of informality in the country and unfair competition, rather it will just foster formality within the limits of each spatial solutions.
Lack of reliable electric power and high costs of electric power	✓	✓	(no)	Increasing capacity and quality of the national grid to the benefit of as many companies and individuals as possible; increasing the efficiency of the national grid and thus lowering the costs	Togo's industrial estates and SEZs can offer shared infrastructure to its tenant companies. The efficiencies achieved through shared electric power to co-located companies usually mean lower prices and a more reliable power supply. Industrial parks and SEZs can also foster alternative energy sources and low-carbon practices. However, a growth pole is not able to offer the same benefits to companies, being a larger, more amorphous area.
Political instability and corruption	(no)	(no)	(no)	Reform/overhaul of the political system	Togo will not be able to address this area through spatial solutions and only to a limited degree can the additional scrutiny of government officials in an SEZ reduce the opportunity for corruption.

Constraints to the Private Sector	Spatial Solutions able to address constraints			Other interventions able to tackle the constraint	Comments
	Ind Estate	SEZ	Growth Pole		
Difficulty with trading across borders	indirectly	indirectly	indirectly	Formation of one-stop border post facilities at key border crossings, automation or streamlining of customs procedures.	This area is impacted by various factors in Togo: import/export regulations, efficiency of border crossings, proximity of inputs and finished products to key border crossings, etc. In certain circumstances, placing an industrial park, SEZ, or growth pole near a border can increase trade between countries, but this does not constitute a <i>strong</i> justification for a spatial solution.
General import constraints	(no)	✓	(no)	Country-wide customs reform, digitization of customs procedures, review and reduce tariffs, remove protectionist country policies	Since an industrial estate and growth pole would generally not have an on-site customs office, there is little they could to improve import-related constraints. However, an SEZ in Togo with its on-site customs office can pilot streamlined or automated procedures with the tenant companies of the SEZ.
Poor logistics and transportation	✓	✓	✓	On the soft infrastructure side, countries can simplify licensing and permitting, allow for one registration in a given country to apply automatically to neighboring countries, streamline and automate	In improving this area, Togo can ensure that the entire value chain for a given industry can be created within the area of a spatial solution, thus simplifying logistics through increased proximity. Also, a spatial solution can

Constraints to the Private Sector	Spatial Solutions able to address constraints			Other interventions able to tackle the constraint	Comments
	Ind Estate	SEZ	Growth Pole		
				customs procedures, and provide special incentives to logistics companies, among other things. On the hard infrastructure side, countries can improve transportation infrastructure, provide for alternative modes of transportation such as railroad lines and maintain roads paved and in good condition.	actively target investment from logistics companies of all sizes, including SMEs and specialized niche services. Finally, a park, SEZ or pole management can advocate for the combined logistics needs of their tenant companies and thus push for improvements in logistics with the extra weight of a group of companies.
Crime and security	✓	✓	(no)	Enhancing a police force by training and recruitment, improved courts	Togo can use SEZs and industrial parks as secured, delimited areas to provide a secure place for companies to operate.
Other regulatory constraints: Courts (commercial) protecting minority interests, enforcing contracts	(no)	(no)	(no)	Country-wide reforms on protecting minority interests through an investment code, revamping of commercial courts to make them more efficient, creating a country-wide alternative dispute resolution (ADR) or arbitration mechanism to clear out backlogs in the commercial courts	Togo will not be able to effectively tackle its commercial courts with spatial solutions. It would be better to carry out country-wide reforms to the benefit of all companies and an overhaul of investment codes and commercial courts.
Lack of skills and an inadequately educated work force	indirectly	indirectly	indirectly	Educational reforms, technical, administrative and professional training and certification programs	Although Togo's SEZs, industrial parks, and growth poles will be creating formal employment which tends to foster technology transfer, tenant

Constraints to the Private Sector	Spatial Solutions able to address constraints			Other interventions able to tackle the constraint	Comments
	Ind Estate	SEZ	Growth Pole		
					companies often prefer to train their own personnel rather than relying on a central training center provided by the SEZ or industrial park.
Access to Land: Complex land registration and administration	✓	✓	✓	Land reform; streamlining of procedure for registering and titling industrial land	Togo could harness large tracts of industrial, serviced land for SEZs, industrial parks, and growth poles and through efficiencies and shared infrastructure provide tenant companies with the land; however, it should be noted that the private sector in Togo has not reported any difficulty with obtaining land.
Primary regulatory constraints: dealing with business licenses, construction permits, registering property	(no)	✓	(no)	Generalized one-stop shops available to any investors; individual country-wide investment climate reforms to the benefit of all companies	Given that neither an industrial estate nor a growth pole provides a separate special regime to the companies operating in their area, they would not be able to offer reforms in these areas. However, Togo's SEZs will be well-placed to do so, because of their ability to pilot investment climate reforms through the SEZ special regime.
Labor regulations	✓	✓	(no)	Country-wide labor reforms; fostering and creation of corporate	Given that industrial estates and SEZs typically have shared services such as

Constraints to the Private Sector	Spatial Solutions able to address constraints			Other interventions able to tackle the constraint	Comments
	Ind Estate	SEZ	Growth Pole		
				clinics, day care centers, and other labor-friendly projects and programs.	clinics and day care centers, they are able to address labor issues in a very practical way. Growth poles are too large to effectively sponsor such shared services.

Source of Constraints to the Private Sector: Enterprise Survey 2017 (see Figure 1 of Chapter 2 of this report)

Annex 3: Agriculture: Strategic Segmentation and Elements of Perishability

Strategic segmentation

In this annex, we apply a ‘strategic segmentation’ to the horticulture industry to identify the determinants of competitiveness. It contrasts with a conventional approach to segmentation, which divides an industry only by traditional product category (e.g. pineapples, nuts, cassava, etc.). In so doing, this matrix aims to identify the attractiveness of various segments, and broad requirements for entry, survival and growth. Specifically, the attractiveness of each segment is determined by global conditions (such as the evolution of substitutes, rivals, suppliers, buyers and minimum efficient size of production).

Segmenting Supply

Table A2.1 provides a strategic segmentation for the horticulture sector, to define differences that exist within the industry. The axes of this segmentation identify two critical stages of the value chain, namely harvest and processing. Products can have either relatively high or relatively low levels of perishability at each stage, the characteristics of which are defined below.

Table A2.1: Strategic Segmentation for the Horticulture Sector

		Perishability at Harvest	
		Low (Stockable)	High (Perishable)
Perishability at Processing	Low (Stockable)	A1	A2
	High (Perishable)	B1	B2

Elements of perishability

Dimensions for Perishability at Harvest

The perishability of horticultural items is a function of the crops’ rate of respiration, which is in turn affected by variations in the temperature, atmosphere and moisture. Different types of crops (and indeed even different varieties of the same crop) have very different rates of respiration that are affected differently by these variables (see Annex 2 for a list of ideal storage conditions for various crops). Table A2.2 presents a simplified framework for respiration, holding only temperature constant. Products with relatively low perishability at harvest are items like tubers, while okra has a relatively high perishability at harvest. Understanding the dimension of such rates of respiration have implications for how the value chain is structured, with more highly perishable crops requiring a more resource and coordination intensive cold chain.

Table A2.2: Perishability at Harvest: Examples of Crop Respiration Rates when held at 5°C

Class	ml CO ₂ /kg-hr	Indicative List of Crops
Very Low	<5	Dates, nuts, fruits and vegetables that undergo high or substantial methods of processing
Low	5-10	Apple, citrus fruits, garlic, melon, kiwifruit, onion, papaya, persimmon, pineapple, pomegranate, potato, pumpkin, sweet potato, watermelon, etc.
Moderate	10-20	Apricot, banana, blueberry, cabbage, cantaloupe, carrot, cucumber, fig, gooseberry, lettuce, mango, nectarine, pear, plum, radish, tomato, pepper, etc.
High	20-40	Avocado, blackberry, cauliflower, leek, raspberry, strawberry, lima bean, etc.
Very High	40-60	Artichoke, bean sprouts, broccoli, Brussel sprouts, cherimoya, cut flowers, passion fruit, snap bean, water crest, etc.
Extremely High	>60	Asparagus, mushroom, parsley, peas, spinach, sweet corn, durian, okra, etc.

Sources: (Silva, 2010) (UC Davis, n.d.); (Sharma, 2018); (Paltrinieri)

Dimensions for Perishability at Processing

Similarly, the perishability of horticultural items once ‘processed’ is a function of the type of processing method utilized (see Table A2.3). Horticultural products can be processed in several different ways, including some rudimentary and some more sophisticated methods, which are marked by increasing capital and knowledge intensity. Moreover, some methods of processing can lead to an extended shelf life of a horticultural product (e.g. canning, drying or pasteurization), whereas other methods of processing (e.g. cutting and dicing) can lead to an accelerated rate of respiration and therefore an accelerated rate of perishing.

Table A2.3: Perishability at Processing: Types of Agro-Processing and their Factor Intensities¹⁰⁴

Processing Method's Effect on Respiration	Processing Activity	Relative Labor Intensity	Relative Capital Intensity	Relative Knowledge Intensity
Decreases Rate of Respiration	Cooking	Low	Moderate	Low
	Pasteurization	Low	Moderate	Moderate
	Canning	Low	Moderate	Moderate
	Dehydration	Moderate	Moderate	Low
	Freezing	Low	Moderate	Low
	Extraction	Moderate	Moderate	High
	Chemical Alteration	Low	High	High
Maintains Rate of Respiration	Cleaning	High	Low	Low
	Grading	High	Low	Moderate
	Chilled Storage	Low	High	Moderate
	High Pressure Treatment ¹⁰⁵	Low	Very High	High
	Pulsed-Electric Treatment ¹⁰⁶	Low	Very High	High

¹⁰⁴ Expert opinions were used to indicate notional Capital, Labor and Knowledge factor intensities against each activity. Relative Capital Intensity is measured as Very High (US\$ millions); High (US\$ hundreds of thousand); Moderate (US\$ tens of thousands); Low (US\$ thousands)

¹⁰⁵ High Pressure Processing (HPP) is a process of using atmospheric pressure to kill bacteria and deactivate enzymes to preserve a product while ensuring taste, flavor, color and texture of the products are not altered by the treatment.

¹⁰⁶ Like HPP, Pulsed Electric Treatment is a process that uses electricity to preserve food without drastically altering the product.

Accelerates Respiration	Rate	Milling	Moderate	Moderate	Moderate
	of	Cutting	High	Low	Moderate
		Mixing	Moderate	Low	Low
		Pressing	Moderate	Low	Low
		Assembly ¹⁰⁷	Moderate	Moderate	Low

Taken together the perishability at harvesting and perishability at processing have consequences for the value that can potentially be created by industry. In this way, the strategic segments created by the interaction of these axes can be useful in identifying relatively attractive and unattractive businesses. Quite typically, there is often the perception that agro-processing which decreases the rate of respiration leads to higher value. However, often such conventional wisdom no longer holds true in today's markets as will be demonstrated below. Instead, industries where more value can be appropriated (after accounting for costs) tend to be more attractive from the perspective of countries and the private sector. In whole, most of Togo's industry could be characterized by the A1 segment.

¹⁰⁷ Assembly is an activity in food manufacturing such as is done in the composition of ready-made sandwiches.

Annex 4: Tourism: Potential Medium- to Long-Term Investments

Lomé

There is an opening for quality lodging and diversified experiences in the city, in the premium and three-star market, where investors can still benefit from a first mover advantage and elevated room rates in the medium term. Possible opportunities identified by Colliers International and the Togo National Tourism Strategy include:

- Lomé II is a new administrative and financial hub under planning located just north of Lomé. It is planned that the area includes 1 million m² of office space, 2,000 housing units and 100,000m² of sport, conference and leisure facilities.
- Quality budget and mid-scale hotel products to fill the gap for price sensitive travelers wanting international standard accommodation, such as Onomo hotels' offering

The Baguida area can be developed for the leisure market and retreats given its sandy coastline and proximity to Lomé.

Outside of Lomé

Colliers International identified the need for eco-tourism lodges in the towns of Kara, Sokoe, Atkpame and Kpalime. These towns north of Lomé have an underdeveloped quality leisure offering and provide an untapped opportunity for eco-tourism lodges as bases for excursions into the hill country, its interior natural areas and heritage sites.

According to the Togo National Tourism Strategy Draft, the priority tourism development destinations and products are the following:

- Fazao-Malfakassa National Park: To be developed as Togo's flagship nature and wildlife experience, which includes lodge concessions, improved facilities, trails and park management
- Hiking products in Danyi and Akposso plateaus

New hotels along the coast east of Lomé, to create resort clusters in Agbodafo and Aneho

Infrastructure and supporting investments include:

- The re-opening of a National Hotel & Tourism Training Institute
- Upgrading and operationalizing the unused Niamtougou international airport. Its upcountry location can be used as an entry point to the country's interior and multi-country circuits (Togo-Burkina-Benin)

The government can increase cruise passenger traffic through the development of cruise terminals with capacity to accommodate cruise vessels of various sizes. The Lomé seaport may also look into signing agreements with cruise operators, such as RCI and Carnival Cruise Lines.

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