



COUNTRY PRIVATE SECTOR DIAGNOSTIC

CREATING MARKETS IN TOGO

Driving Economic Transformation
with Private Sector-Focused Reforms

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EXECUTIVE SUMMARY

Since the mid-2000s, the economy of Togo has followed a path of higher growth, under the government stewardship of policies to improve the economic climate and stimulate investment. Real gross domestic product (GDP) growth improved significantly from the two prior decades, averaging 6.2 percent in the period 2010–14 and 5.2 percent in 2015–19. This transition has steered the economy toward being more service based and less dependent on commodities.

Recent growth has helped increase income per capita; however, poverty reduction in Togo still significantly lags that of most peer countries. Per capita GDP improved substantially between 2010 and 2014 at a rate of 3.4 percent per year and declined to a still robust 2.6 percent between 2015 and 2019. However, positive growth will have to be sustained to catch up to the income-per-capita levels of other countries: Togo remains among the poorest countries in the world, with per capita GDP sitting at about one-third of that of a neighbor like Ghana or even the Sub-Saharan Africa average.

Being sourced from capital accumulation, and with a strong focus on infrastructure development, recent growth did not translate into significant improvement of some social indicators. Extreme poverty (measured at US\$1.90 a day, 2011, purchasing power parity) declined from 55.5 percent of the total population in 2006 to 51.0 percent in 2015, but this is slow progress relative to the rest of the continent. A survey recently conducted by the World Bank shows that extreme poverty in 2018 affected 24.1 percent of the population in Togo. However, it is important to note that the methodology applied in the new survey is different from the previous one, so it is not possible to establish the dynamics of the evolution of poverty between 2015 and 2018. In 2018, Togo scored 0.512 out of 1 on the overall Human Development Index, in line with the performance of West-Africa Economic and Monetary Union (WAEMU) countries, but below Sub-Saharan Africa's average score of 0.54. Togo performs better than most of its WAEMU peers on levels of education but—despite strides on critical health indicators, reducing maternal and under-age five mortality over the past two decades—progress on poverty reduction has been slower than the average of WAEMU and Sub-Saharan African countries.

Togo's growth period led to structural change but has yet to translate into significant impact on the job market. The country transitioned from an agriculture-dominated economy to a services-led one in the wake of large private investments in services and industry. Agriculture, which accounted for more than 50 percent of GDP in the early years after independence in 1960, has been declining, down to less than one-third of GDP in recent years. A recent jobs diagnostic by the World Bank shows that the shift toward more productive, waged jobs in nonfarm sectors is slow and limited relative to the expansion of the working-age population. As a result, most workers remain in low-productivity agriculture and low-productivity informal or semiformal micro enterprises. The share of paid employees in total employment increased from 11 percent in 2006 to 17 percent in 2019, reflecting a slow shift, but one still below levels in countries such as Ghana (26 percent in 2019).

The private sector remains very fragmented with only a small number of firms of significant size, and a predominance of very small and informal firms. The overwhelming majority of firms in Togo are small enterprises, accounting for 96.9 percent of total numbers. Only a little more than 2,000 firms in Togo have an annual turnover above US\$100,000. Overall, 85.5 percent of firms are informal. While formal firms represent 14.5 percent of the total number of firms, they account for 41.8 percent of jobs. The region of Lomé concentrates more than 60 percent of Togolese firms and 71 percent of employment, and generally firms tend to be located in the Southern part of the country.

Private sector activity is highly concentrated: 0.4 percent of firms account for 77 percent of the total turnover of firms in Togo. There are 303 large firms with a turnover exceeding US\$1.7 million. Among them, the association of large enterprises of Togo, (Association des Grandes Entreprises du Togo; AGET) has only 66 members. This small group is dominated by the banking industry. Other sectors with large companies include industry (agrifood and industrial products), services (insurance, hotel industry, transit and logistics, port handling), mining, construction, public works, and commerce. The formal private sector in Togo also represents the main source of government fiscal revenues.¹

The COVID-19 pandemic was a setback to Togo's aspirations, but Togo managed to avoid a recession and took the opportunity to push its social agenda. The pandemic reduced real GDP growth to 1.8 percent in 2020 from 5.5 percent in 2019; in per capita terms, real GDP contracted by 0.6 percent in 2020. Higher demand and increased prices for some of Togo's commodities over the second half of 2020, combined with low inflation, softened the adverse effects of the pandemic on the economy. Public debt is back to high levels, limiting the government's scope for action. Revenues fell by 1.4 percentage point of GDP in 2020. Meanwhile, the fiscal stimulus packages to support households and firms increased expenditures significantly from 18.5 percent of GDP in 2019 to 23.1 percent in 2020. The government took advantage of the COVID-19 crisis to push forward the countries' digital payment agenda, setting up the NOVISSI cash transfer service, which reached 819,972 vulnerable Togolese thanks to a mobile money wallet program. The total amount¹ transferred to beneficiaries stands at CFAF 13,308,224,040 as of November 2022. The fiscal deficit significantly widened from less than 1.0 percent of GDP in 2019 to 6.9 percent in 2020 and led public debt to rise from 52.4 percent of GDP in 2019 to 60.4 percent of GDP in 2020, putting Togo's at high risk of distress².

The leading role played by the government in driving investments during the growth decade must be noted. Public investments increased significantly from 4.4 percent of GDP in 2000 to 10.5 percent in 2015 before gradually declining to 5.5 percent in 2019. Public investments mostly targeted the development of infrastructure, including energy, road, port, airport, digital, and industrial development. Public investment also facilitated foreign and private investments through public-private agreements and investment incentives.

1. <https://www.worldbank.org/en/programs/debt-toolkit/dsa>

2. <https://www.worldbank.org/en/programs/debt-toolkit/dsa>

Given fiscal pressures and the need to share growth more broadly, a challenge for Togo is thus to sustain private investment with a more limited public investment and to generate investments in productive sectors beyond the provision of infrastructure.

Private investment has already accounted for the largest share of fixed capital accumulation, picking up very robustly between 2012 and 2019 to average 14 percent of GDP from less than 10 percent during the previous decade. Private investment's contribution to growth rose to more than 4 percentage points on average in 2015–19. Cross-border investments and bank credit has been significant, with foreign direct investment (FDI) accounting for the largest share.

Togo has improved its ability to attract FDI, but more is needed in productive and traded sectors. Togo was identified in the United Nations Conference on Trade and Development (UNCTAD) *World Investment Report 2020*³ as the top performer among least-developed countries in 2019. Togo adopted a new investment code in 2019, bringing investment incentives in line with better practice, and revamped its free zone law the same year. Enhanced policy reforms, including on business climate, resulted in a surge in inward FDI, which averaged 2.5 percent of GDP in recent years, a level comparable to other countries in the region. Since 2013, there has been nine major investments in the cotton, logistics, and banking sectors. The most recent being the IB Holdings' buying of the majority of stake in State-owned BTCL.⁴

Exports did not play a major role in Togo's recent economic performance, save for the welcome recent strengthening of commodity prices noted earlier. Export receipts have historically relied on cotton and mining sectors, whose performance were relatively poorer, compared to previous decades: per year on average between 2010 and 2019, phosphates decreased in value by 2 percent and cement and clinker by 10 percent; cotton exports fared better, increasing by 9 percent over the same period. However, this has resulted in a relatively meager annual growth rate, and the last three years over this period (2017–19) show a marked decline. Some new exports have emerged, such as soybean and scrap metals, and to a lesser extent cashew nut.

Reexport trade, transit to landlocked neighbors, and, more recently, maritime transshipment since the inauguration of the Lomé Container Terminal in 2014, all play an important role in Togo's economy, underscoring the importance of trade-related services and geography in Togo's integration in the regional and the global economies. Numerous products originating from or destined to neighboring countries (Benin, Burkina Faso, and Ghana) pass through Togo before being exported to their destination markets. In part, such trade may simply reflect arbitrage between distortions arising in different markets, but it also exists because of Togo's ability to provide logistics and transport services (transit, transshipment), as well as trading services (such as for oil and some agricultural crops). Beyond trade-related services, Togo's economy has also developed a strong regional banking and air transport sector.

To sustain the growth path of the past decade, a shift in economic strategy led by the private sector—with continued growth in private investment and business and job creation—is needed. Togo has set the right path and solid foundations for the future development of the private sector but will need to shift to an approach with less government capacity to marshal investments in the short term, and therefore less direct reliance on government investment. Furthermore, there is a need to further develop the traded sectors such as agriculture or services, where job creation potential lies. Being a small country relative to others, Togo has a potential to diversify that will be relatively modest relative to larger countries (especially neighboring ones). This justifies the narrow focus of this Country Private Sector Diagnostic (CPSD) on agriculture, where Togo has demonstrated comparative advantage (cotton, organic soja) and services (transport and logistics and banking, both with a regional focus).

To start, Togo can build from the strong leadership demonstrated in recent years to reform the investment climate. Togo has achieved remarkable success with dynamic regulatory reform that has few parallels in Africa in recent years. Reforms were enacted on multiple fronts, including facilitating the creation of a business, streamlining the requirements for registering property, easing access to credit by creating a new credit bureau, reducing fees and easing construction permits, and adopting a law that regulates all aspects of mediation as an alternative dispute resolution mechanism to improve contract enforcement.

Further reforms must be pushed ahead to continue improving Togo's relative position as a desirable place to conduct business. Togo has set up a delivery unit for reforms and a Investment climate unit in the Presidency, which coordinates the ministries' reform efforts and leads investment climate reforms. These efforts have been met with success and should be pursued. However, several areas still require significant improvements.

- Despite being a trading hub for the region, trade costs and border procedures remain onerous. Togo is a small market (respectively, less than half the size of Benin and Burkina Faso, and near 1/10 the size of Ghana), which is a major disincentive for private sector investment if access to regional markets is not easy.
- As the majority of the private sector operates in informality, the tax burden falls on the small share of formal firms, which is not optimal for the small formal private sector. Yet, efforts are underway to simplify the various taxes and improve tax collection.
- Access to land remains a problem, despite recent progress relative to land titling registration and transfer, many aspects of land administration need to be improved, such as the resolution of land titling disputes, which are frequent, the availability of land in cities for economic activities, and access to basic infrastructure for productive industrial or agricultural land.

Second, and with the government’s leadership, Togo has successfully positioned itself among the first movers in industrial zones development and has successfully attracted investors, shoring up its infrastructure sector. However, this success came with strong associated fiscal incentives and a process that has privileged and facilitated individual transactions. Togo must outgrow this model as discussed in the three points that follow.

First, Togo should continue reforms related to public investment management and public-private partnerships (PPPs). Togo has been successful in managing projects that have attracted private investors and has developed the capacity to conduct transactions with private actors in several sectors. Successful projects have included transport, energy generation, and industrial zones. However, the current PPP environment suffers from a lack of transparency, and PPP regulations and institutional framework in Togo are currently weak. Projects have been conducted on a transaction basis, thus raising the question of whether a transparent and competitive process would have attracted better offers. A new draft PPP law was adopted in September 2021 by the Council of Ministers and has been recently approved by the Parliament; it will update the framework created in the 2014 law on partnership contracts, which was never fully implemented. An agency for large projects, the Agence Togolaise des Grands Projets (AGTP), was created in 2016 but lacked the means to pursue its mission. A PPP framework would offer the opportunity to better coordinate within government and to monitoring the performance of PPPs. Furthermore, it should promote greater spillovers to the rest of the Togolese economy, as operators present in Togo may be interested in being associated with such projects.

Secondly, the country should rationalize policies around economic and special zones. Togo has been a pioneer of export processing zones in West Africa with the Port of Lomé Free Zone. This zone has been full for a while and demand for additional space was unmet until the recent creation of the new Plateforme Industrielle d’Adétikopé free zone. Beyond the demand for industrial space to produce for export, there is also demand for logistics platforms (warehouses, parking, storage space, and so on) connected with Togo’s role as a gateway, demand for industrial land to serve the local market, and demand for economic zones linked with agriculture production. Consequently, multiple projects are moving at various stages of development, but they are not being coordinated.

There is a need to review the coherence of all initiatives because too many projects, with different sponsors, create confusion for potential investors. It would be useful to ensure a better coordination of the projects of the Ministry of Industry on industrial zones, Agropoles Development Agency (APRODAT) on agropoles, and Investment Promotion Agency-Free Zones (API-ZF) on special economic zones. The new free zone regulation, which puts the free zones and the associate investment policy under the single authority of the newly created API-ZF, is broadly in line with international standards, but could be improved. The regulatory framework could be streamlined to bring all free zone provisions under one law (this has not been done as the 2011 free zone law remains). Furthermore, there is a lack of clarity regarding the various incentives granted by the government to different free and industrial zone initiatives, and it is not clear that the public expenses and forgone revenues are providing the best value for money. The government should conduct a regular cost-benefit analysis of the various incentives provided and the specific objectives they help achieve, paying particular attention to whether incentives are aligned with the specific needs of future growth sectors. Finally, zone initiatives are in partnership with the government, and the conditions under which contractual agreements are made between the government and private operators are seemingly on a transaction basis, in the absence with limited public information on PPP contracts.

Third, the government should pursue reforms efforts in the enabling sectors of energy, telecommunication (telecom), and banking. In all sectors, private participation has been increasing, a positive development, and as a result sector performance and investments have improved. Regulatory reforms and investments must continue with the aim of increasing access at competitive market prices.

Access to electricity has been improving and Togo has been closing the gap with respect to other West and Central African countries. In 2020 54 percent of the population had access to electricity, a ratio which places Togo above the Sub-Saharan Africa average access rate of 48 percent and above West Africa's average.⁵ The goal of the Togo National Electricity Strategy (2018) is to ensure universal access by 2030, with a strong focus on renewable energy. This goal would be achieved through a combination of network densification and extension and off-grid technologies. The strategy has created significant opportunities for private sector investments, including in the context of the International Finance Corporation (IFC) Scaling Solar project. One issue is the economic viability of projects that serve the poorest zones economically. The lessons of the first phase of the minigrid program could be drawn to review some aspects of the government strategy and regulatory environment; this first phase suffered from a certain number of difficulties for prospective investors, including uncertainties regarding the levels of government subsidies and land security.

The two historical national electricity companies, Communauté Électrique du Bénin (CEB) and Compagnie Énergie Électrique du Togo (CEET), are facing great difficulty. The recent decision by Togo and Benin to break up CEB must be followed through with the establishment of a new national operator, and a new partnership agreement forged between the two countries. In 2020, Togo initiated a sector reform program with the support of the World Bank, to improve the financial and operational performance of the distribution utility CEET, with changes in the governance structure. Other reforms of CEET aim to address losses in the system and more efficient revenue collection. A study on tariffs is currently ongoing and will make recommendations on closing the 15 percent gap between cost of service and tariffs.

In telecoms, there has been considerable progress in the past five years with the privatization of Togocom in 2019, the award of two internet provider licenses in 2017, and most recently the landing station of Google's Equiano submarine cable—a new generation of fiber-optic telecommunication cable fully funded by Google. Operators have made important investments, including a second submarine cable, operational since summer 2021 by Moov, the second of the two telecom operators. Competition, however, remains limited with the two operators sharing the market among themselves. There is a need to ensure that access to international landing cables can be nondiscriminatory, transparent, fair, and effective to ensure lower wholesale prices. The possibility of granting a third operator license could be considered. While the advent of Google's Equiano submarine cable is an important addition, a streamlined regulatory and authorizing environment will be needed to facilitate access to the network nationally.

In the financial sector, the privatization of the last public bank remains to be completed. The presence of regional banks headquartered in Togo is not being leveraged. Measures to incentivize the development of digital services would be needed, including additional government initiatives to accept digital payments, and measures to guarantee the security of e-banking. Finally, the regulatory environment needs to be updated to account for the emerging growth of financial technology (fintech) firms.

If it adopts a sound base with a more attractive business climate and government policies to frame partnerships with the private sector, together with improved access to enabling finance and infrastructure services, Togo can aim to build on several strengths. Togo's economy has been driven by three key pillars that will remain central to its immediate development prospects, albeit with different prospects in terms of market developments.

First, Togo's convenient location and maritime access have been a determining factor shaping Togo's economy. Historically Togo is a place of commerce, serving the economies of its neighbors, and Lomé has been a gateway for the hinterland. Entrepôt trade continues to be important, as a platform both for imports into the region and as for exports, particularly serving Burkina Faso's exports through Togo. Togo has sought, with some success, to leverage its hub location by attracting investments into the port (expansion of the Port Autonome de Lomé, including the opening of the Lomé Container Terminal), regional airlines and the modernization of its international airport with a new passenger terminal, and banking.

Togo's transshipment activities have been on a growth trajectory and are expected to continue to increase. Additional investments from the current operator MSC (Mediterranean Shipping Company) are expected to increase capacity. However, the economic benefits of transshipment activities remain limited, even though Lomé is one of the two most connected ports in West and Central Africa, and pure transshipment activities generate limited revenues (port fees) and a small number of jobs. Developing value-logistics services would leverage Togo's position but will only materialize with Togo servicing neighboring markets given the small size of Togo's own economy.

The most immediate prospects rely on improving the functioning of the transit corridor to Burkina Faso and the interface between the port, logistics facilities, and the corridor itself. This entails accelerating the development of logistics zones and putting in place policies to improve the performance of the corridor, especially concerning the trucking sector, which remains highly informal, noncompliant, and inefficient with many small and economically unviable operators. The continued improvement of customs procedures relating to transit would improve the attractiveness of the corridor.

Investors may be attracted to set up facilities near the Lomé port to serve the Burkinabe market, especially near new logistics facilities such as the Plateforme Industrielle d'Adetikopé (PIA). Facilities located in Lomé could serve Burkinabe exports of some products through improved logistics services and first transformation (for instance, cotton and cashew nuts), as well as serving imports (for instance, assembly of imported products). However, in the absence of a clear masterplan and vision for the developments currently observed in Togo, including regulatory issues related to the status of free zone (which prevents exports within the Economic Community of West African States [ECOWAS] zone), it is difficult to assess what future developments could take place.

Togo's logistics performance has improved but remains below that of aspirational peer countries, and just on par with the average of Sub-Saharan Africa, with customs and logistics performance scoring relatively lower. This is in tension with Togo's aspiration to become a maritime and freight transport hub. A major challenge is the implementation of regional facilitation agreements: (a) coordination at the borders and operation of the Joint Border Post, (b) abolition of controls on transit traffic and implementation of the single guarantee on transit, (c) establishment of regional corridor management committees, and (d) a Togo-Burkina Faso customs interconnection on the Lomé-Ouagadougou corridor. For customs, Togo lacks an integrated risk management system, even though its customs and tax services share risk information, which is very good practice. Further, implementation of the authorized economic operator (AEO) regime is overdue (the internal revenue service [OTR] is conducting a simplified AEO pilot project for four companies) and advance declaration is not a common practice. Several agencies involved in international trade are not yet computerized.

The mining sector has long been a backbone of Togo's economy. There are, however, few immediate opportunities for investment either in mining or downstream transformation. Togo's phosphate export proceeds were lower in 2020 than in 2010. The available mining resources of phosphate and limestone seem to be already exploited at capacity. Regarding downstream transformation, Togo's phosphate resources do not appear to confer a particularly strong comparative advantage for fertilizer production because they are relatively modest compared with other producers, they require inputs produced elsewhere, and the process is energy intensive. The presence of limestone deposits, now exploited by two companies, has given rise to a strong clinker and cement industry, which also serves neighboring markets (Burkina Faso and Ghana, among others). Recent investments and entry in the cement market have resulted in large excess supply. Furthermore, competition and access to regional markets are highly distorted because ECOWAS countries take numerous measures to protect local firms, creating difficulties at borders and subsidizing local purchases.

Finally, Togo's agriculture potential has not fully materialized. Despite good agro-ecological conditions and the availability of arable land, an important constraint is the small size of the economy, which means that Togo lacks scale for some production (such as for cashew nuts), is competing against neighbors that have a much higher production capacity, or both. Another important factor to take into consideration is that Togo is well positioned in only a limited number of value chains. Thus, it makes sense to first focus on those established areas of production.

Cotton, by far the largest crop in the economy, is expected to enjoy a renaissance following the partial privatization of the Nouvelle Société Cottonnière du Togo, with Olam taking a majority stake. Current production yields are very low. Improvements in the supply of inputs and material as well as efforts to upgrade the skills of cotton growers will be priorities for increasing yields, rather than the expansion of planted areas. The sector has been on an upward trajectory following substantial investments by the government in the sector, yet there is further ample scope for significant production increases.

The emergence of a textile value chain with planned investments in the PIA zone has the potential to strengthen the cotton sector. Preferential market access under the African Growth and Opportunity Act (AGOA) and Enabling the Business of Agriculture (EBA) framework for textile and clothing products are currently untapped by Togo, which exports its cotton raw. Access to raw cotton offers a competitive advantage for yarn production if energy and capital costs are not prohibitive. The PIA zone objective is to offer the facilities and access to logistics needed to set up production units.

With support from donors, Togo has developed a dynamic and fast-growing sector for the production of soybeans, which have become one of the country's most important exports with Togo becoming one of the leading suppliers of organic soybeans to Europe. This suggests additional opportunities for investment, in particular attracting players to large concessions, as well as opportunities for transformation.

Another promising sector is pineapple, a value chain that received donor and government support. The development of the sector has led to increased production and transformation in juices and other products. Two aspects position Togo competitively in export markets: organic production (nearly two-thirds of total production) and production of a variety that commands premium prices (smooth cayenne). The sector continues to grow but is facing constraints related to land, the cost of air transport, and the weaknesses of smallholders.

In fact, Togo is well positioned as an organic producer in cotton, soybeans, and pineapples. However, Togo may have already reaped the easiest benefits for organic production because there are now concerns about soil depletion. Togo has been successful in accessing markets that value organic products (and that pay higher prices for them, as shown by the case of pineapples). Expanding and maintaining these markets will depend on the sustainability of soils and the ability of farmers to scale up production in crops that are technically more demanding because they are more sensitive to climate variability and pests.

To fulfill the objective of developing its agricultural sector, the government has developed instruments to attract private investment. These policies have not always been successful, such as the project to develop agropoles and make available land and facilities to incentivize investment in large-scale industrial production and transformation. But such initiatives have potential, as suggested by the interest from investors in the first agropole project in Kara, which was rolled out but has not generated sizeable investments because the conditions were not right. First, there were issues with the project design, and its expectations were too ambitious considering there had not been proof of concept for the approach being viable in Togo. Alternatively, it could be reduced to a more manageable scale in a first stage. Second, the preparation for the project left important areas, such as land rights, undefined. A review of the agropole could clarify some of these unaddressed issues. Third, the project may not have focused enough on key value chains that are more conducive to such an approach and should have defined more specifically the areas where the government would be able to provide technical support.

TABLE ES 1 MATRIX OF PRIORITY GOVERNMENT MEASURES AND OPPORTUNITIES FOR PRIVATE INVESTMENT

	Priority short-term government measures and opportunities for private investment	Priority medium-term government measures and opportunities for private investment
Improving the environment for private investment		
Fiscal	<p>Measures Pursue modernization through digitization of tax administration, declarations, and payments.</p> <p>Monitor and assess the efficacy of fiscal incentives.</p>	
Land and spatial solutions	<p>Measures Continue the implementation of land and property registries and the facilitation of property title transfer in cities.</p> <p>Streamline the investment incentive regulatory framework to bring all exemption provisions into one law instead of two laws—the free zone law of 2011 and the 2019 investment code.</p> <p>Review the coherence of all spatial initiatives, including SEZs, industrial parks, and growth poles through a national growth strategy and bring under one vision the projects of the Ministry of Industry on industrial zones, APRODAT on agropoles, and API-ZF on SEZs.</p> <p>Conduct a regular cost-benefit analysis of the various incentives provided and their efficacy and monitor the performance of SEZs.</p> <p>Improve engagement with the private sector. Existing and future incentives available to the country's zones should be clearly and unambiguously communicated and easily accessible. Work more extensively with TogoInvest as an important potential source of investors and financing.</p> <p>Review the limitation for firms located in the free zone to sell their production in Togo or in ECOWAS countries.</p>	

Note: API-ZF = Agence de Promotion des Investissements—Zone Franche; APRODAT = Agropoles Development Agency; ECOWAS = Economic Community of West African States; SEZ = special economic zone.

	Priority short-term government measures and opportunities for private investment	Priority medium-term government measures and opportunities for private investment
PPP and public investment	<p>Measures Implement the new PPP law with the aim of improving transparency and efficiently preparing projects.</p> <p>Review the organization of responsibilities within government and agencies regarding the conduct of PPPs.</p> <p>Increase recourse to competitive expression of interests for PPPs.</p> <p>Opportunities Scale up PPPs in areas such as energy, logistics, and agriculture.</p>	<p>Measures Reinforce the institutional structure to manage public investments:</p> <ul style="list-style-type: none"> • Reinforce the capacity of line ministries to manage projects. • Increase the staffing and technical capacity of the Presidential delivery unit. <p>Improve the alignment between the government budget and the PIP, and coordination/coherence between different governmental units</p> <p>Reinforce the capacity of the PPP unit and coordination with line ministries and agencies.</p> <p>Opportunities Scale up PPPs in areas such as energy, logistics, and agriculture.</p>
Energy		
Solar and renewable energy generation	<p>Measures Review investment plans for small-scale minigrids.</p> <p>Opportunities Pursue opportunities in</p> <ul style="list-style-type: none"> • Solar generation for free zones • Off-grid solar with CIZO • Solar kits 	<p>Measures Implement the least-cost power development plan using a competitive procurement method.</p> <p>Opportunities Scale up PPPs in areas such as energy, logistics, and agriculture.</p>
Reform of CEB	<p>Measures Put in place a transitional arrangement to ensure the operation and management of existing transmission infrastructure following the breakup of CEB.</p> <p>Establish a roadmap and provide technical assistance to conduct analysis, including audits of assets and debt and arrears.</p>	<p>Measures Set in place and operationalize the new structures (NTC and NSO) if CEB is dissolved or improve the performance of CEB through the implementation of a management service contract.</p>
Reform of CEET	<p>Measures Finalize and adopt the turnaround plan and commence its implementation.</p> <p>Pursue the implementation of smart metering and e-payments.</p> <p>Prepare and implement a performance contract for 2022–24.</p>	<p>Measures Restructure the debt of CEET.</p>
Tariffication	<p>Measures Finalize the study on electricity tariffs.</p> <p>Implement the new methodology for determining the revenue requirement for CEET.</p>	<p>Measures Adopt new tariffication models, including a mechanism for protecting vulnerable households, on the recommendations of the electricity tariffs study.</p>

Note: CEB = Communauté Electrique du Bénin; CEET = Compagnie Energie Electrique du Togo; CIZO = government program to support electricity access; NSO; NTC = Nouvelles Technology et Conseils; PPP = public-private partnership.

	Priority short-term government measures and opportunities for private investment	Priority medium-term government measures and opportunities for private investment
Financial sector		
	<p>Measures Finalize the privatization of Union Togolaise de Banque.</p> <p>Improve the regulatory environment for DFS technologies beyond mobile money:</p> <ul style="list-style-type: none"> • Boost online purchases and payments using credit/debit cards. • Use ecommerce and marketing technology <p>Increase supervision capacity, in view of the specific role of regional banks.</p>	<p>Enhance the development of</p> <ul style="list-style-type: none"> • Financial media and data solutions • Insurance and health care technology
ICT		
	<p>Measures Increase competition in the national backbone segment by leveraging existing capacity available under the eGov network, including the new Google Equino submarine cable.</p> <p>Stimulate facilities-based competition (open access policies for all submarine cables, licenses, authorizations, and rights-of-way to stimulate FTTH deployment).</p>	<p>Measures Lower the cost for investment and create incentives for infrastructure sharing.</p> <p>Opportunity Obtain a third telecommunications license.</p>
Transport and logistics		
Transit	<p>Measures Implement a single transit guarantee. Eliminate control on the corridor. Operationalize the road safety office (Office national de la sécurité routière).</p>	<p>Measures Improve conditions for transporters on the corridor (such as rest areas). Improve road safety on the corridor. Improve the interconnectivity of services operating on the corridor.</p>
Customs	<p>Measures Interconnect with Burkina Faso customs. Implement the AEO more broadly.</p>	
Port operations	<p>Measures As part of the government's strategy 2020–2025:</p> <ul style="list-style-type: none"> • Review port concessions. • Review PAL institutional arrangements. • Review the PAL rules for storage and unbundling. 	

Note: AEO = authorized economic operator; DFS = digital financial services; FTTH = fiber to the home.

	Priority short-term government measures and opportunities for private investment	Priority medium-term government measures and opportunities for private investment
Air transport	<p>Measures Reduce airport taxes. Evaluate how to attract more companies as alternatives to Asky.</p>	
Logistics zones	<p>Measures Develop a logistics masterplan.</p>	<p>Measures Review the institutional framework for government-sponsored economic zones.</p>
Value-added logistics services	<p>Measures Provide training. Develop a strategy for VA logistics services (alongside Invest in Togo).</p> <p>Opportunities Encourage investments in the PIA</p>	<p>Measures Review the incentive framework for VA logistics services.</p>
Road transport	<p>Measures Improve enforcement of axle load control. Operationalize the road transport observatory. Create a training center for the road transport profession.</p>	<p>Measures Improve transparency in freight management and allocation. Implement the road fund. Renew the fleet. Digitalize transport documentation. Create a database of road transport options.</p>
Agriculture		
	<p>Measures Intensify agricultural production at the level of the Kara agropole through the development of large-scale planned agricultural development zones (ZAAP) (300 to 700 hectares per ZAAP). Facilitate producers' access to agricultural inputs (seeds, fertilizers, phytosanitary products). Continue the construction of agro-food processing centers (CTA). Develop a strategy for implementing PPPs in agropoles. Strengthen communication and investor prospecting around agropoles.</p> <p>Opportunities Use the ZAAPs for production under management in the Kara agropole; Aggregate production for industrial processing. Include suppliers (such as packaging, logistics services) and processors (such as oil and feed, chicken factory, fruit juice factory).</p>	<p>Measures Continue the development of large-scale ZAAPs in the Kara agropole. Build the agropark of the Kara agropole. Carry out the technical and socioeconomic feasibility study of the two other agropoles (Oti, Haut-Mono).</p> <p>Opportunity Install processing units in the agropark of the Kara agropole. Use the ZAAPs for production under management in the Kara agropole. Aggregate production for industrial processing.</p>

Note: CTA = agro-food processing center; PIA = Plateforme Industrielle d'Adetikopé; VA = value added; ZAAP = agricultural development zones.

	Priority short-term government measures and opportunities for private investment	Priority medium-term government measures and opportunities for private investment
Organic production	<p>Measures Assess the current state of organic production in Togo, including identification of the main production areas, crops, and actors involved. Implement the national strategy for the development of agro-ecology and organic farming in Togo for 2021–30. Develop knowledge on organic production within the Ministry of Agriculture. Facilitate access to biological inputs (seeds, pesticides, organic fertilizers) while strengthening the ability to obtain them locally.</p> <p>Opportunities Strengthen existing production (soy, pineapple, sesame, fonio, and so on).</p>	<p>Measures Increase the production capacity of organic seeds in all categories (pre-basic, basic, and certified). Strengthen the capacity of extension services in the dissemination of best practices favorable to organic agriculture. Strengthen the capacities of farmers in organic production, in particular through training on good practices and certification systems.</p> <p>Promote Togolese organic products abroad and in markets where demand is growing rapidly.</p> <p>Opportunities Invest in new crops.</p>
Processing	<p>Measures Support producers in concluding commercial agreements. Support the development of IT solutions to increase market information and transparency. Refrain from any regulatory intervention that could distort prices in currently open markets. Identify value chains, including regional sourcing, where local processing could be competitive.</p> <p>Opportunities Encourage local processing of agricultural products such as raw cotton, soybeans, and sesame in dedicated industrial zones. Invest in renewable energy in order to make national agro-food industries competitive and respectful of the environment.</p>	<p>Measures Support the development of irrigation infrastructure and agricultural mechanization. Facilitate the establishment of an agricultural stock exchange. Support the implementation of a certification system for agricultural products.</p> <p>Opportunities Invest in continuous production in the quantity and quality of agricultural products; Invest in the management company of the agricultural stock exchange. Increase access to agricultural product markets.</p>

Note: IT = information technology.

Notes

1. See Institut National de la Statistique et des Etudes Economiques et Démographiques, Recensement Général des Entreprises (INSEED RGE) 2018. Unfortunately, Togo is not listed on the Global Entrepreneurship Index, the country's entrepreneurship index cannot be assessed along that different dimension.
2. See the program's website, <https://novissi.gouv.tg/>.
3. UNCTAD, World Investment Report 2020: International Production beyond the Pandemic (New York: United Nations, 2020).
4. Updated from fDi Intelligence, "Togo's Reforms Spur FDI Renaissance," April 16, 2020, <https://www.fdiintelligence.com/article/77281>.
5. World Bank, World Development Indicators, <https://databank.worldbank.org/source/world-development-indicators#>.

ABBREVIATIONS AND ACRONYMS

AEO	Authorized Economic Operator
AGOA	African Growth and Opportunity Act
API-ZF	Agency for the Promotion of Investments and the Free-Trade Zone
APRODAT	Agropoles Development Agency
BCEAO	La Banque Centrale des États de l’Afrique de l’Ouest
BOAD	West African Development Bank
CCIT	Chamber of Commerce and Industry
CFAF	CFA franc (WAEMU currency)
DFS	digital financial services
DPO	Development Policy Operation
ECOWAS	Economic Community of West African States
FDI	foreign direct investment
fintech	financial technology
FTTH	Fiber To The Home
FZ	Free Zone
GDP	gross domestic product
ICT	information and communication technology
IMF	International Monetary Fund
INSEED	Institut National de la Statistique et des Etudes Economiques et Démographiques
IPP	independent power producer
ITC	International Trade Centre
JCAT	Jonction de Croissance Agricole au Togo
LPI	Logistics Performance Index
MIFA	Mécanisme Incitatif de Financement Agricole (Agriculture Incentive Financing Mechanism)
MFI	microfinance institutions
MSME	micro, small, and medium enterprise
MWp	megawatt peak
MWh	megawatt-hour
NDC	Nationally Determined Contribution
NDP	National Development Plan
NPL	non-performing loan

NSCT	Nouvelle Société Cottonnière du Togo
OTR	Togolese Revenue Office
PAIEJ-SP	Projet d'Appui à l'Employabilité et à l'Insertion des Jeunes dans les Secteurs Porteurs
PAL	Port Autonome de Lomé
PIA	Plateforme Industrielle d'Adétikopé
PIP	Public Investment Program
PPA	purchase power agreement
PPP	public-private partnership
PVS	Customs Litigation Database
RFP	request for proposals
RGE	Recensement Général des Entreprises (enterprise survey)
SEZ	Special Economic Zone
SFFZ	Single Factory Free Zone
SOE	state-owned enterprise
telecom	telecommunication
TEU	twenty-foot equivalent unit
UTB	Union Togolese de Banque
VAT	value added tax
WAEMU	West African Economic and Monetary Union
WURI	West Africa Unique Identification for Regional Integration and Inclusion
ZAAP	Agricultural Development Zone

1. INTRODUCTION

Togo is a small economy that has experienced political stability and made noteworthy progress in its development over the past decade. Recent economic progress has resulted from the country's political stability, which, combined with infrastructure investments and progressive economic policies, contributed to steady growth since the mid-2000s. The country was led by President Étienne Gnassingbé Eyadéma from 1967 to 2005 and succeeded by Faure Essozimna Gnassingbé, who is the current president of the republic.

The natural resource sector remains central to Togo's economy. The country benefits from natural resources in mining, with important phosphate deposits, as well as limestone deposits used for clinker and cement production. Togo's soil and climate are suitable for several varieties of crops—chief among them cotton, historically the main agricultural export.

Togo is a member of the West African Economic and Monetary Union (WAEMU), where the principle of free movement of goods, services, and people provide Togo with the opportunity to tap into regional markets. Togo has belonged to the WAEMU since its existence and shares the same currency and monetary policy space with seven other countries in the region. The union's currency (CFAF) maintains a fixed exchange rate with the euro and is fully convertible in major currencies. The CFAF is managed by the union's central bank, La Banque Centrale des États de l'Afrique de l'Ouest (BCEAO), which provides price and exchange rate stability. Stable prices and exchange rate certainty, combined with Togo's domestic political stability and commitment to reforms, have made Togo a strategic location for investors to benefit from the larger WAEMU market toward economies of scale. The location of Togo with a deep-water port near landlocked countries, including Burkina Faso, Mali, and Niger, allows it to serve as their transshipment center for import and export, further fostering its regional integration.

Togo has improved its transport and logistic infrastructure. Important infrastructure investments, led by the modernization of the Port of Lomé (with 16.6 meters depth, one of the deepest ports on the West African coast that can accommodate third-generation ships carrying 2,000–3,000 containers), placing the country firmly among the major logistics centers of the region. The country is also a hub for one of the main regional airlines in Africa, ASKY. Recently Togo inaugurated new special economic zone—Plateforme Industrielle d'Adetikopé in the north of Lomé, about 24 kilometers from the national airport (Aéroport International Gnassingbé Eyadéma).

Togo has also managed to become the headquarters of large regional banks, reflecting the country's aspiration of becoming a financial hub. Togo's political stability and relatively better security environment have enabled it to attract major regional banks. These include the Economic Community of West African States (ECOWAS) Investment and Development Bank, the West African Development Bank (BOAD), Oragroup, and Ecobank Transnational Inc., the largest independent regional banking group in West Africa and Central Africa, with operations in 36 Sub-Saharan Africa countries. The presence of the large regional banks presents an opportunity for Togo to serve as a regional financial hub while the status of regional and continental conference center provides business tourism opportunity which enhances supply chains for the hospitality services.

Finally, Togo has conducted numerous reforms in recent years, conducting some privatizations (in telecommunication [telecom], banking, and agriculture), improving several aspects of the business climate, passing a new investment law, and drafting a new public-private partnership (PPP) law, and initiating reforms in the energy and telecom sectors to name several important drivers of private sector investment in the economy. Other recent reforms aimed at improving the business environment include reforms related to the electronic payment of taxes and duties, the establishment of the commercial court with dematerialized procedures, the establishment of a register of commerce and personal property credit, and the reduction in time to transfer ownership.

Although Togo has made important progress on the development path, the country is yet to match achievements seen in other countries in Africa, including regional neighbors, in recent years, particularly in the establishment of a solid private sector and improvements in trade, transport, and logistics, which constitute the foundations of the economy.

2. RECENT SOCIOECONOMIC AND POLITICAL DEVELOPMENTS

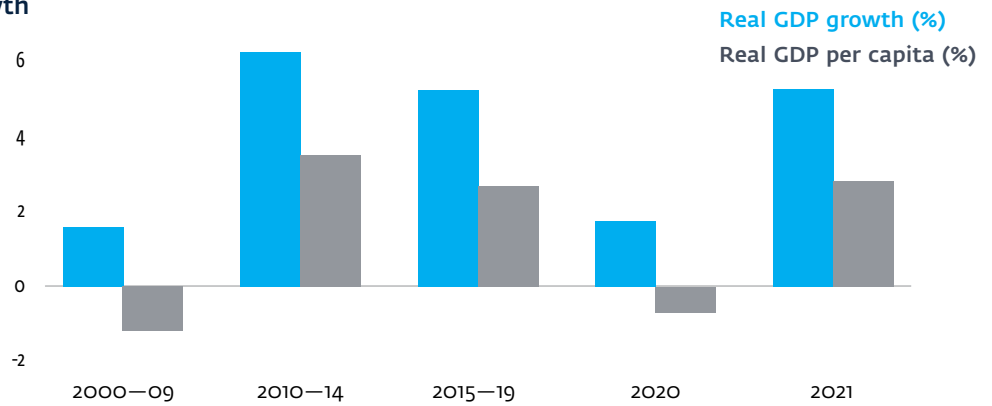
GROWTH ACCELERATION WILL NEED TO BE SUSTAINED TO ACHIEVE MORE INCLUSION AND POVERTY REDUCTION

After years of stagnation and volatile growth in the early 2000s, the economy of Togo entered a new path of higher growth, owing to the stewardship of policies to stimulate investment and the critical roles of development partners in supporting the country in debt management challenges. Real gross domestic product (GDP) growth averaged 6.2 percent in 2010–14 and 5.2 percent in 2015–19. The period from 1990 to 2005 was characterized by the insufficiency of reforms, which translated into volatile and low growth. The ascension of Faure Gnassingbé to office in 2005 as president marked the start of a new policy of fiscal stimulation accompanied by reforms and government actions to create an enabling environment for private investments. During 2010–15, the government's policies emphasized infrastructure development with large public investment. The commitments to reforms in recent years have been a critical catalyzer in further stimulating private investments in the country, with a marked increase in the past five years (2015-2019). Support from development partners like the World Bank Group and the International Monetary Fund (IMF) in the period have been instrumental in fostering macroeconomic stability.

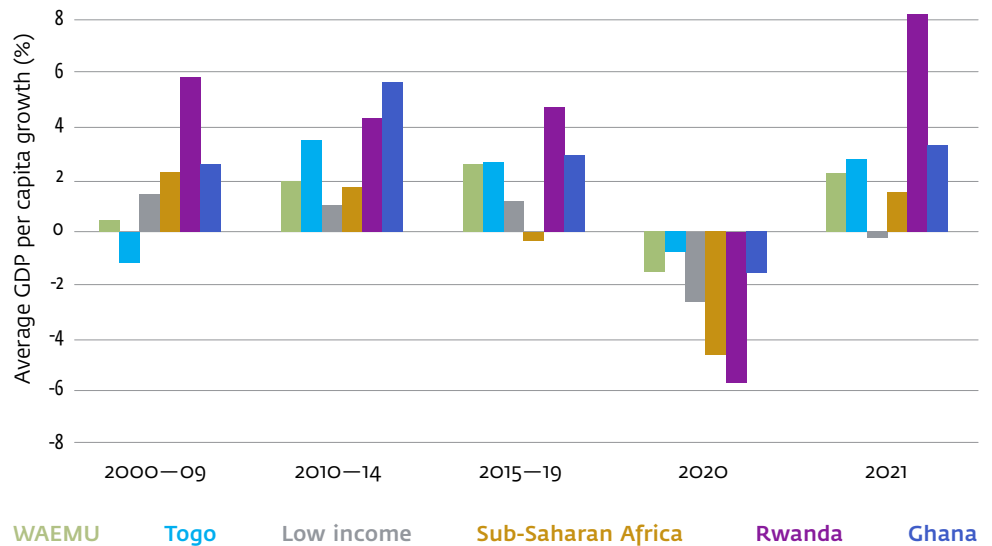
Recent growth performance helped increase income per capita. However, decades of slow growth previously mean that Togo remains poorer than peer countries.¹ Starting in the mid-2000s, per capita GDP growth improved substantially, reaching an average rate of 3.4 percent between 2010 and 2014. The growth pace declined slightly to 2.6 percent between 2015 and 2019 (figure 2.1). Relative to regional peers (WAEMU, Sub-Saharan, or low-income countries) Togo was catching up in the period 2010–14 with a stronger performance. However, since 2015 the relative slowdown in real GDP growth translated into a slightly lower performance than regional and aspirational peers like Ghana (figure 2.2). Therefore, the growth in Togo has not been sufficient to catch up on the income per capita levels of comparator countries (figure 2.3).

FIGURE 2.1 TOGO GDP AND INCOME GROWTH, 2000–19, COMPARED WITH PEERS

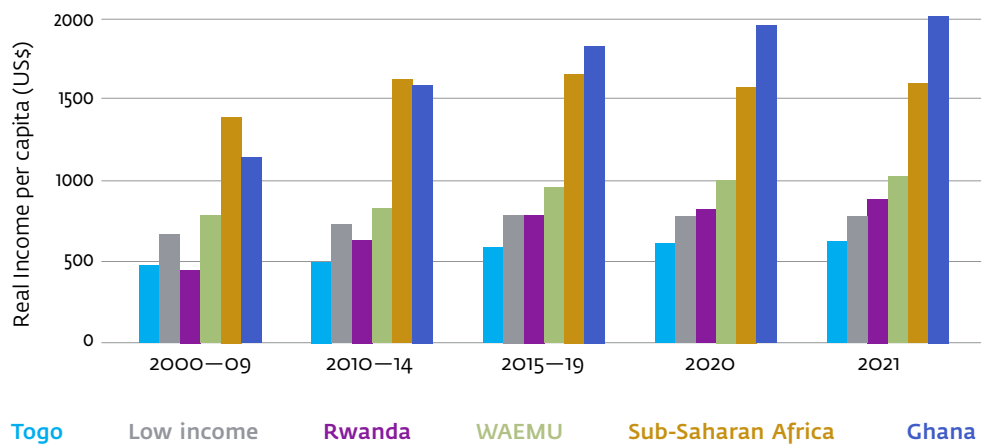
a. Income per capita growth



b. Togo compared to peers



c. Togo remains poorer than peers



Source: World Bank, World Development Indicators and Macro Poverty Outlook, October 2021.

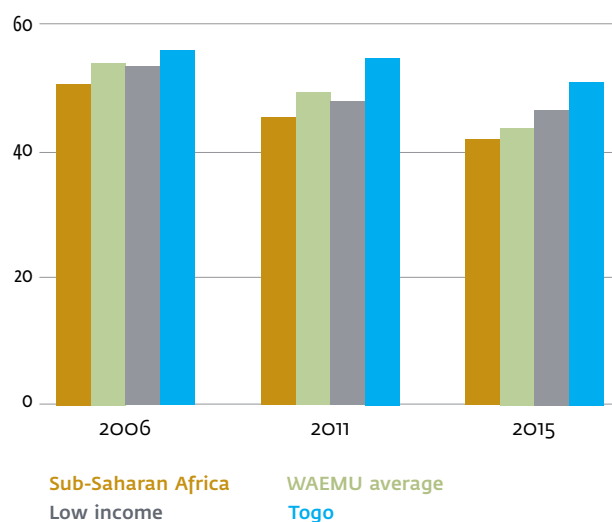
Note: GDP = gross domestic product; WAEMU = West African Economic and Monetary Union.

Extreme poverty persists

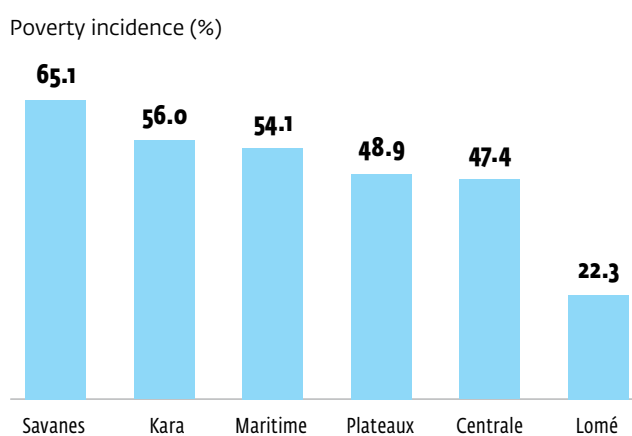
Recent growth, being capital intensive, did not translate into improved social indicators because of the low skills environment. Not only has growth been job poor and not inclusive, but also the limited jobs created require skills that mismatch the mass labor force. Recent growth enabled Togo to reduce extreme poverty, but relatively slowly. Poverty remains more prevalent in Togo than in peer countries, and regional disparities persist. Extreme poverty (US\$1.90 a day, 2011 purchasing power parity) declined from 55.5 percent of the total population in 2006 to 51 percent in 2015, owing to the investment policies and the resulting enhanced growth. However, the 4.5 percentage points (pp) decline in extreme poverty in Togo over the period is slow progress compared with 8.8 pp (in Sub-Saharan Africa), 11 pp (in WAEMU), and 9.6 pp (in low-income countries). Extreme poverty remains more prevalent in Togo than in comparator countries (figure 2.2, panel a). There are also wide disparities across Togolese regions (figure 2.2, panel b), with extreme poverty more widespread in rural areas. The Savanes and Kara regions are the most affected, with 65 percent and 56 percent of their populations living in extreme poverty, respectively.

FIGURE 2.2 POVERTY IN TOGO

a. Poverty headcount (US\$1.90 a day, 2011 purchasing power parity)



b. % total population 2006–15 and by region

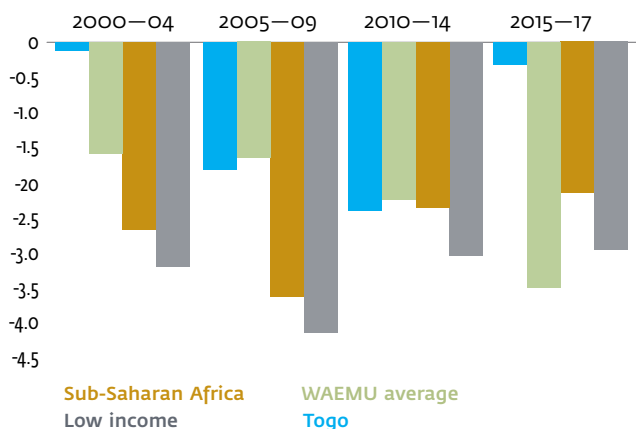


Source: World Bank, World Development Indicators.

Togo’s progress on human development has been slow,² and Togo is classified among countries with low educational attainment and the least progress on health indicators. In 2018, Togo scored 0.512 out of 1.000 on the overall Human Development Index. Although this score is well in line with the performance of its WAEMU peers, it has remained well below Sub-Saharan Africa’s average score of 0.540 the same year. Togo performs better than most of its WAEMU peers on levels of education. The mean years of schooling in Togo (4.9) exceed the WAEMU average (3.3), although it is below the Sub-Saharan African average (5.9). The expected number of years of schooling in Togo (12.6 years) is consistent with the WAEMU average (12.5 years) and above the Sub-Saharan African average of 9.9 years. Nonetheless, the quality of education remains low as underscored in the government’s Education Sector Plan (*Plan Sectoriel de l’Education*).

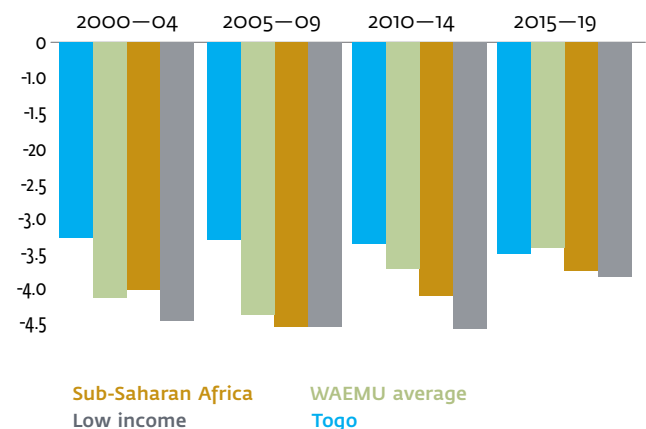
Togo has made strides on critical health indicators, reducing maternal and under-five mortality over the past two decades. However, its pace of progress remained much slower than that of regional and aspirational peer countries. Between 2000 and 2019, Togo reduced maternal mortality (per 100,000 live births) by only 19 percent (figure 2.3). This is an important achievement, but the pace of reduction is half of that of WAEMU and Sub-Saharan African countries, and much slower than that of aspirational countries like Ghana (36 percent) or Rwanda (79 percent). Togo still experiences higher rates of maternal mortality (396 for 100,000 births) than Ghana (308 per 100,000 births) and Rwanda (248 per 100,000 births). Togo also has less satisfactory outcomes in under-five mortality per 1,000 live births, reducing the level by only 43 percent over the past two decades (figure 2.4), compared with the WAEMU (51 percent), Sub-Saharan Africa (50 percent), Ghana (53 percent), or Rwanda, which has almost eradicated under-five mortality (reducing it by 81 percent).

FIGURE 2.3 ANNUAL AVERAGE RATE OF REDUCTION IN MATERNAL MORTALITY



Source: World Bank, World Development Indicators.
 Note: WAEMU = West African Economic and Monetary Union.

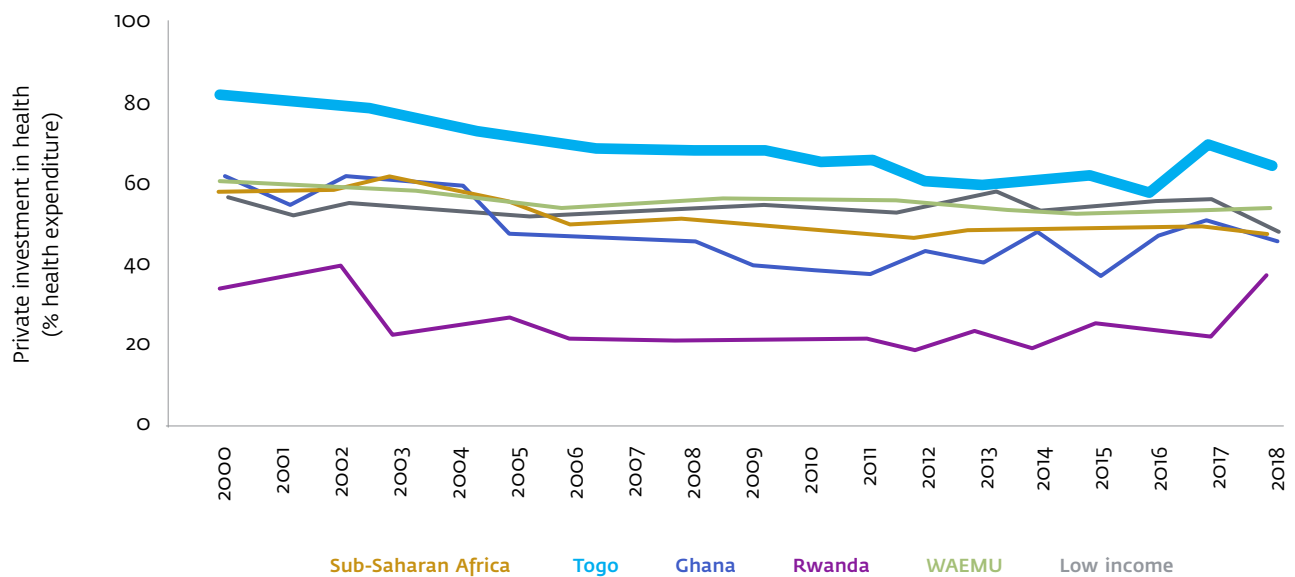
FIGURE 2.4 ANNUAL AVERAGE RATE OF REDUCTION IN UNDER-FIVE MORTALITY



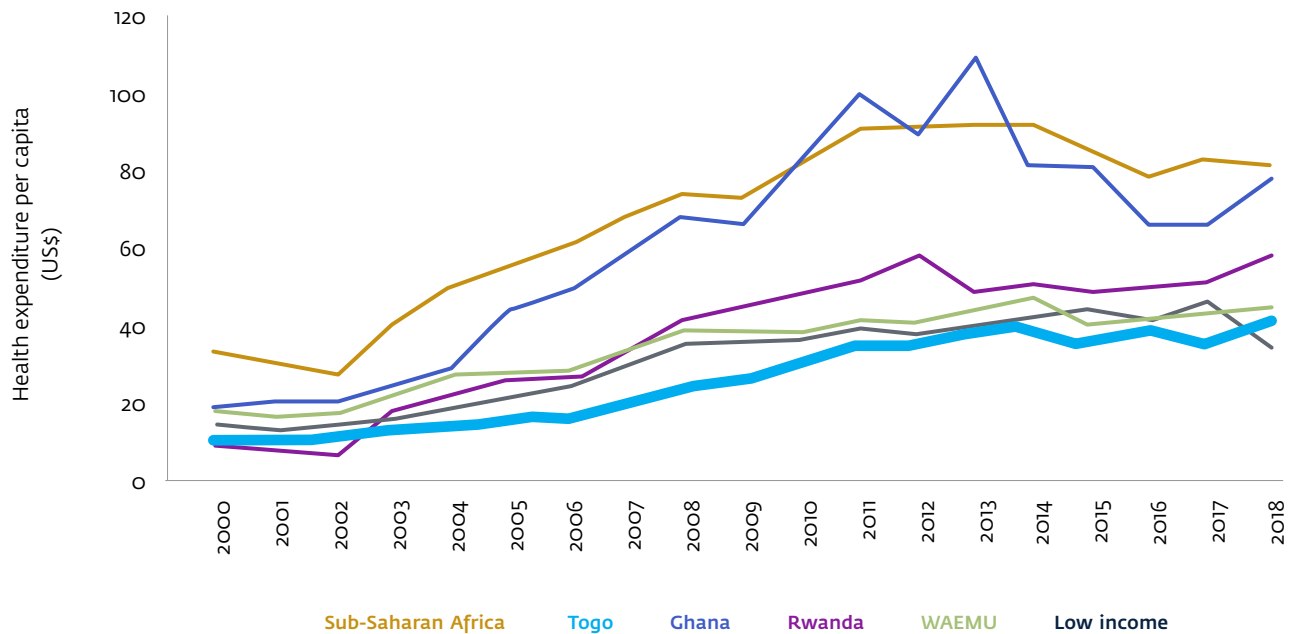
Source: World Bank, World Development Indicators.
 Note: WAEMU = West African Economic and Monetary Union.

Private spending in health care is already important but cannot compensate for low levels of public expenditure. The share of private spending in health care in Togo represents two-thirds of total spending, higher than in peer countries and low-income countries on average (figure 2.5). However, this has not been sufficient to compensate for low levels of public investment: Togo still has the lowest expenditure per capita in health care among peers (figure 2.6). On the education front, government expenditure on education as a share of total government³ expenditure and government expenditure as share of GDP are higher in Togo than in peers and aspirational countries, as well as the Sub-Saharan African average. However, educational outcomes (mean and expected years of schooling) in Togo are much lower, which might reflect some efficiency issues in the sector.

FIGURE 2.5 PRIVATE SPENDING IN HEALTH



Source: World Bank, World Development Indicators.

FIGURE 2.6 HEALTH EXPENDITURE PER CAPITA

Source: World Bank, World Development Indicators.

Job creation has not been enough

Yet, growth and structural change have not been accompanied by sufficient job creation. The country started transitioning from an agricultural-dominated economy to a services-led one in the wake of large private investments in services and industrial development. The agricultural sector (agriculture, forestry, and fishing), which accounted for more than 50 percent of GDP in the early years after independence has been declining, down to less than one-third of GDP in recent years, based on World Bank, World Development Indicators.

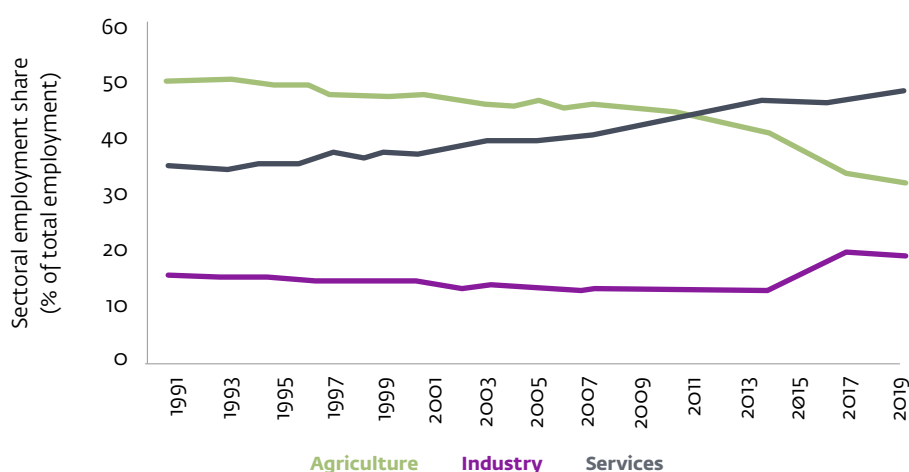
Official unemployment is low in Togo compared with some peers and the Sub-Saharan African average.⁴ At the internationally comparable level, the unemployment rate in Togo in 2019 stood at 3.7 percent of the total labor force (2.8 percent for females and 4.6 percent for males), lower than the Sub-Saharan African average of 6.3 percent or in countries like Ghana (4.2 percent), Senegal (6.6 percent), and Mali (7.4 percent). However, in Togo 13.5 percent of the labor force with advanced education has remained unemployed in recent years. The rate is much higher among females with advanced education (18.5 percent). Moreover, the general official unemployment is much more pronounced among youth (9.2 percent) and has been increasing over the last five years prior to Covid-19. Given that educated individuals are likely to persevere in their job search, the high number of educated unemployment suggests a lack of jobs, a potential

hidden mismatch between available jobs and education (skills), binding issues such as minimum wage and infrastructure services deficit in some localities, or a combination.⁵ The low rate of official unemployment may also hide many discouraged job seekers, a large share of whom are underemployed or self-employed in the informal sector and are not accounted for in official statistics. This is particularly likely considering the large informal sector in the country—about 84.4 percent of Togolese workers operated in the informal sector and accounted for 51.1 percent of Togo’s GDP in 2019.⁶

Job quality has been low. A recent global job diagnostic revealed that average labor incomes are falling, and the quality of jobs remains low.⁷ The shift toward more productive, waged jobs in off-farm sectors (both rural and urban areas) is slow and limited relative to the expansion of the working-age population. As a result, most workers are in the agricultural sector, which remains characterized by low productivity with informal or semiformal small enterprises. The share of paid employees in total employment increased from 11 percent in 2006 to 17 percent in 2019, reflecting a slow shift to waged employment (0.4 percent per year).

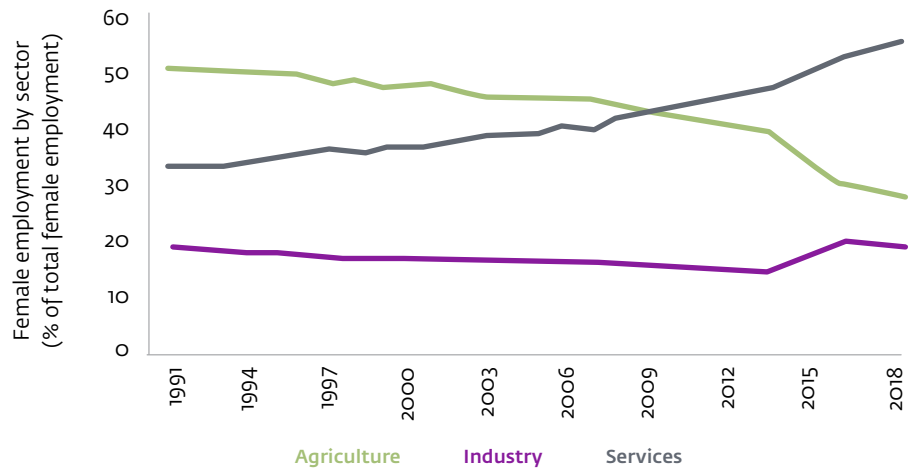
While services are making the largest contribution to growth, the extent of job creation in services remains slow. Services have been accounting for more than half of GDP in Togo since the 1970s, but agriculture nevertheless continued to account for a larger share of labor until 2011, reflecting a slow pace of job creation elsewhere and the fact that emerging sectors demonstrate comparatively higher productivity than agriculture. At the gender level, the labor shift has been driven by women, reflecting women’s increasing participation in low-tech services such as redistribution and retailing of agricultural products (figure 2.7, figure 2.8, and figure 2.9).

FIGURE 2.7 SECTORAL EMPLOYMENT SHARE



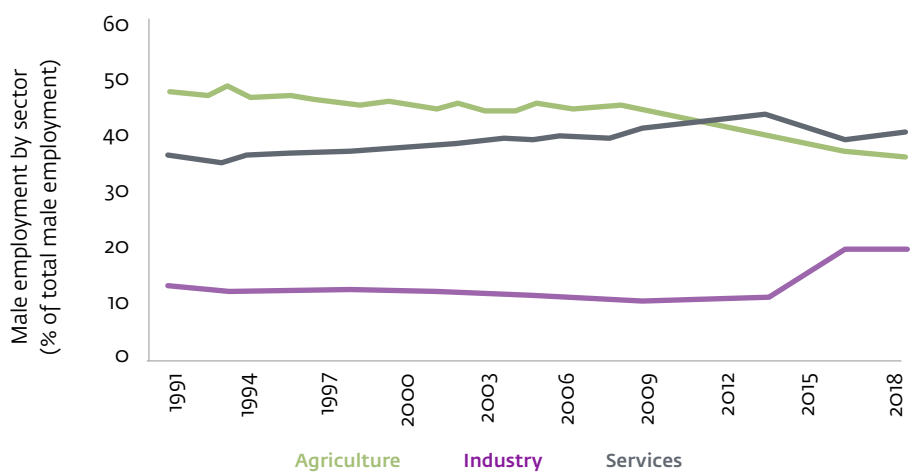
Source: World Bank, World Development Indicators.

FIGURE 2.8 FEMALE EMPLOYMENT BY SECTOR



Source: World Bank, World Development Indicators

FIGURE 2.9 MALE EMPLOYMENT BY SECTOR

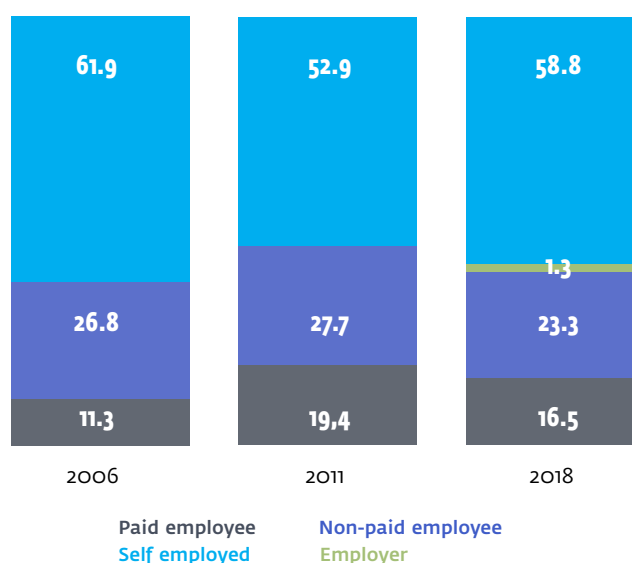


Source: World Bank, World Development Indicators.

Although the services sector has been generating jobs in recent years, quantities remain low compared with the labor supply. The share of the labor force with only part-time employment has risen since 2011 for all worker groups regardless of educational attainment or urban/rural residence.⁸ Moreover, the share of those employed but working only part time doubled in rural areas and for urban men between 2011 and 2018. Self-employment in both agriculture and non-agriculture remains the dominant form of employment in Togo.

The private sector contributed significantly to the increase in the number of paid jobs in Togo; however, the share of formal jobs relative to total employment has been declining in recent years. The share of working-age people with private sector wage employment grew between 2006 and 2011, but then shrank (figure 2.10). This finding highlights the limitations of infrastructure investment in creating jobs, suggesting the need to have more investment in productive sectors such as agriculture value chains.

FIGURE 2.10 SOURCE OF EMPLOYMENT



Source: World Bank. Togo Jobs Diagnostic. Forthcoming, 2023.

THE COVID-19 PANDEMIC FURTHER WEAKENED ECONOMIC PROSPECTS

Togo managed to avoid a recession owing to its preexisting robust growth and stable macroeconomic fundamentals. Yet, the pandemic led to the contraction of GDP per capita as the pace of real GDP growth significantly slowed against the still-high population growth and weakened key macroeconomic indicators. The domestic and external shocks triggered by the pandemic reduced real GDP growth to 1.8 percent in 2020 from 5.5 percent in 2019. In per capita terms, real GDP contracted by 0.6 percent in 2020, down from growth of 2.9 percent in 2019. Disruptions of trade flows delayed the delivery of intermediary inputs for production while domestic lockdowns constrained labor participation.

On the positive side, higher demand and increases in the price of some of Togo's export commodities over the second half of 2020, combined with low inflation, softened the adverse effects of the pandemic on the economy. The price of phosphate rock increased by 15 percent to US\$83.30 per metric ton (mt) in December 2020. Moreover, the demand for clinker and agricultural products such as sesame and cashew increased. Inflation has been low in Togo in recent years, less than 1 percent over the past five

years, owing to the stable exchange rate and the BCEAO's prudent monetary policy. The rate increased to 1.8 percent in 2020 owing to an increase in food prices because of the disruptions in trade flow and reduction in domestic production. But it remains within the WAEMU's convergence criteria of 3 percent or less.

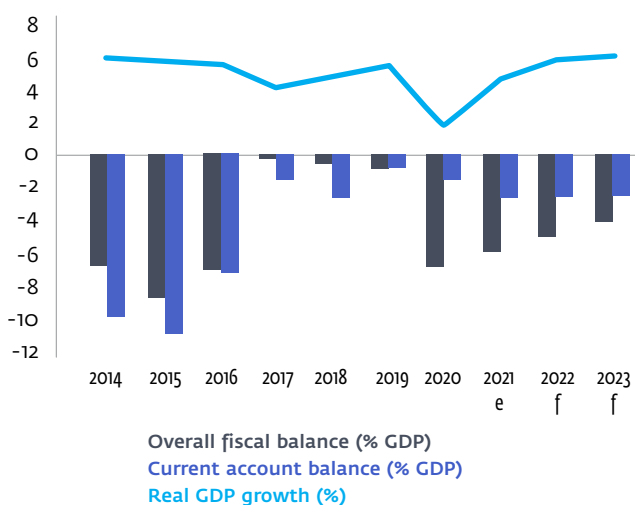
The fiscal deficit widened significantly. Total government revenues fell by 1.4 percentage point of GDP in 2020 from 16.2 percent in 2019. Meanwhile, expenditures increased significantly from 18.5 percent of GDP in 2019 to 23.1 percent in 2020, considering the fiscal stimulus packages to support households and firms. The fiscal deficit significantly widened from less than 1 percent of GDP in 2019 to an estimated 6.9 percent in 2020, leading to an increase in public debt.

The declining trend in the public debt-to-GDP ratio prior to COVID-19 was reversed, putting the overall public debt at high risk of distress. Yet, the external position remains contained. Togo's public debt is estimated at 62.4 percent of GDP in 2021 from 60.3 percent in 2020 and the pre-COVID-19 level of 52.4 percent of GDP in 2019. Because of the considerable increase, the joint World Bank/IMF debt sustainability analysis rated Togo's overall public debt at a high risk of distress. Nonetheless, the country's external debt remains at a moderate risk of distress. The external position remained contained, supported by the improvements in exports of agricultural and mineral products over the second half of 2020, when exports rose from 22.8 percent of GDP in 2019 to 23.3 percent in 2020 while imports stagnated during the same period. However, the decline in remittances and tourism receipts more than offset the export gains, leading to a slight deterioration in the current account deficit from 0.8 percent of GDP in 2019 to 1.5 percent in 2020. Improvements in the prices of phosphates, cotton, and copper during the last four months of 2020 also contributed to stabilizing the country's external position. The current account deficit is estimated at 2.6 percent of GDP in 2021, reflecting a faster pace in import growth relative to exports.

The private sector was adversely affected by the pandemic; nonetheless, owing to the government's swift response to the pandemic and to the BCEAO's measures to support firms and banks, the effects were mitigated. An early survey of 150 private companies in 2020⁹ found that 63 percent of companies in Greater Lomé remained open, while 16 percent were only partially open, 20 percent were temporarily closed, and only 1 percent considered themselves to be permanently closed. Predictably, larger companies were less affected than medium and small companies, with medium-size companies the most harmed (only 52 percent still completely operational) because of a significant reduction in sales. Furthermore, at the time of the survey, the companies had furloughed 22 percent of their employees and reduced the hours, salaries, or benefits of 21 percent of their employees.

Nevertheless, the economic outlook remains positive with a strong recovery expected, led by private investment. The World Bank Macro Poverty Outlook estimates the real GDP growth at 5.3 percent in 2021 and projects it at 6.4 percent by 2024.¹⁰ The key driver of the recovery will be resurgence of private investment, which is projected to reach US\$2.6 billion by 2023 from about US\$1.6 billion in 2019 (6.6 percentage point of GDP increase from 2019 level), triggered by industrial production and infrastructure development. The current account deficit is expected to stabilize broadly at 2.6 percent of GDP over 2021–23, reflecting a progressive recovery in exports, while the resumption of economic activities will stimulate revenues to help narrow the fiscal deficit down to 4.1 percent of GDP by 2023. Public debt is expected to remain high, at 61 percent of GDP on average over the medium term, given the still-high financing gap. Ongoing reforms, including those aimed at improving domestic revenues mobilization through increase value added tax (VAT) and property tax property (to broaden the tax-base), improved tax administration; measures for public investment and debt management are expected to further stabilize the macroeconomic environment and strengthen the recovery over the medium term.

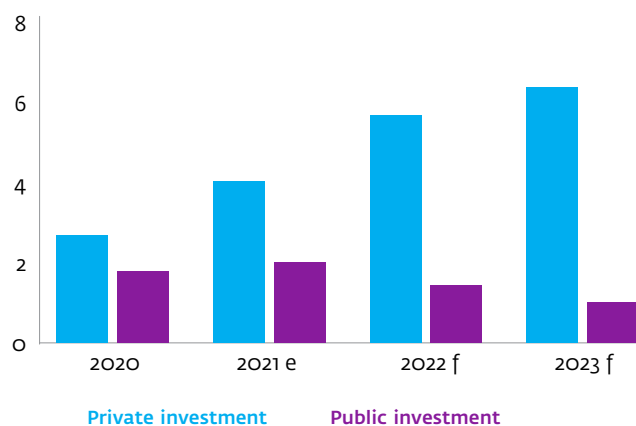
FIGURE 2.11 COVID-19 IMPACT ON THE ECONOMY



Source: World Bank, Macro Poverty Outlook, October 2021.

Note: e = estimated; f= forecast; GDP = gross domestic product.

FIGURE 2.12 PRIVATE INVESTMENT TO DRIVE RECOVERY



Source: World Bank, Macro Poverty Outlook, October 2021.

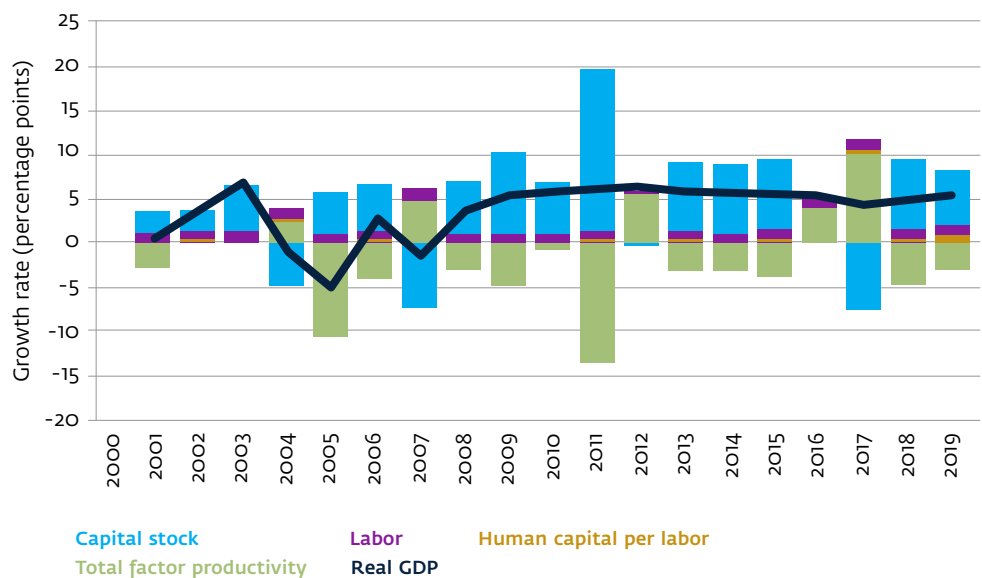
Note: e = estimated; f= forecast; GDP = gross domestic product.

DRIVERS OF GROWTH

Physical capital accumulation has been the main driver of growth

Growth decomposition reveals that Togolese growth has been driven by capital accumulation, whereas contributions from total factor productivity¹ and human capital have been limited (figure 2.13). The low contribution of total factor productivity confirms the general lack of evidence of significant productivity growth in many sectors. Human capital, which reflects the level of skills, education, and capacity that potentially influence the workforce's productivity has also been low, revealing the limited contribution of education and skills to the economy. These constraints can lead to problems in the quality of human capital and in skills mismatch in the economy.

FIGURE 2.13 GROWTH DECOMPOSITION BY FACTOR

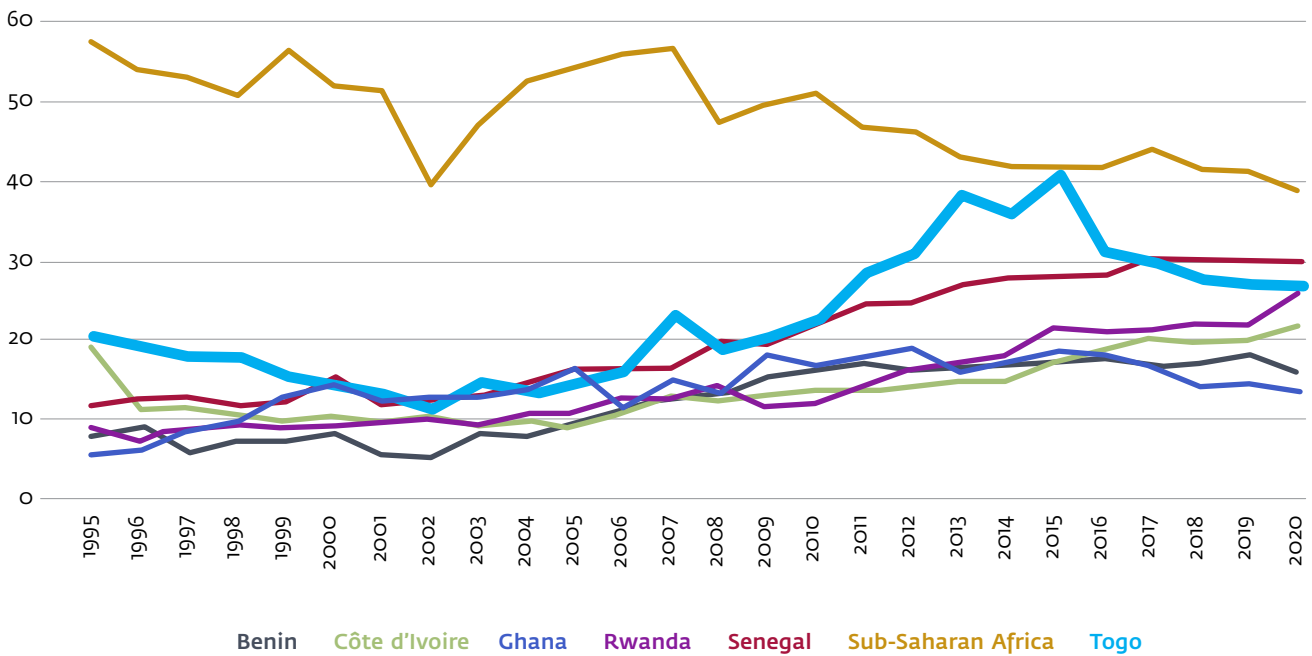


Source: World Bank calculation using World Development Indicator data.

1. See detailed methodological approach in the Box 1. Appendix F.

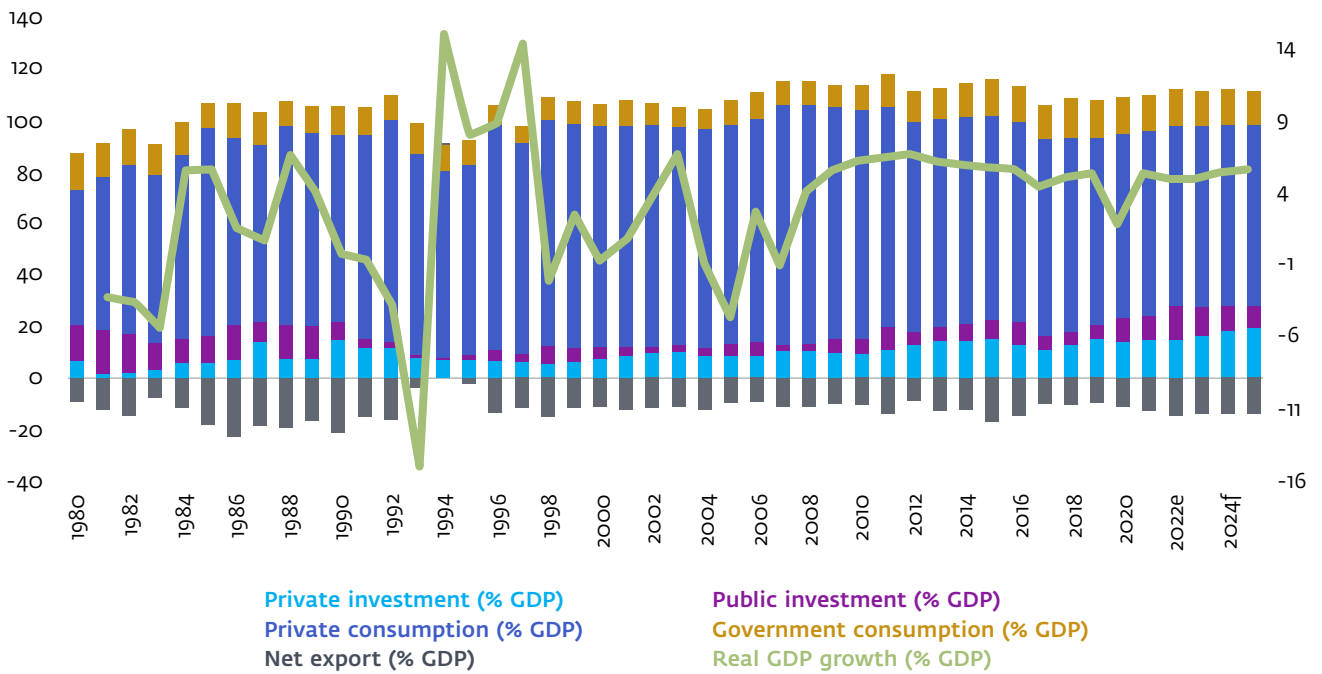
Private investment picked up very robustly between 2012 and 2019 to average 14 percent of GDP from less than 10 percent during the previous decade (figure 2.14). The share of private investment in GDP grew significantly after 2010 (figure 2.15) and the contribution of private investment to growth on the demand side rose from around 1 percentage point in the first decade of the 2000s to more than 4 percentage points on average in 2015–19 (figure 2.16). Private investments have been supported by cross-border investments and bank credit, with foreign direct investment (FDI) accounting for the larger share. However, FDI in Togo has been very volatile, probably because volumes have been driven by few large transactions.

FIGURE 2.14 TOGO DOMESTIC CREDIT TO THE PRIVATE SECTOR (% OF GDP) RELATIVE TO PEERS



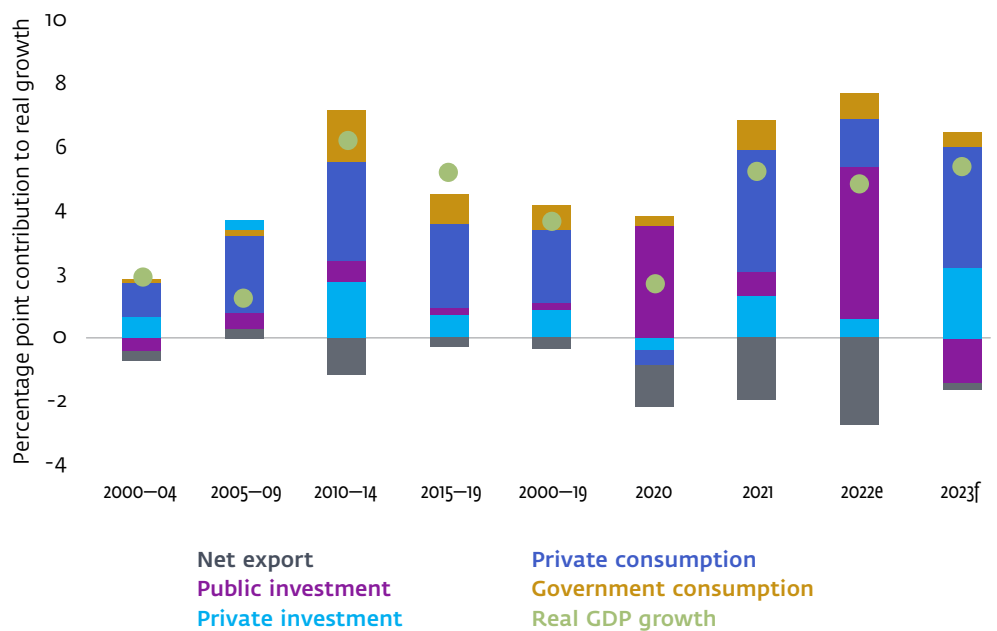
Source: World Bank, World Development Indicators.

FIGURE 2.15 DEMAND SIDE SHARES OF REAL GDP



Source: World Bank, World Development Indicators.
 Note: e = estimated; f= forecast; GDP = gross domestic product;

FIGURE 2.16 DEMAND SIDE CONTRIBUTION TO GROWTH



Source: World Bank, World Development Indicators.
 Note: e = estimated; f= forecast;

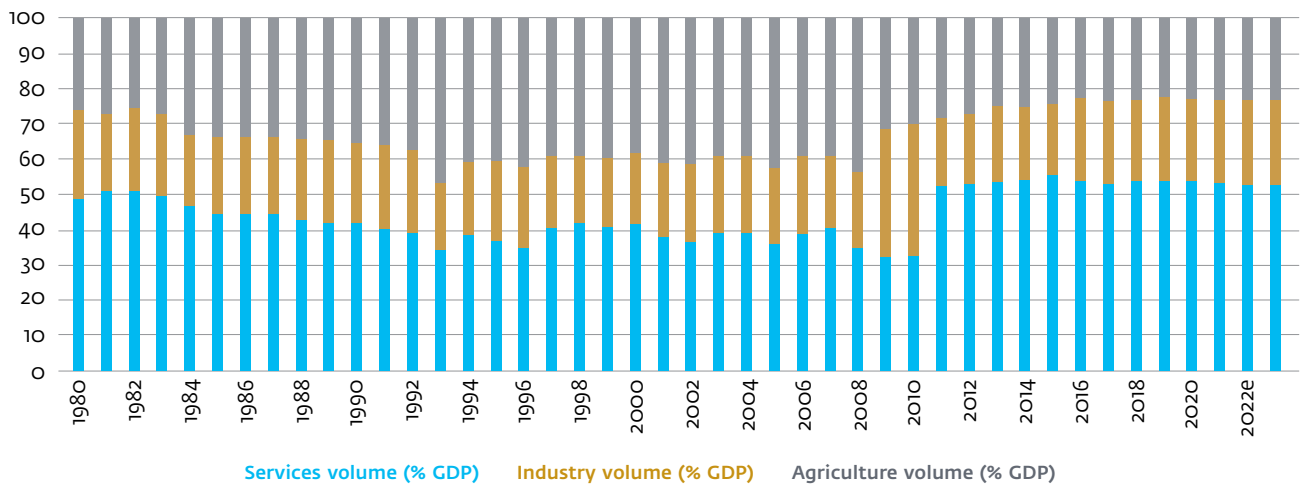
Banking sector credit contributed to boosting private investment. Domestic credit to the private sector by banks rose from 16.6 percent of GDP in 2004 to 26.3 percent in 2009 and reached 31.0 percent of GDP in 2010–19. Retail, restaurants, and hotels accounted for the largest share of bank credits to private sector in Togo, averaging 35.00 percent of total bank credit to the private sector in 2005–19, followed by services (insurance, real estate business, and other services), which accounted for 19.00 percent over the period. Construction and public works represented 14.00 percent, while transport, warehouses, and communications accounted for 13.00 percent of total bank credits and manufacturing, 12.00 percent, over the same period. Other sectors accounted for smaller shares, including electricity, water, and gas (4.75 percent) and extractive industries (1.80 percent). Agriculture was almost excluded from access to credit, garnering only 0.45 percent of total credit.

Public investment also contributed considerably to growth, reflecting the leading role played by the government in driving investment. Public investment increased from 4.4 percent of GDP in 2000 to 10.5 percent in 2015 before gradually declining to 5.5 percent in 2019, in line with the government’s policy aimed at gradually putting the private sector at the center of the country’s development. Public investment targeted mostly the development of transport infrastructure, including road, port, airport, digital, and industrial development. The contribution of public investment to growth stood at 3.1 percentage points on average over 2010–14 from 0.7 percentage point in 2005–09.

The share of services in GDP increased steadily from about one-third of GDP in the 1960s to more than half percent of GDP between 2000 and 2011. Services have been taking the stage as the major contributor to growth, with an average contribution of 3.1 percentage point over the past two decades (World Bank, World Development Indicators, based on national accounts). The rise of new port activities, investment in the telecom sector, and the growth of the banking sector contributed to the rise. The share of services in GDP declined to 27.4 in 2015. However, the rapid growth in investments helped reposition the sector, with the share rising to 49.5 percent of GDP in 2016–19. Services’ contribution to growth averaged 5.2 percentage points over the same period.

Industrial production is emerging as the second-largest contributor to growth in the country, owing to the government’s industrialization policy that is triggering private investment in the sector. The industrial sector was traditionally driven by the mining sector, especially phosphate processing, accounting on average for more than 20 percent of GDP during the decades prior to the 2000s (Figure 2.17). Yet, because of the collapse in phosphate production in the 2000s resulting from sectoral governance constraints compounded with sharp fluctuations in the market price of phosphate,¹¹ the share of the industry in GDP fell to about 15 percent, reducing its contribution to growth from 0.8 percentage point to 0.2 percentage point during the period. However, recent improvements in electricity production have stimulated light manufacturing in food and beverage products. Moreover, Togo is tapping into its large limestone reserves to produce clinker and cement. As a result, industrial production has been rising since 2010, averaging 18.5 percent of GDP in 2010–19 and leading to a gradual increase in the sector’s contribution to growth, from 0.5 percentage point in 2005–09 to 1.2 percentage point in 2010–14 and 2.4 percentage point over the past five years (Figure 2.18). The rise in industrial production has been related to cross-border investment that also accrued over the past two decades in areas like chemical production and cement manufacturing.

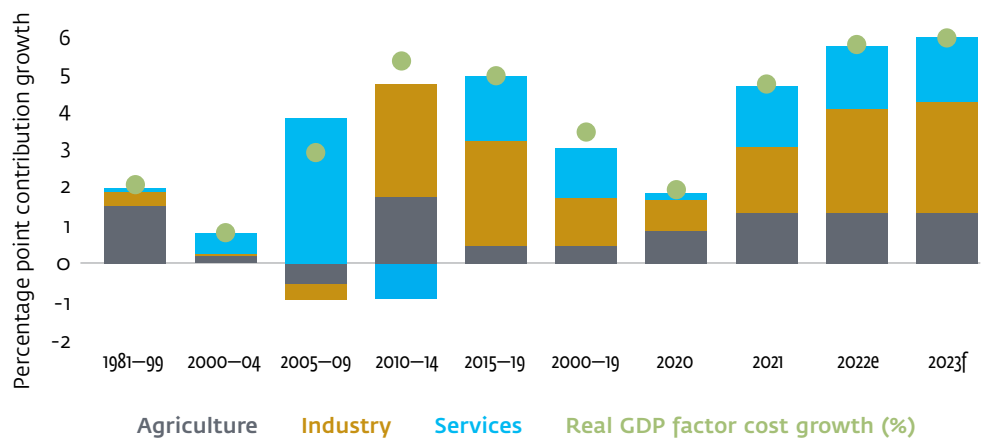
FIGURE 2.17 SECTORAL SHARE OF GDP



Source: World Bank Macro Poverty Outlook, October 2021.

Note: e = estimated

FIGURE 2.18 SUPPLY SIDE CONTRIBUTIONS TO GDP



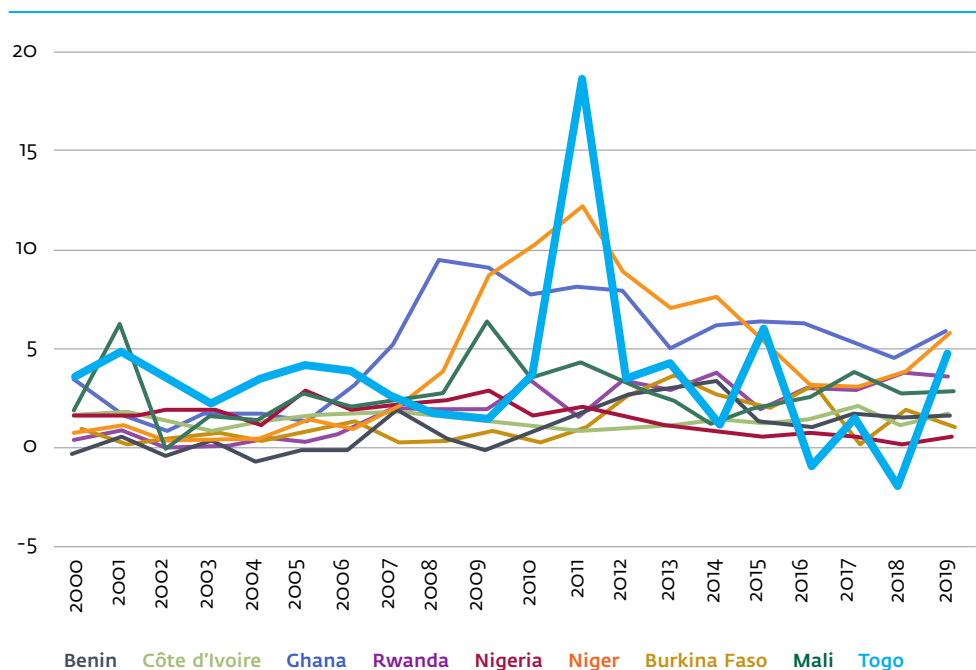
Source: World Bank Macro Poverty Outlook, October 2021.

Note: f = forecast

Togo attracted foreign investors

Togo was identified in the World Investment Report 2020 as the top performer among least-developed countries in 2019.¹² Enhanced policy reforms resulted in a surge in FDI inflows. As a share of GDP, FDI inflow averaged 2.5 percent of GDP (excluding year 2011 that stood as an outlier) (figure 2.19). Although FDI has been flowing to Togo over the years, the level remains low compared with some countries in the region (figure 2.19). The growth in FDI to Togo in 2019 was primarily the result of growing intracompany loans (between branches of the same company across borders) and record-high reinvested earnings.

FIGURE 2.19 NET FDI INFLOW AS PERCENTAGE OF GDP



Source: World Bank, World Development Indicators.

Togo has diversified its flows of cross-border investment. IFC's cross-border investment tracker,¹³ which is based on data from FDi Intelligence regarding announcements of expected FDIs in Togo, shows that chemicals, cement and concrete products, renewable energy, transport and logistics, and hotels and tourism have been the dominant sectors for investment intentions, representing 91 percent of the investment announcements over the past nearly two decades (January 2003–April 2021). Investments in chemicals have been in agriculture-related products (pesticides, fertilizers, and other agricultural chemicals) and in construction, which accounted for 49 percent of the investments and about 31 percent of expected job creation. Cement and concrete products accounted for 16 percent of the investments but were expected to account one-quarter of the total jobs. Transport and logistics have attracted an important share of the investment (11 percent) and represent about 21 percent of the expected job creation under the total announced investments. Renewable energy investments have accounted for 10 percent

of the investments recorded by FDi Intelligence yet expected to contribute little to job creation (estimated at 1.3 percent of total). One of the more prominent announcements was from the Nigerian Dangote group, which announced in November 2019 an investment of US\$2 billion to establish a new phosphate fertilizer-processing facility in Togo—a project that would create about 500 jobs and help reduce fertilizer prices to farmers by 50 percent. This investment has yet to materialize, however.

The country also experienced FDI outflows, which had increased more than 10-fold in 2020, compared to 2018 level (from US\$70.2 million to US\$931.3 million). Much of this outflow is from the banking industry. Ecobank, for example, has an investment footprint in China, France, the United Arab Emirates, and the United Kingdom. Togo's outward investment included notable projects within the West Africa region from a new generation of innovative and ambitious champions. In terms of outflowing FDI from nascent multinational corporations (MNC), Togo outperforms its immediate neighbors and is only comparable to outgoing FDI activity from the Arab Republic of Egypt, Morocco, and Nigeria.¹⁴

Exports remain concentrated in extractives and raw agricultural products

Togo's exports have historically relied on cotton and extractive sectors, which have performed poorly in recent years. Historically, exports of phosphates and cement and clinker have been the most important Togo exports, but they have performed relatively poorly in the past decade with a decrease of 2 percent in value for phosphates and 10 percent for cement clinker between 2010 and 2019 (table 2.1). Cotton exports have fared better, increasing by 9 percent per year on average over the same period. However, this translates to a relatively meager annual growth rate, and the last three years over this period (2017–19) show a marked decline.

Exports also point to signs of an emerging recycling industry. Exports of waste and scrap metals and recycled batteries represented 9 percent of total exports (US\$106 million) in 2017–19 against 3.5 percent of total exports in 2010–12. Two recent investments of scrap metal transformation, Steel Cube Togo (in 2019) and Manu Metal (in 2020), indicate that the value chain is evolving toward transformation for the internal market: since 2021, the export of scrap metal and ferrous byproducts collected within the national territory has been suspended until further notice.¹⁵

Togo's export statistics are difficult to interpret as important entrepôt (warehouse) trade flows are recorded as Togo's own external trade. These flows which are transit flows originating from other producing countries, do not reflect what is produced in Togo and then exported. Reexports are, however, an important economic activity that matters for understanding the economy. For instance, petroleum oil products appeared in recent years as one of Togo's largest exports while Togo is a net-oil importer. Given its strategic location, the country has seized the opportunity to serve as a reexport center for the region, especially to the hinterland. Togo has two companies that import and store petroleum products.¹⁶ These are the Togolese Warehouse Company (STE), which deals only with local distribution, and the Togolese Storage Company of Lomé (STSL), which stores the products for reexport, although it redistributes a portion domestically.

Several products that rank in the top of Togo's officially reported data must be ignored when analyzing exports because they are not produced in Togo. Exports of motorcycles (6th), palm oil (8th), cotton products (12th) and clothing correspond to important volumes of imports of products classified under the same code, pointing to reexport activities. Besides, using the indicator proposed by Golub et al., we observe that imports per capita of these products are abnormally high relative to neighboring countries,¹⁷ a potential indication that imports are not destined for domestic consumption only but for reexports probably captured in the officially recorded exports numbers reported in table 2.1.

TABLE 2.1 TOP 20 EXPORTS FROM TOGO, 2010–19 (EXCLUDING OIL, GOLD, AND ELECTRICITY)

Product	CAGR (%)		Average exports in US\$ million		Rank in top exports over period	Share in total exports over period* (%)
	2010–19	2017–19	2010–19	2017–19	2017–19	2017–19
Oil seeds and oleaginous fruits	44	40	85	119	1	9.9
Cement and clinker	-10	-34	163	102	2	8.5
Phosphates	-2	-18	134	97	3	8.1
Cotton, not carded or combed	9	-9	76	91	4	7.6
Coconuts, Brazil nuts and cashew nuts	87	2	38	83	5	7.0
Motorcycles	8	-2	24	45	6	3.8
Ferrous waste and scrap	5	-7	37	41	7	3.5
Palm oil and its fractions	49	24	26	41	8	3.4
Copper waste and scrap	18	10	19	30	9	2.5
Articles for the conveyance or packing of goods	16	89	27	29	10	2.4
Soya beans, whether or not broken	45	33	12	29	11	2.4
Woven fabrics of cotton, containing 85% or more of cotton	0	-9	33	28	12	2.3
Cocoa beans, whole or broken, raw or roasted	-21	6	99	25	13	2.1
Beauty, make-up, and skincare preparations	27	30	17	25	14	2.1
Waste of cells, batteries and electric accumulators	97	-4	13	20	15	1.7
Other fixed vegetable fats and oils	5	-8	16	16	16	1.3
Wigs, false beards, eyebrows and eyelashes	23	-1	13	16	17	1.3
Aluminum waste and scrap	44	-18	7	15	18	1.3
Coffee, whether or not roasted or decaffeinated	-16	-5	33	12	19	1.0
Wood in the rough	-14	-26	28	12	20	1.0

Source: World Bank calculations from CEPII BACI data.

Note: * shares are indicative only given numerous issues with reporting of Togo's trade data.
CAGR = compound annual growth rate.

Furthermore, re-exportation also artificially inflates the export performance of some goods produced in Togo. Evidence indicates that cashew and, more importantly, sesame seed exports include substantial levels of reexports of products originating from the region. In the case of cashew, this is confirmed by value chain analysis indicating that exports from Burkina Faso are exported through Togo and are recorded as originating from Togo.¹⁸ Over the period 2010–19, reexports have accounted for 22.1 percent of total exports on average. Key reexported products included motorcycles and petroleum oils.¹⁹

Trade data confirm the existence of imports by Togo of sesame and cashew at a per capita level suggesting that these imports are not for internal consumption (for more detail see appendix B). However, the volumes of these imports are low in value, except for the odd year (2016 for cashew and 2018 for sesame), and do not offset the volumes of exports.²⁰ Further evidence points to the correlation of export flows from Togo and its neighbors in a manner that seems to indicate the diversion of trade flows toward reexports. In the case of cashew nuts, Togo's export rise as those of Burkina start to stagnate. In the case of sesame, the extremely rapid rise of Togo's exports is hard to interpret in light of small and stagnant domestic production figures, whereas it coincides with the steep drop in exports from Burkina Faso—thus pointing again to these flows being reexports.

Togo's balance of trade in services is in surplus, with transport, insurance, and financial services being the main exports, a position which seems to offer evidence of Togo's role as a regional hub in these sectors.²¹ While large exports of transport services (65.9 percent of services exports) are natural given that they are induced by exports of goods, Togo's position in transport services is that of a net exporter (whereas the trade balance in goods is negative), showing that Togo is a provider of transport services to the rest of the world. If we look at the balance surplus generated, transport, insurance, and financial services accounted for a surplus of about US\$180 million in 2019. Two other sectors, information and communication technology (ICT) and business services generated more modest amounts of exports.

TABLE 2.2 EXPORT AND IMPORT OF KEY SERVICES CATEGORIES, 2018

Categories of Services		Exports		Imports		Balance (million CFAF)
		Value (million CFAF)	Shares (%)	Value (million CFAF)	Shares (%)	
SJ	Other Services to Enterprises	6,521.80	2	29,860.30	11.3	-23,338.40
SI	ICT services	5,545.60	1.7	20,089.90	7.6	-14,544.20
SB	Repair and Maintenance Services, not included elsewhere	1,242.00	0.4	11,274.50	4.3	-10,032.60
SK	Cultural, Recreational and Personal Services	18	0	1,562.00	0.6	-1,544.00
SH	Intellectual properties user fees, not included elsewhere	41.7	0	1,295.90	0.5	-1,254.20
SE	Construction	1,284.60	0.4	1,142.60	0.4	142
SL	Administrative Goods and Services, not included elsewhere	1,326.00	0.4	164.2	0.1	1,161.80
SG	Financial Services	33,687.60	10.5	11,866.10	4.5	21,821.40
SF	Pension and Insurance Services	59,741.30	18.6	21,926.80	8.3	37,814.50
SC	Transport Services	211,804.40	65.9	164,150.30	62.3	47,654.10
Total		321,212.9	100.0	263,332.7	100.0	57,880.3

Source: Structure and Enterprises of EPCIS 2019.

A PRIVATE SECTOR CONCENTRATED AROUND A FEW LARGE PLAYERS

The overwhelming majority of firms in Togo are small firms, accounting for 96.9 percent of firms, according to the census carried out by Togo Institut National de la Statistique et des Etudes Economiques et Démographiques (INSEED) in 2018. Thus, only a little more than 2,000 firms in Togo have an annual turnover above US\$100,000 (table 2.3).²² Small firms are in effect microenterprises; 93 percent of firms are single owner operated, and their average annual turnover is less than US\$5,000. Overall, 85.5 percent of firms are informal (77 percent of firms in Togo do not even use accounting), meaning that the formal sector is made of around 17,000 firms. While formal firms represent 14.5 percent of the total number of firms, they account for 41.8 percent of jobs (table 2.4). The region of Lomé concentrates more than 60 percent of Togolese firms and 71 percent of employment, and generally firms tend to be located more toward the southern part of the country.

TABLE 2.3 DISTRIBUTION OF FIRMS BY SIZE

Size	Count	Turnover CFAF, billion	Share in turnover (%)	Average turnover CFAF, million	Average turnover US\$
Large	303	2,156.4	77.1	7,117	12,098,614
Medium	1,970	445.5	15.9	226	384,442
Small	71,861	195.1	7.0	3	4,615
Total	74,134	2,797.0	100.0	38	64,139

Source: INSEED RGE 2018.

TABLE 2.4 FORMAL AND INFORMAL FIRMS SHARE IN JOBS AND TURNOVER

Share:	Number of firms (%)	Jobs (%)	Turnover (%)
Formal	14.5	41.8	94.2
Informal	85.5	52.8	5.8

Source: INSEED RGE 2018.

Only 303 Togolese firms have a turnover exceeding US\$1.7 million. These large firms account for 77 percent of the total turnover of firms in Togo. The formal private sector in Togo also represents the main source of the government's fiscal revenues.²³ The group of large firms is small in Togo and is dominated by the banking industry. Other sectors with large companies include industry (agro-food and industrial products), services (insurance, the hotel industry, transit and logistics, port handling), mining, construction, public works, and commerce. The association of large enterprises of Togo, (Association des Grandes Entreprises du Togo; AGET) has only 66 members.²⁴ Major companies in the country include transport and logistics companies Bolloré and Maersk; the agribusiness firm OLAM; the airline ASKY; the hotel and conference center 2 Février; the telecom company Moov; Dangote in cement and trade among other sectors; the mining company Elenilo; and cement producers WACEM and CIMTOGO. Togo is home to the headquarters of several important financial institutions: the ECOWAS Investment and Development Bank, the West African Development Bank (BOAD), Oragroup, and Ecobank Transnational Inc. (ETI), the largest independent regional banking group in West Africa and Central Africa, with operations in 36 countries in Sub-Saharan Africa.

Finally, there is the presence of state-owned enterprises (SOEs) in some sectors, with a movement toward privatization in recent years. In the cotton sector, the national cotton company, the Nouvelle Société Cottonnière du Togo (NSCT), was recently partially privatized when OLAM acquired 51 percent of its capital. Of the two remaining public banks, a majority stake in BCTI was sold to IB Holding, a Togolese company. The Council of Ministers adopted on August 11, 2021, a draft decree that sets the terms and price to transfer 90 percent of the state's shares in the capital of BTCL. Togocom was also privatized in 2019. Other SOEs included the Communauté Electrique du Bénin (CEB) (a transmission company jointly owned by Togo and Benin), CEET (the electricity distribution utility), and the postal service. The formerly state-run company Société Nouvelle des Phosphates du Togo (New Phosphate Company of Togo) has been privately managed since 2001. These are all sectors for which government-owned enterprises typically dominate in the region.

IDENTIFICATION OF PRIORITIES AND SECTORS FOR THE CPSD

This Country Private Sector Diagnostic (CPSD) aims to identify the key areas for reform and the sectors of the economy with the potential to advance Togo’s private sector–led economic development. The CPSD follows a comprehensive and structured approach following two essential steps: a constraint scan, which emphasizes cross-cutting policy constraints, and a sector level scan. Broad economic sectors covering all activities of the private sector are reviewed, first with a focus on enabling sectors that provide key inputs across the economy (energy, transport, ICT, education, health, finance, and water) and then the sectors traded internationally (exports) and domestically.

Specifically, the CPSD entails a thorough and comprehensive review of cross-cutting constraints that undermine the ability of firms from the private sector to reach their full developmental impact. Constraints are found in areas such as access to markets, sourcing of key inputs, availability of infrastructure services, market contestability conditions, and market stability conditions. The sector scan reviews the productive sectors with growth prospects, sectoral constraints that can be addressed in the short term (three to five years), and potential impact of overall development in the economy. The development dimension is assessed against several factors of value creation, employment opportunities, inclusiveness, and impact on the competitiveness of other sectors.

The sector and constraints diagnostic proposed under this report was conducted through a concurrent (a) literature review on sectors and cross-cutting constraints facing Togo—in particular, the recent Country Economic Memorandum²⁵ and the report Future Sources of Growth²⁶ guided the focus of this CPSD; (b) data analysis and assessment of constraints benchmarked against the performance of other countries, and assessment of potential impact of individual sector growth along the impact dimensions described in the previous paragraph; (c) and a broad set of interviews with the private sector, the authorities of Togo, World Bank and IFC experts, and other stakeholders in Washington, DC, and in Togo.

Specifically, in the case of Togo, the selection of constraints and sectors of focus aims to align with the government’s strategy to put the private sector at the center of its economic plans. As previously discussed, Togo has rather successfully managed to steer important reforms and investments putting the country on a better growth trajectory. The success of the growth acceleration after 2008 benefited from decisive changes in government policies,²⁷ which resulted in substantial improvements in the general business and investment environment. The Togolese government focused on two specific broad areas: (a) improvements in the regulatory environment of doing business, coupled with (b) public investments in enabling infrastructure.

Consistent with the country's National Development Plan (NDP 2018–2022) and the five-year road map, the government of Togo is focusing on areas likely to support inclusive growth and economic resilience. Togo's objective as defined in the NDP is to foster the processing of basic agricultural products and higher productivity in the agricultural sector to strengthen the country's food security and significantly reduce the agricultural trade balance deficit. Achieving these goals requires strong private sector involvement in both production and processing. Other priorities include

- **Connectivity:** Digitize the entire economy, which will require investments not only in bandwidth, but also in digital infrastructure and skills.
- **Infrastructure:** Build industrial zones around the Port of Lomé, improve the Lomé container port, and become a regional logistics and infrastructure hub; promote modernization along the Lomé-Ouagadougou corridor to take advantage of opportunities to serve landlocked Burkina Faso.
- **Access to finance:** Improve access to finance for micro, small, and medium enterprises (MSMEs) through support mechanisms (risk-sharing facilities).
- **Energy:** Increase domestic generation to reduce power importation, increase the share of renewable energy in the mix, implement an energy regulation, and implement a national electrification plan to reach universal access to electricity by 2030.

In the NDP 2018–2022 and the 2025 roadmap (Feuille de Route Gouvernementale Togo 2025), the government has defined a clear development path with a strong focus on investment, with majority private sector participation. The roadmap is organized around three strategic axes: (a) strengthen inclusion and social harmony and peace, (b) revitalize employment creation and the economy, and (c) modernization of the country and its infrastructure. The roadmap identifies 36 priority projects and six reforms covering 15 sectors.

Five sectors—agriculture, fishing and forestry, mining, construction, manufacturing, and transport and logistics—are central to the implementation of the roadmap's second axis, which is the most directly (although not the only one) related to the objective of private sector growth, employment, and value creation. This CPSD pays particular attention to these sectors.

Furthermore, in view of Togo's relatively small size as a country and its geography, the potential to integrate into the regional and global economy has been given extra consideration in the selection of sectors of interest for this CPSD. This thinking is already reflected in the development of sectors such transport and finance, which could benefit from additional development prospects. The future possibility of serving some of the larger neighboring markets, and overseas markets beyond, will benefit from the expansion of these two enabling sectors, but those sectors could also leverage some of the potential of the agricultural sector.

Finally, the mining of phosphates and limestone (itself linked to a strong construction sector) is already mature and does not appear to offer prospects of further development. The sector is important for the economy and thus cannot be ignored given how important these resources are in terms of revenue for the country. However, phosphate deposits are under exploitation by two companies and there are no discernable prospects of new private investment, while the limestone and cement sector is facing capacity, and thus does not appear to offer immediate prospects for further important development. Further details on both sectors are provided in appendix A.

Notes

1. In the remainder of this report, comparator countries are the same as used in World Bank, *In Search of Sustainable and Inclusive Growth: Togo Country Economic Memorandum (CEM)* (Report AUS0002364, Washington, DC: World Bank, 2021). Regional peers include the Sub-Saharan African average and WAEMU member countries, from which Togo often draws policy inspiration. A data-driven approach was used to identify structural and aspirational peers and a judgment was applied drawing on consultations with the government. Structural peers are defined as countries that have similar structural characteristics to Togo: Benin, Guinea, and Sierra Leone. Aspirational peers are countries that have set a good development precedent and that Togo could aspire to emulate: Ghana, Morocco, and Rwanda. These countries have been able to grow much faster than Togo, despite similar initial structural conditions.
2. <http://hdr.undp.org/en/content/human-development-index-hdi>.
3. Availability of data on private participation in the education system represents one of the information gaps.
4. However, this could be misleading because the modeled International Labour Organization (ILO) estimates do not consider underemployment or discouraged work seekers. Modeled ILO estimate refers to the share of the labor force that is without work but available for and seeking employment.
5. World Bank, Togo CEM.
6. According to a government source.
7. World Bank. Togo Jobs Diagnostic. Forthcoming, 2023.
8. World Bank, *Benchmarking Infrastructure Development 2020: Assessing Regulatory Quality to Prepare, Procure, and Manage PPPs and Traditional Public Investment in Infrastructure Projects* (Washington, DC: World Bank, 2020).
9. World Bank, "Étude de l'impact du COVID-19 sur le Secteur Privé au Togo: Une évaluation informée par des données" (World Bank, Washington, DC, June 2020).
10. World Bank, June 2022 Global Economic Prospects (Washington, DC: World Bank, 2022).
11. Appendix C of this report elaborates on the mining sector, including the phosphate and industrial subsectors.
12. UNCTAD (United Nations Conference on Trade and Development), *World Investment Report 2020: International Production beyond the Pandemic* (Geneva: UNCTAD, 2020).
13. FDI Market's Investor Signals data - The Cross-border Investment Monitor, available at <https://www.fdiintelligence.com/fdi-markets/>
14. FDI Market's Investor Signals data - The Cross-border Investment Monitor, available at <https://www.fdiintelligence.com/fdi-markets/>
15. Arrêté Interministériel N° U14_/MCICL /MEF/MPI portant suspension de l'exportation de la ferraille et des sous-produits ferreux collectés au Togo.
16. See the World Food Programme Logistics Cluster : <https://dlca.logcluster.org/display/public/DLCA/3.1+Togo+Fuel>.
17. [[Provide full citation for Golub et al. 2019.]] See appendix B.
18. The government confirmed to the team that products that do not use the transit regime and go through Togo to be reexported are counted as exports from Togo.
19. Information provided by the government of Togo to the team.
20. In 2019 imports of sesame seeds in Togo were US\$ 4.7 million and imports of cashew were US\$ 1.7 million which are small volumes compared to exports of respectively US\$ 172.2 million and 88.9 million.
21. Source: INSEED (2019).
22. INSEED defines large firms as those with a turnover above CFAF 1 billion, medium firms those with turnover between CFAF 1 billion and CFAF 60 million, and small firms those with a turnover less than CFAF 60 million (around US\$100,000).
23. INSEED Recensement Général des Entreprises (RGE) 2018. Unfortunately, Togo is not listed on the Global Entrepreneurship Index to assess the country's entrepreneurship index along different dimensions.
24. Members must belong to the private sector, have a turnover greater than or equal to CFAF 2 billion (US\$3.6 million) for companies in the industrial sector and a turnover greater than or equal to CFAF 500 million (US\$ 920,000) for companies in the service sector.
25. World Bank, Togo CEM.
26. World Bank, *Togo: Future Sources of Growth* (Washington, DC: World Bank, 2019).
27. World Bank, Togo CEM.

3. A PRIVATE SECTOR-ORIENTED APPROACH TO INVESTMENT CLIMATE REFORM AND INFRASTRUCTURE BUILDING

Overall, Togo's efforts to pursue investment climate reform and to steer public investment toward driving economic growth echo similar efforts undertaken by high-reforming countries such as Rwanda. This example should provide a good basis for future economic development, judging from the past success of such reforms. However, and like Rwanda's experience (see box 3.1), Togo must face the limits of public sector involvement in the development of the commercial market, not least because of strong looming fiscal constraints. The role of public institutions must gradually switch from one of leader to one of enabler or facilitator, alongside the implementation of best governing and regulatory practices.

REFORMING TOGO TO FURTHER IMPROVE INVESTMENT CLIMATE

Business climate has improved but more efforts are needed

Togo made major progress in improving the investment climate, putting itself at the forefront of reforming countries in Africa. A sustained effort to reform several aspects of the investment climate has been carried out over the past five years. Simplification of administrative steps and fees and the push for e-government have contributed to the overall improvements.

Reforms were conducted on multiple fronts, including (a) facilitating the creation of a business by abolishing the requirement to notarize company documents, (b) reducing the minimum capital requirement, (c) reducing registration fees, and (d) allowing entrepreneurs to pay the fees directly at the one-stop shop, ultimately reducing the time to register a company. Registering property was eased by streamlining administrative procedures and reducing costs. Access to credit was facilitated by creating a new credit bureau in 2018 (Bureau d'Information sur le Credit; BIC), subsequently expanding its coverage, and beginning to distribute data from utility companies. In

2021, a commercial court¹ was created to facilitate commercial litigation, with easier procedures. Other reforms include those related to (a) the electronic payment of taxes and duties, (b) the establishment of a register of commerce and personal property credit, and (c) the reduction of time limits for the transfer of property. Fees for construction permits were reduced. Further, Togo created an online portal on which applications could be submitted and required documents, pre-approval, and fees could be obtained. Togo also implemented decennial liability and insurance and strengthened quality control before construction. Togo also improved its building quality control by regulating inspections during construction. Finally, enforcing contracts became easier through a newly adopted law that regulates all aspects of mediation as an alternative dispute resolution mechanism.²

Other recent reforms that made the business environment more conducive include the following:

- **Starting a business:** Abolished the requirement to notarize company documents and reduced the time to register a company. Note that Togo reduced the number of procedures required from 13 in 2004 to 3 in 2020.
- **Dealing with construction permits:** Reduced fees and adopted an online portal for the submission of applications. Increased transparency by making the required documents, preapproval, and fee information available online. Improved its building quality control by regulating inspections during construction.
- **Getting electricity and sustaining electricity services:** Reduced the cost of connection works and the security deposit for new connections. The time to getting electricity declined from 89 days in 2010 to 66 days in 2020. Improved the financial viability of CEET to sustain electricity services through the implementation of a least-cost power development plan to reduce generation costs, of a turnaround plan to increase efficiency, of a revenue protection program to increase revenue collection, and of a new tariff methodology and structure to fully cover costs.
- **Registering property:** Streamlined administrative procedures and reduced costs. In all, the number of days to register a property fell from 295 to 35.
- **Getting credit:** Improved access to credit information by expanding the coverage of the credit bureau and by beginning to distribute data from utility companies.

The country, however, started from a relatively low base and complaints from the private sector about the difficulties of the investment climate remain.³ AGET's White Book highlights that the major constraints that lead to MSMEs' lack of competitiveness in the investment climate are lack of access to land and judicial redress, lack of access to finance, and a burdensome tax system.⁴

Before delving into more details on constraints, this CPSD will highlight the relatively favorable aspects of the economy in Togo. Favorable features of the investment climate in Togo include improvements in stability in the past decade, as noted in the context of the recent growth, and a generally favorable attitude toward foreign investment. A stable macroeconomic framework in the context of WAEMU contributes to the overall predictability of the investment climate.

These factors contribute to explain how, despite its small size, Togo has managed to attract regional headquarters in banking and also in manufacturing (cement), as well as first movers with regional ambitions (such as ARISE and SNB). Togo's work force is well regarded by private sector firms. While local skills are not necessarily in good supply, firms attest to the possibility of training workers and do not report difficulties in importing foreign labor.⁵ Labor regulations are among the least constrained in the 2017 World Bank enterprise survey, and gaps in the education of the workforce are seen as a relatively minor constraint.⁶

Fiscal pressure

Confronted with mounting external debt, Togo has made important efforts in recent years to reduce its debt levels, notably through increases in tax collection, achieving with some success a fiscal transition from reliance on import taxes to better collection of the value added tax (VAT).⁷ Limited simplification of the tax system was achieved with the elimination of seven minor taxes (including a tax on wages, supplementary tax on income, a specific tax on manufacturing and on trade of beverages) in 2019, and the elimination of the reduced VAT 10 percent rate in 2019. Togo also lowered the corporate income tax rate from 28 percent to 27 percent in 2019 and raised excise taxes on alcoholic beverages and tobacco. In the process, reforms have been made to increase compliance and facilitate the payment of taxes.

A recent study on tax revenue mobilization in Togo⁸ and a recent Tax Administration Diagnostic Assessment for Togo⁹ highlight three main shortcomings in the tax system: (a) revenues are concentrated from a small number of taxpayers, (b) the tax settlement process is long and cumbersome, and (c) few initiatives encourage voluntary taxpayer compliance, and tax rates remain relatively high. Analysis of the effective marginal tax rate shows that levels in Togo are quite high, especially when compared with other countries, and are relatively uniform across all sectors. For instance, the effective marginal tax rate for Togo in manufacturing stood in 2018 at 35.1 percent, above Benin's 31.3 percent and Nigeria's 20.3 percent. Furthermore, reduced rates under the investment code compare less favorably than some neighboring countries such as Benin. This is despite large fiscal expenditures in Togo,¹⁰ a situation which suggests a more ad hoc regime of exemptions than a general regime accessible to all. There has been progress to simplify tax compliance with online payments; however, persistent weaknesses continue to hamper revenue collection. The 2020 TADAT,¹¹ for instance, found limited use of electronic payments for main taxes, and it found that OTR (the internal revenue service's) information systems do not allow for the full automation of essential tax administration functions, including tax filing, audits, monitoring of tax compliance, and litigation.

The small tax base reflects the structure of the Togolese private sector, with a narrow formal sector of large taxpaying firms. AGET members contributed to 22 percent of government taxes and duties revenues in 2017.¹² However according to World Bank,¹³ corporate income tax collection remains far from optimal efficiency because of aggressive fiscal optimization. Overall, large firms consulted for this report did indeed not raise the issue of too burdensome taxes. However, they frequently referred to fiscal obligations as a key factor of competitiveness against competitors, especially at the regional level. The same firms also tend to be the beneficiary of fiscal exemptions, as many of them also invest in increasing productive capacities, as will be discussed later.

Efforts to broaden the tax base focus on rebalancing the revenue base toward increasing collection of the real estate tax, which currently represents a negligible portion of revenues. Thus, the establishment of the urban land registry (Registre Foncier Urbain) in Lomé and the adoption of a new Land Code in 2018 helped improve the collection of real estate taxes. Nonetheless, in 2021 the tax on real estate transactions was reduced from 6.0 percent in 2020 to 0.6 percent.

Efforts to improve tax collection continue with the creation and harmonization of tax identification numbers, as well as withholding and provisional deposits to secure revenue collection. A new electronic payment system for large and medium-sized companies was launched and made compulsory for large firms starting in 2019. Online reporting is progressively extended to all companies.¹⁴

Fiscal expenditure is important, being a major tool to lure private sector investment as we will discuss below. World Bank shows that forgone revenues, which include investment incentives, were equivalent to 3.3 percent of the country's GDP in 2017.¹⁵ According to the government, tax expenditures have since decreased to 2.1 percent of GDP in 2020 (they were 1.5 percent of GDP in 2019).¹⁶ Ongoing reforms under recent development policy operations (DPOs) provide optimism for improving tax expenditure in Togo. According to 2021 World Bank tax expenditure analysis, the proposed reform measures on tax administration and policy, including on VAT¹⁷ and property taxes, as well as the removal of COVID-19 tax suspensions, would generate additional 3.3 percent and 4.8 percent of GDP in revenues, respectively, over the medium term. Yet, the expected result is subject to full implementation of the reforms and ensuring application of international best practices in terms of simplicity, transparency, and management of tax holidays. The new investment code addresses some of these issues by replacing revenue tax exemptions with tax credits and shortening the period for some exemptions. Since 2020 a report on fiscal expenditure is produced annually.

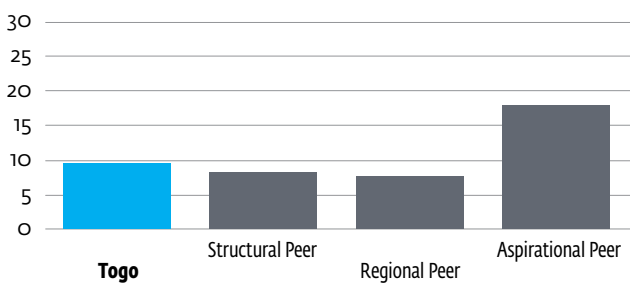
Moving forward, Togo must strike a delicate balance between the need to increase fiscal revenues and the need to not discourage private investment. As far as the development of the private sector is concerned, improving other sources of revenue in addition to VAT and customs duties, simplifying and increasing the transparency of regimes, and eliminating or reducing presumed exceptions to the general regime would be desirable.

Land

Although firms do not list access to land as one of their most pressing constraints in the Enterprise Survey 2017, evidence gathered in this and other World Bank reports attest otherwise.¹⁸ For example, the CEM discusses the inefficient use of land in cities, the proliferation of informal land use, and the lack of planning. For firms, access to land is not only about titling but also about the quality of surrounding infrastructure, which also means competition for spaces that are well served and well connected. Another World Bank report shows that large firms raise the issue more than their smaller counterparts do, which may be linked to the scarcity of good quality facilities for modern operators.¹⁹ Significantly, services firms express more constraints than manufacturing ones. Togo's NDP 2020–2025 recognized the need to improve access to industrial parks.

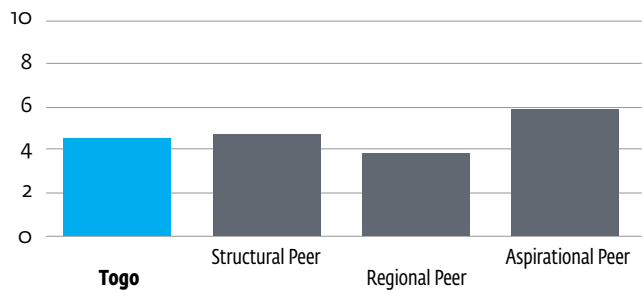
Following the government’s stated objective in the NDP a new Land Code was adopted in 2018.²⁰ the code provides the appropriate legal framework to solve problems related to land and transfer of ownership. Still needed are for implementing decrees to be signed and the institutions provided for in the code to be set up.²¹ The digitization of land titles must be completed, as well as the digital land register. In addition, a one-stop land desk needs to be set up throughout the country. Recent reforms regarding transfer of land ownership have enabled Togo to substantially reduce the number of procedures, delays, and costs. However, significant room for improvement remains, particularly in terms of improving the quality of land administration, which includes areas as varied as the reliability of infrastructure and the resolution of land disputes, which remain frequent (figures 3.1 and 3.2).²²

FIGURE 3.1 REGISTERING PROPERTY: QUALITY OF LAND ADMINISTRATION INDEX, 0–30 (BEST)



Source: World Bank *Doing Business* 2020

FIGURE 3.2 REGISTERING PROPERTY: LAND DISPUTE RESOLUTION INDEX, 0–8 (BEST)



Source: World Bank *Doing Business* 2020.

A large share of legal disputes in Togo involves land ownership, due to the overlap between customary and modern laws. BTI reports that 80 percent of court cases concern land tenure, and only 36 percent of arable land is under a tenure system that provides long-term security.²³ According to the government, court cases involving land have been reduced and now represent 70 percent of court cases. Still, according to BTI, 25,000 hectares in Togo were under threat of land grabbing and 53 cases involved large-scale land acquisition.²⁴ This underscores the uncertainty pertaining to land rights, which was also one of the reasons mentioned to explain why the agropole (agricultural industrial park) project has met with difficulties in its implementation. The government, however, shared that land uncertainty around the agropole project has been addressed.

Market size and borders

With a GDP of US\$7.5 billion in 2020, Togo is a small economy, representing 1.1 percent of the GDP of ECOWAS, and is much smaller than its trading neighbors Niger (US\$ 13.7 billion), Benin (US\$15.7 billion), Burkina Faso (US\$17.4 billion), and especially Ghana (US\$72.3 billion).²⁵ Togo's internal market, though growing, remains—all other things equal—less attractive than other countries in the region. Because a large portion of FDI is market seeking rather than efficiency seeking in West Africa, Togo is at a disadvantage.

Togo's size and geography naturally lead toward looking at regional markets and important economic activities already rely on serving neighboring economies. Togo's integration into the regional economy occurs through the hub functions of the port, the airport, and the financial sector. The importance of entrepôt trade for several value chains, as stated earlier, suggests strong interdependencies between the economy of Togo and production in neighboring countries and the need for Togo to service larger neighbors' markets. These trade flows could potentially be the basis for future transformation activities in Togo.

However, integration into the regional economy under ECOWAS remains subject to numerous dysfunctions that present sometimes major impediments to Togolese businesses. Some businesses in Togo also operate in neighboring markets and have ambitions to expand their activities. While on paper ECOWAS grants duty- and tax-free access to goods and services produced in the economic community, the reality is frequently quite different. Several of the firms interviewed for the preparation of this report identified important difficulties at the border, especially concerning Benin and Ghana, although other countries (Burkina Faso and Niger) are not exempt. Protectionist policies by neighboring countries and poor governance within border agencies are the source of these problems. For instance, Togolese operators reported that Benin started blocking exports of flour and vegetable oil. Others reported difficulties regarding the payment of customs duties. Some operators report the burden of procedures at the border with Ghana. Further, special economic zones (SEZs) are not being able to export within ECOWAS as is discussed later.

Spatial solutions to create the conditions to attract investment

Current performance

Togo was one of the first countries in West Africa to operate a free zone regime, which began operations in 1990. The regime covers traditional free zones and bonded warehouses (single factory free zone; SFFZ). There is currently only one free zone in operation in the country: the SAZOF free zone in the 983-hectare port area,²⁶ which operates two sites of 46 hectares and 76 hectares.

The Free Zone Law of 2011 sets the regulatory framework in the country for free zones, opening the status to (a) export-oriented firms in domestic labor-intensive activities, (b) the processing of local raw material (with a focus on agro-industry and mining), (c) service companies supporting exports, and (d) technopoles (high-technology clusters) focused on research and export. Mining activities, logistics, trading, and cotton ginning companies are specifically excluded from the status.²⁷

The Ministry for Investment Promotion, created in November 2020, is now responsible for Togo's policy regarding investments and oversees the Agency for the Promotion of Investments and the Free-Trade Zone (API-ZF), itself now in charge of running SAZOF. A new operational model for API-ZF has been elaborated, aiming to modernize its operations (human resources, single window, for example) and improve services provided to firms.

The Port Free Zone is managed by SAZOF, a public commercial company created in 1994. Seventy-one firms are operating in the zone and 25 are in the process of being established.²⁸ The free zone has created more than 15,000 jobs, accounts for CFAF 242.8 billion of exports, according to its website, and CFAF 67.9 billion in added value (about 2.3 percent of the GDP).

According to SAZOF, most of the exporting operations in Togo are made by companies located in the free zone and turned toward Africa, which accounts for 98.3 percent of the total exports of the zone. SAZOF's figures from December 2017 indicate that the annual exports of the free zone amounted to US\$397 million (CFAF 232 billion) or 23 percent of Togo's total exports and 39 percent of the exports of goods.

Beyond free zones, Togo has also been aiming to develop additional spatial solutions with industrial parks and agropoles. Free zones, SEZs, and other spatial solutions have much in common in making available serviced space and providing better access to government services, but the regulatory regime differs with respect to exemptions from import duties for firms situated in the SEZ (which also translates into generally easier import processes) and in terms of access to WAEMU/ECOWAS markets, because regional regulations require products originating from free zones to pay normal duties instead of circulating duty free within the region.²⁹ These various spatial initiatives are also led by different ministries and governmental agencies.

Opportunities

There are multiple zone projects under development in Togo, at various stages of progress. They demonstrate the strong belief in Togo that better industrial infrastructure could attract new investments. They also show the willingness of Togo to work with private sector partners in such ventures and, as such, could offer immediate opportunities for investors aiming to either manage or service these economic zone projects.

The most advanced project is **Plateforme Industrielle d'Adetikopé (PIA)**, 25 kilometers north of Lomé, which was recently inaugurated. The PIA SEZ project is led by ARISE IIP, a subsidiary of OLAM group in a €250 million PPP, with the government of Togo contributing 35 percent of the total.³⁰ The first phase of the project, on 129 hectares, was recently inaugurated.³¹ The project includes logistics facilities (12,500 twenty-foot equivalent unit [TEU] capacity container area, warehouses, and storage area), a commercial zone, and an industrial zone, including a textile park. The logistics park opened in fall 2021. Following a Presidential Decree of May 2021, the PIA dry port is a duty-free zone for the treatment of transit traffic and should be the unique parking area for vehicles serving transit traffic to and from Togo neighbors. The initial agreement is for a period of nine years.³²

The PIA benefits from Togo's free zone regime. It is not clear, however, whether the zone also benefits from other incentives. For instance, it has been reported that the government will bear 50 percent of the labor costs for the first 18 months (which seems overly generous), as well as other fiscal and nonfiscal incentives.³³ The first two tenants of the PIA were recently announced. Furthermore, ARISE recently issued a request for proposals (RFP) for a 390-megawatt peak (MWp) solar power plant project with a 200 megawatt-hour (MWh) battery storage system to provide electricity to the PIA³⁴ and an RFP for a textile factory.³⁵ It was announced recently that Togo Clothing Company, a subsidiary of ITCRmg, an Indian textile manufacturer, will set up a knit garment factory in the PIA with an investment of US\$35 million.³⁶

Another SEZ is planned in the context of the partnership signed between Togo and China Merchant Group in 2015. China Merchant Port Holdings (a subsidiary of CMG) and Togo Invest signed in 2018 a partnership to develop the Lac Togo SEZ over 500 hectares.³⁷ This would include in a first stage a 50-hectare logistics park project in Adakpamé, about 7 kilometers from the PAL and near the airport. It would comprise a park for 1,000 trucks with services to transporters, a direct road link to the port, and a mix of open and covered storage capacity on 8 hectares. The project is conducted in partnership with the Togo Chamber of Commerce and Industry (CCIT).³⁸

Other projects are in various stages of planning, including the Free Zone of Dalabé (83 hectares), the Free Zone (FZ) of Agboruvé (190 hectares, 60 kilometers from Lomé), the FZ of Kara (35 hectares) and four other free zones at Agboru-Vé, Anié, Notsé, and Atapamé, as well as several industrial parks under the Ministry of Industry (World Bank, 2019).³⁹

The CCIT is also developing an agro-industrial zone in Agbélouvé (62 kilometers from Lomé) with Sun Farming Food and Energy, a German company.⁴⁰ The project is expected to cover an area of 1,000 hectares with a bit more than half (547 hectares) dedicated to the cotton industry and another 301 hectares reserved for manufacturing, textiles, agro-processing, and cosmetics.⁴¹ A purchase power agreement (PPA) was signed for a 50 MW solar plant, and the project will include the provision of storage and processing facilities for vegetables and eggs.⁴²

In the context of its agricultural development policy (PNIASAN 2017–2026), the government aims to develop 10 agropoles by 2030. The vision for the agropoles is to foster the development of value chains through the transformation of basic agricultural products. Agropoles and growth poles differ from other spatial approaches in that they target much larger geographic areas anchored on a leading sector. The first pilot phase was planned to be operationalized over five years with three agropoles in Kara, Oti, and Haut-Mono. In a second phase the pilot programs would be consolidated, and the program extended to 10 agropoles by 2030. The Agropoles Development Agency (APRODAT) is responsible for growth poles.

The first of these agropoles projects is in the north of the country on the transport corridor to Ouagadougou in Kara (412 kilometers from Lomé). The masterplan foresees 160,000 hectares of land dedicated to agriculture, with a first phase of 30,000 hectares. The pilot project in Kara focuses on the following value chains: soya bean, sesame, maize, rice, cashews, poultry, and fish farming. The agropole has been marketed to foreign investors and it is unclear what the reception has been so far. Observers have said the project is too ambitious and is still in need of further development and clarification before it can attract serious investors. For instance, it was not clear whether land rights had been properly secured.

An agreement was signed in 2018 with the Chinese company China Zhongmei Engineering Group for the Agropole du Littoral, an agro-industrial park in the Vo Prefecture 35 kilometers from Lomé.⁴³ The objective is to develop production on 800 hectares of land and implement processing infrastructure to exploit value chains of rice, corn, fruits, and fish farming, as well as establishing a training center. The agropole will not source from the community but rather will generate its own agricultural produce while inviting other companies into the agropole to transform them. The project will also include tourism and forestry components. The aim is to create 5,000 direct and indirect jobs.⁴⁴ Zhongmei has been promised a 99-year lease.⁴⁵

A dry port project in Cinkassé, at the border with Burkina Faso next to the first one-stop border post established in the region, is being led by Togo Invest Corporation. The project plans to include customs facilities for goods from Burkina Faso and Ghana (and possibly Niger), facilities and equipment for the transfer of cargo between trucks (and possibly from train wagons), freight installations and warehouses for containerization and freight distribution, and offices for the development of logistics procedures and organization.⁴⁶

Constraints

The Port Free Zone has been successful in attracting businesses. Factors that have attracted businesses in the existing free zone include availability of land and the location chiefly within the port area⁴⁷ and an advantageous fiscal regime, which is broadly in line with similar regimes in the region. The duty-free regime is especially attractive for exporters who can import raw materials and other inputs, transform them to interim parts and end products, and reexport them without having to pay the corresponding duties and taxes. Finally, access to reliable electrical power was an important consideration in a country where the supply of electricity is constrained. Tenant companies reported, however, that SAZOF supplies few of the central coordination functions of a traditional SEZ operator.⁴⁸

The performance of SAZOF has been stagnating since 2012. Available data also suggest that the Port Free Zone does not seem to register strong growth in exports. In 2017 the reported value of exports was CFAF 232.0 billion (not much above the CFAF 223.7 billion achieved in 2012),⁴⁹ against CFAF 242.8 billion in the latest figures reported on SAZOF website.⁵⁰ There have been 372 licenses issued under the free zone regime since its inception, mostly to SFFZs. Only 62 companies were in operation in early 2019, and 71 at the latest count reported by SAZOF. Total sales from these licensed companies represented 58 percent of all exports in 2019. The number of licenses fell over time, reflecting the space constraints in the SAZOF.⁵¹

An element that makes new SEZs, such as the PIA, attractive is the immediate availability of new serviced land, which until recently could not meet existing demand because the SAZOF has been at capacity for several years. The provision of improved zone management and central coordination services, as well as improved infrastructure services such as affordable electricity and waste management and integrated logistics, would provide new services that may entice more international investors to choose Togo. Access to affordable electricity seems a strong driver in the development of new zones, two of which (PIA and Agbélouvé) are being developed with a large solar power generation project. Access to solar energy should contribute to lowering the cost of energy, although it is unclear whether the cost will be internationally competitive (it should be in the 8–12 cents per kilowatt-hour range for textile processing), given that solar generation cannot answer all needs and must either be stored, which raises costs (the option retained by the PIA) or mixed with other sources for continuous power supply.⁵²

One important constraint for firms in the free zones (SAZOF and the PIA as well as other FZs in the region) is that they cannot export duty free within the ECOWAS zone, because special economic zones are excluded from the trade liberalization regime within the region.⁵³ Despite this constraint, there was a time that exports originating from the SEZs may have traveled duty free to ECOWAS in contradiction of ECOWAS rules:⁵⁴ it is unclear whether this is still the case. In addition to broader constraints reviewed below, the Port Free Zone was subject to lack of land availability, with the port area fully occupied and transport congested. This suggests strong demand for industrial or free zone types of facilities.

While free and industrial zones offer services and conditions not available elsewhere in Togo, investments remain dependent on sourcing factor prices and inputs on competitive terms. In that respect, Togo is not very attractive because the cost of utilities remains high, especially electricity for energy-intensive industries,⁵⁵ and Togo offers few prospects of sourcing raw materials not available elsewhere at similar prices.

Labor costs in Togo are not cheaper than elsewhere in the region. Togo remains behind in terms of skills development, notably sector-specific skills that could support economic diversification.⁵⁶ Togo Program for the Analysis of Education Systems (PASEC) scores are notably below West Africa averages (although in line with income levels).⁵⁷ Togo does not have a competitive advantage in terms of labor costs. A measure of these costs suggests that they are even higher than in peer countries. Skills and labor market regulations, such as a minimum wage requirement, do not seem to be a major impediment to the private sector. The results of the 2017 enterprise survey were largely confirmed in discussions with private sector firms, which did not for the most part raise the issue of wages. SAZOF strived to have good labor practices and wages,⁵⁸ although the Free Zone law exempts

companies within the zone from providing workers with many legal protections, including protection against anti-union discrimination in hiring and firing. Togo recently adopted a new labor law⁵⁹ that replaced the law of 2006. The new labor law incorporates new forms of employments (part time) and offers new worker protections.

The high cost of factors means that the attractiveness of such zones, beyond the quality of their management and government facilitation of procedures (both important factors), rests very heavily on fiscal incentives and other forms of subsidy. It remains to be seen whether the benefits stemming from the development of these zones, especially job creation and spillover to value chains outside the zones (multiplier effects), will compensate for the tax expenses granted by the government. A 2010 analysis concluded that the cost of each job created amounted to US\$38,000, a significant outlay.⁶⁰

The number of spatial initiatives begs the question of possible competition over resources and clients, as well as the existence of overlapping among these various initiatives. Several line ministries and agencies are involved, including at different levels of intervention, as regulators and as sponsors. A new law in 2019 established the API-ZF, which now has jurisdiction over both investment promotion and the free zone regime and brings complementarity between the two regimes. This is a welcome development: the reasoning is that all investors and exporters should be encouraged and that a range of options is provided according to the degree to which firms plan to export or sell on the local market. Under the previous arrangement, companies outside the SEZ tended to be neglected.⁶¹

Solutions

Togo has already taken steps to implement its new policies to support the development of SEZs and industrial zones. The law of 2019 was passed, and API-ZF is now operational. The involvement of private developers in the development of new zones has led to initial success in the creation of the PIA. Additional efforts, however, are needed looking forward.⁶²

The new investment code is broadly in line with international standards, but the regulatory framework could still be improved. The regulatory framework could be streamlined to bring all exemption provisions into one law. Currently there are two main pieces of legislation that apply as the Free Zone Law of 2011 remains in force.⁶³ With respect to specific regimes and sectors, other suggestions include these:⁶⁴

- Review the experience with single factory free zones (that is, bonded warehouses outside of SAZOF).
- Review the regulatory framework and its implementation to ensure that logistics companies of all sizes can easily locate in the SEZs and industrial parks and also review attempts to establish new logistics zones and parks.
- Ensure that customs systems are better enforced and that automated systems are designed to reduce leakages into the local market.
- Review agropoles to ensure that they are (a) simplified and streamlined; (b) properly sequenced over a period of 15–20 years and prioritized on the basis of private sector interest in agropoles and on implementation readiness, so that government resources are allocated to only a few priority projects; (c) coordinated at a high level of the government; and (d) potentially merged into SEZ projects, which could include the transformation of agricultural products. Delegate the oversight of APRODAT to a steering committee under the president's or prime minister's office.

The overall framework governing the development of free and industrial zones could be rationalized further along four axes. First, there is a lack of clarity behind the various incentives granted by the government to different initiatives, nor does there seem to be a clear rationale for the public expenses and forgone revenues. The government should conduct a regular cost-benefit analysis of the various incentives provided and their efficacy. Such a study is currently underway in partnership with the ministry of finance (Unité de politique fiscale).

Second, most zone initiatives are in partnership with the government, and the conditions under which contractual agreements between the government and private operators are made seem to be on a case-by-case basis, in the absence of the publication of information on PPP contracts. Plans have been announced to develop a report on PPPs and fiscal risks linked with PPPs by 2025 in the context of the government's yearly report on fiscal risks.⁶⁵

Third, there is a need to review the coherence of all initiatives. There are too many projects, with too many sponsors, which creates confusion for potential investors. Rationalize and streamline spatial initiatives, including SEZs, industrial parks, and growth poles, and ensure coordination through a national growth strategy. Bring under one vision the projects of the Ministry of Industry on industrial zones, APRODAT on agropoles, and API-ZF on SEZs. The rationalization of these various approaches is foreseen in the Feuille de Route 2025 (Roadmap 2025).⁶⁶ A World Bank report also suggests more extensive coordination with TogoInvest as an important potential source of investors and financing.⁶⁷

Fourth, the performance of SEZs should be monitored. The stated objectives of the zone regime in Togo should be measured on a regular basis, at least once a year. The government should 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 so on) and growth poles. SEZs should also be places of best practice to attract the best investors; excellent environmental and social practices in the design of all SEZs and industrial parks should be hard-wired.

A review of Togo's investment policy is being drafted, as well as a new national investment promotion policy and strategy for Togo, and a new legal framework for SEZs, all under the supervision of the Ministry of Investment Promotion. The government is also studying opportunities for sites to set up new SEZs. Finally, the ministry is exploring the mobilization of resources for the modernization of SAZOF and for the development of new sites in the interior of the country.

Engagement with the private sector is inadequate. Existing and future incentives available to the country's zones should be clearly and unambiguously communicated and easily accessible. Information about various initiatives was generally not well understood by Togolese private sector representatives in the consultations undertaken for this report: these could be potential investors, which may lead to missed opportunities.

Finally, the limitation for firms located in the free zone to sell their production in Togo or in ECOWAS countries could be reviewed, provided that the products sold in the region pay duties and taxes. Currently the free zone law allows firms to sell part of their production on the Togo customs territory, within a limit of 30 percent, which seems somewhat arbitrary.⁶⁸

DRIVING TRANSFORMATION THROUGH PUBLIC INVESTMENT

Strong leadership by the state has been important in shaping Togo's recent economic development and particularly private sector development. The important progress previously noted in improving the investment climate over the past several years has been the result of strong leadership under the Secretariat Général of the Presidency. In 2018 the government created the Cellule du Climat des Affaires, the business environment unit in the presidency. The unit coordinates the ministries' reform efforts and leads investment climate reforms.

In 2019, Togo adopted a new investment code, which set up a liberal investment regime.⁶⁹ The code does not impose undue restrictions on foreign firms, including establishing such firms in Togo, and meets the standards of WAEMU.⁷⁰ The new code replaces the Code of 2012, which offered exemptions and tax incentives over much longer periods. The new code offers, for investments (new firm or new investments for existing firms) above US\$100,000, exemption from VAT and customs duties on new plant equipment and material for five years, reduces income taxes for five years in the form of an income tax credit up to a maximum that varies by region, and reduces labor taxes depending on the number of nationals employed. The Zone Franche regime of 2011 continues to apply for firms that qualify for it.⁷¹ The newly created API-ZF replaces SAZOF. According to the US State Department, the investment agency tends to focus on government-driven investment projects.

Since 2017, Togo has put in place a delivery unit in the presidency to fast-track priority projects. The delivery unit oversees the implementation of the 2021 roadmap (*Feuille de Route*), which identifies 36 priority projects and six reforms to be achieved by 2025. The delivery unit is part of several initiatives to improve economic planning, alongside with the recent government reshuffle which put the Ministry of Planning directly under the presidency, and reforms to improve investment planning under the Ministry of Planning. Reforms have included the creation of a Public Investment Program (PIP) Committee, and the elaboration of a medium-term PIP for 2019–21 and 2020–22,⁷² as well as the creation of a unit in charge of the monitoring and implementation of priority projects (Cellule Présidentielle d'Exécution et Suivi des Projets, created in 2017).

The institutional structure to manage public investment needs to be further reinforced. The capacity of line ministries to manage projects must be reinforced both in number of staff and expertise in implementing and supervising investment projects, as should the staffing of the delivery unit. Alignment between the government budget and the PIP must be improved, and coordination and coherence between different government units should be increased.

BOX 3.1 FROM PUBLIC-LED TO PRIVATE-LED GROWTH: STRATEGIES ADOPTED BY RWANDA

Like Togo, Rwanda has been confronted with the challenge of maintaining high rates of investment while diminishing its reliance on debt. This has led to a strategy revolving around four main pillars: (a) increase domestic revenue, (b) focus on developing new sources of external revenue through trade and investment, (c) enforce careful management of public infrastructure and a strong accountability framework for public investments, and (d) build institutions.

To generate more resources through domestic revenue, in 2001 Rwanda introduced a value added tax, which is overseen separately from other taxes administratively. Rwanda has since focused on broadening the tax base, focusing on property taxes and mining revenues, and on reducing revenue leakage, both through improving data collection and facilitating payment procedures and e-payments. Taxes on international trade have diminished in parallel, as has the use of fiscal exemptions, which remain quite prevalent.

To stimulate exports, Rwanda decided to operationalize special economic zones (SEZs) designed to address private investment constraints such as land availability while providing high-quality essential infrastructure and access to administration services. Notably, Rwanda opted not to use specific tax incentives for SEZs but instead applies general investment law incentives. Rwanda also adopted several sectoral strategies and targeted investment in high-export growth sectors (tourism and agriculture)

and in areas where local manufacturing could compete with imports (construction materials, light manufacturing, and food products).

Public investment was carefully selected to improve infrastructure and living standards and to target key new value-creating economic activities. Large projects have characterized public investment in recent years. Rwanda's public investment management practices have been robust and have contributed to the efficiency of public spending. Rwanda's public investment management processes are judged to be of good quality across the board, including project appraisal, selection, implementation, and evaluation.

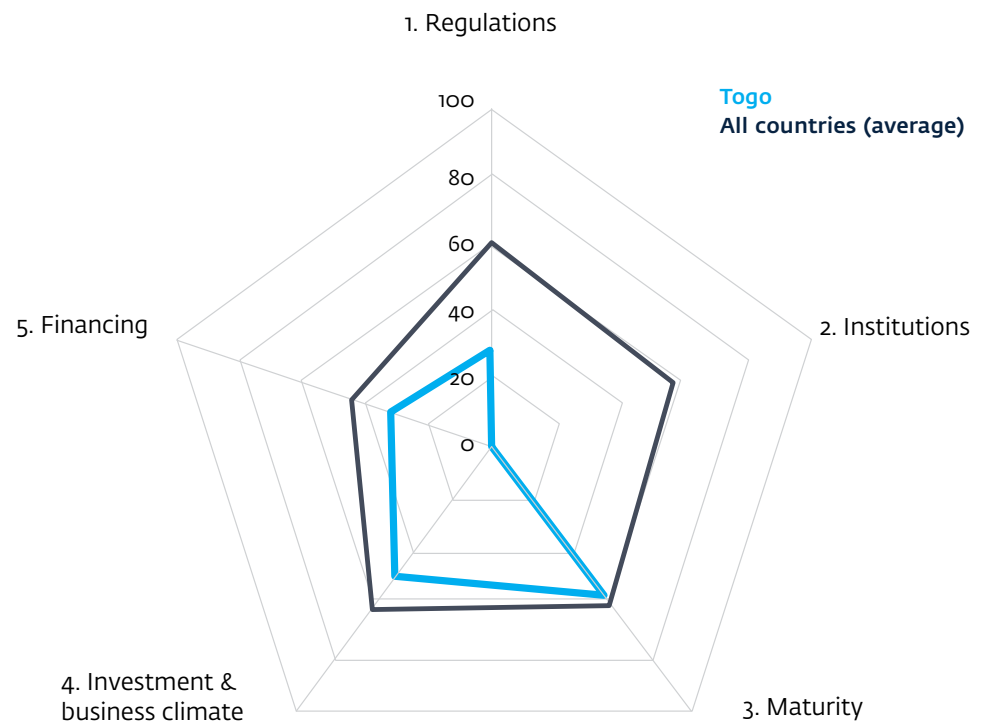
Institution building has also been a core effort. The government has built policies and institutions, emphasizing good governance with accountability, transparency, and result orientation. For instance, to support improving the investment climate and private investment, the Rwanda Development Board is guided by a board that includes several ministries and reports directly to the president. The board was created by incorporating eight preexisting government agencies in charge of investment and export promotion, business registration, information technology, and tourism, as well as support to small and medium enterprises and other responsibilities. It leads efforts to improve the investment climate and facilitate private sector investment, through procedures to fast-track investment projects, and provides after-care services from assistance to help with dispute resolution.

Source: World Bank elaboration based on L. Redifer et al., "The Development Path Less Traveled: The Experience of Rwanda" (IMF Africa Department 20/10, International Monetary Fund, Washington, DC, 2020).

The 2025 roadmap foresees investments comprised between CFAF 2,800–3,400 billion (US\$4.9–6.0 billion) with about 50 percent to be provided by private investment.⁷³ One of the three axes of the roadmap focuses on improving the enabling infrastructure and environment for the economy, with important investments foreseen in electricity generation and distribution, digital infrastructure, and transport.

A new draft PPP law was adopted in September 2021 by the Council of Ministers and has been recently approved by the Parliament. The law will update the framework created in the law of 2014 on partnership contracts that was never fully implemented. An agency for large projects, the Agence Togolaise des Grands Projets (AGTP) was created in 2016 but lacked the means to pursue its mission. Several high-profile and successful private sector investments in infrastructure (such as the port terminal and the Kekeli power plant, and recently the PIA) have demonstrated that some building blocks for a conducive PPP environment are available in Togo. However, the current PPP environment suffers from a lack of transparency, and the PPP regulations and institutional framework in Togo is currently weak (figure 3.3).

FIGURE 3.3 ENVIRONMENT FOR PPPs IN TOGO



Source: Economist Intelligence Unit, Infrascope 2019.

In a context in which private investment in infrastructure and flagship productive activities will continue to be core to Togo’s economic strategy, a rigorous legal framework will be needed to manage partnerships with the private sector. A decree on the code of professional ethics for the public procurement process as well as the elaboration of public procurement law to harmonize the law with WAEMU directives and strengthen the supervision of large infrastructure projects was recently adopted as part of reforms under the ongoing World Bank’s programmatic DPOs. These reforms are expected to improve the efficiency and transparency of public investment procedures in the country.

The new PPP law should strengthen the transparent and efficient preparation, procurement, and management of PPPs, and more generally the governance of PPPs which has been weak until now (figure 3.4),⁷⁴ and thus increase the mobilization and efficiency of private sector investments in infrastructure. It will also harmonize Togo’s practices with WAEMU directives.

FIGURE 3.4 BENCHMARKING INFRASTRUCTURE DEVELOPMENT SCORES FOR TOGO (2019)

a. Thematic scores for public-private partnerships in Togo



b. Thematic scores for concessions by type



Source: World Bank, “Benchmarking Infrastructure Development,” <https://bpp.worldbank.org/economy/TGO>.

For example, to increase the security of energy supplies, the government of Togo resorted to several PPPs. In April 2021 it completed the installation of the phase one (47 MW) of the independent power producer (IPP) Kékéli Gas plant of 65 MW, a combined-cycle gas plant located in the Lomé Port area. To increase the share of renewable energy, the government commissioned in June 2021 the AMEA IPP solar plant of 50 MW, which involved the sale of electricity to CEET under a 25-year PPA. The request came from CEET through the line ministry. However, it was not clear whether the entity in charge of the procurement process of the PPPs conducted a project screening based on cost-benefit analysis, or a risk assessment. Also, it is not clear on what basis the project was selected. Finally, the government is developing 60–80 MW project with private sector participation under the IFC Scaling Solar initiative, a proven PPP mechanism using a competitive procurement method. The medium-term objective of the government is to increase domestic generation and reduce importation from 70 percent to less than 30 percent beginning in 2025.

Finally, the fiscal liabilities of PPP projects must be monitored. According to the World Bank Benchmarking Public-Private Partnerships data, total investment in physical assets in Togo through PPPs amounts to US\$1,260–1,340 million (depending on whether there are four or five active projects) equivalent to 21–22 percent of 2020 GDP. Most of the projects create long-term liabilities (extending up to 2046). The World Bank also notes that DDPF was involved in the negotiation of only one project.⁷⁵

ENABLING SECTORS: ENERGY, FINANCE, AND TELECOM SERVICES

Energy

Current performance

Togo imports more than 60 percent of its energy needs from Ghana and Nigeria. In 2020, of the energy provided by Compagnie Energie Electrique du Togo (CEET), 32.99 percent came from Nigeria, 25.90 percent from Ghana, and 3.53 percent from Benin. The remaining 37.58 percent was provided by ContourGlobal CTL (37.1 percent) and 0.44 percent from CEET production units.⁷⁶ Togo installed generation capacity is 235 MW, over 70 percent of which is thermal generation (42.5 percent fuel oils, 28.5 percent hydro, 20.4 percent diesel, and 8.5 percent natural gas).⁷⁷ The sector has long suffered from underinvestment (2–3 percent of GDP), according to AGET.⁷⁸ Demand is expected to grow by 8 percent annually in the future, thus requiring new investments in generation.⁷⁹ The sector employed 3,688 people in 2015.

The generation sector is composed of a mix of public and private operators.

Communauté Electrique du Bénin (CEB, a binational entity co-owned 50/50 by Togo and Benin)⁸⁰ operates the Nangbéto hydro-powerplant (65.6 MW). CEET, the public transmission utility, also operates several medium-size thermal power plants in Lomé, Kara, and Dapaong. Two large IPPs are Contour Global, which operates the 100 MW Lomé Thermal Power Plant commissioned in 2010, and Eranove, which operates in a joint venture with the Togo government (75/25) the new Kekeli 65 MW combined-cycle power plant (current capacity 47 MW), commissioned in 2021. Going forward, the least-cost power development plan being finalized has identified that starting in 2025 the energy imported will be reduced to 30 percent, and 50 percent of the total installed capacity will be from renewable sources, of which 225 MW will come from solar and 83 MW from gas, and 50 MW/167MWh battery storage will be installed.

Access to electricity has been improving, and Togo has been closing the gap with respect to other West and Central African countries (figure 3.5). CEET is the government utility responsible for the distribution of electricity within the country. Generators sell their electricity to CEET and CEET pays wheeling charge to CEB for the transport of energy. In 2019 52 percent of the population had access to electricity (92.0 percent in urban areas and 23.6 percent in rural areas).⁸¹ This places Togo slightly above the Sub-Saharan African average access rate of 48 percent and above West Africa's average.

The Togo National Electricity Strategy (2018) aims to ensure universal access by 2030, with a strong focus on renewable energy. This goal will be achieved through a combination of network densification and extension and off-grid technologies (minigrids and solar kits), the latter which would provide an added 108 MW of generation capacity on the network. Togo will seek to rely on the mobilization of private sector investment through PPPs as well as on targeted support mechanisms to help the most vulnerable population obtain access to electricity.

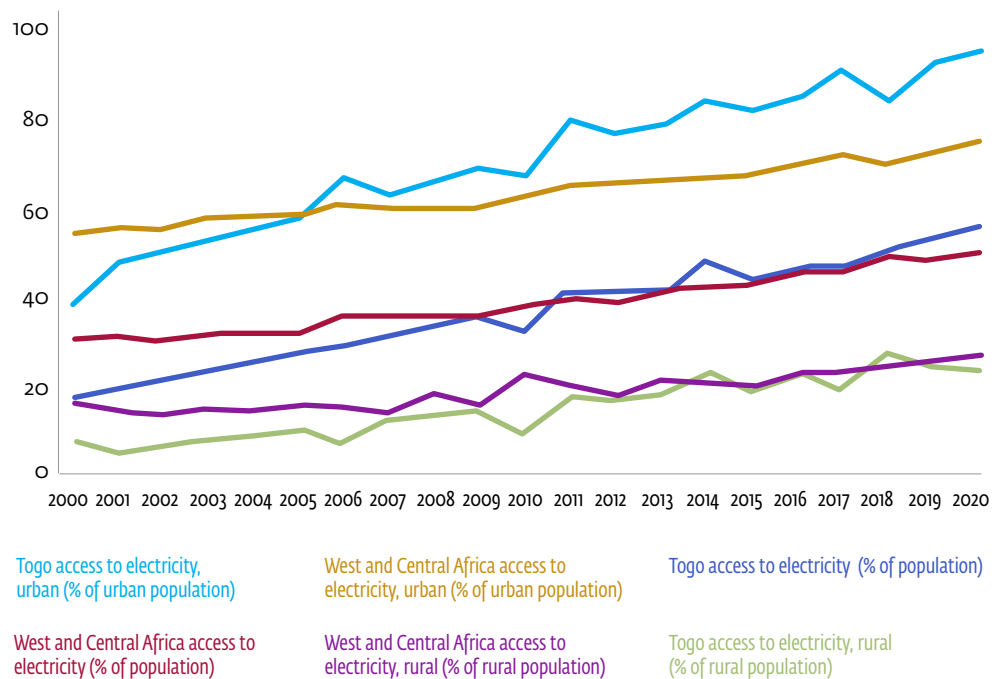
Togo's plans will require quadrupling the current levels of investment into the sector, to 83 billion CFAF per year (US\$150 million) over 10 years, allocated as follows: 550,000 solar kits (CFAF 37 billion); more than 315 solar minigrids (CFAF 12 billion); more than 960 new localities connected to the network (CFAF 34 billion). Some of these investments, notably regarding minigrids have been made.

In 2019, Togo joined IFC's Scaling Solar initiative to develop 50 MW solar capacity in the country. Besides, in 2021 Togo inaugurated one of the largest solar power plants in West Africa with a capacity of 50 MW in Blitta in the Central region. The plant was built by AMEA Togo Solar, a subsidiary of Dubai-based AMEA Power and was financed CFAF 35 billion (US\$63.7 million) with contributions from the Togo government and loans from the West African Development Bank, the Abu Dhabi Fund for Development and Abu Dhabi Export, and AFD-IRENA.⁸² A project extending the Blitta power plant with an additional 20 MW is currently under development, which would make of Blitta the largest solar plant in West Africa.

Another project to be implemented shortly is the construction of a 50 MW hydropower plant in Tététou. The project is being developed on behalf of the Togolese Agency for Rural Electrification and Renewable Energy, Agence Togolaise d'Électrification Rurale et des Énergies Renouvelables (AT2ER) and with support from the European Union. Five solar generation plants are under development, in the regions of Kara, Savanes and Central, totaling 216 MW.⁸³

For solar kits, Électricité de France (EDF) and BBOXX signed a joint venture in a partnership with the government's program to support access to electricity, known as CIZO, which aims to supply over 500,000 households with solar home systems by 2030. Subsidies to end users to accelerate access, known as "CIZO cheques," are the first government subsidy for the purpose of solar energy payments in Africa. BBOXX has been operating in Togo since 2017 and, as a partner in the CIZO national electrification strategy, has already supplied electricity to 85 777 Togolese households as of May 2022.⁸⁴ BBOXX has opened around 20 shops, employing around 300 people in Togo. The country is providing a 50 percent subsidy to halve the cost of irrigation systems for 5,000 farmers. This support is alongside tax exemptions on import duties and VAT on the water pumps, making the product more affordable for the end users—smallholder farmers in Togo. Other off-grid operators have also joined the initiative: Solergie a Belgian company in partnership with France's Total and Moon, and Soleva a Togolese company in partnership with Moon. EDF and BBOXX entered a partnership with SunCulture, a provider of solar irrigation systems.⁸⁵

FIGURE 3.5 PROGRESS IN ACCESS TO ELECTRICITY 2000–20



Source: World Development Indicators

Opportunities

Significant new opportunities for private sector involvement include the dynamic implementation of the Togo electricity strategy and policies to expand access (including through subsidizing retail tariffs), which is attracting new players in Togo. Additionally, gaps in energy supply for industrial and commercial users have led to private initiatives exploring solar energy as a cheaper (although still expensive in relation to regional and global competition) complementary energy source.

As part of the national electrification strategy, and in the context of the IFC-supported Scaling Solar project, AT2ER has issued a request for prequalification for the design, financing, construction, and operation of a grid-connected solar photovoltaic plants on an IPP basis, with a total installed capacity of 50 megawatts, alternating current (MWac) to be located near Sokodé in the Central region.

The PIA project recently announced that it will develop a solar plant with energy storage and issued a request for proposals.⁸⁶ The project hopes to attract solar energy suppliers that will provide electricity at close to competitive prices, and largely under the current tariffs offered in Togo. Another solar project relates to zone development and is led by CCIT in Agbélouvé (62 kilometers from Lomé) with Sun Farming Food and Energy, a German company.⁸⁷ A PPA was signed for a 50 MW solar plant in January 2020.⁸⁸

Beyond solar, the government electricity strategy includes developing hydroelectric generation. A request for proposals for the rehabilitation of the Kipmé dam (1.6 MW) was issued, and more important projects of dams are in development or study (Tetetou, 50 MW; Titira, 24 MW; Danyi-Konda, 10 MW; Baghan, 6 MW; and Landa Pozanda, 4 MW).

Constraints and potential solutions

The financial situation and performance of the sector remains a serious issue. CEET is losing money, with US\$30 million in losses in 2019. Current electricity rates (see below) are well below the current cost of service of 26 cents per kilowatt-hour.⁸⁹

Both CEET and CEB maintain very high debt (CEB owes US\$22 million to Nigeria) with utilities in the exporting countries; this negatively affects the reliability of imports from those countries. These issues need to be addressed through long-term PPAs with specific indemnity clauses, which should bring more certainty.⁹⁰ More generally, the heavy reliance on power imports remains a source of problems. First, imports have not always been reliable because of inconsistent hydrological conditions, unavailability of gas, or operational constraints and, second, Togo also has been affected by frequent disruptions created by issues in Nigeria's and Ghana's power systems.

In 2020, Togo initiated a sector reform program with the support of the World Bank to improve the financial and operational performance of the distribution utility CEET. The program focuses on changes in the governance structure with support from the European Union's Togo Energy Sector Support and Improvement Project (TESSIP) which aims at devising a turnaround plan. Other reforms of CEET aim to address losses in the system and more efficient revenue collection. A study on tariffs is currently ongoing, financed by the TESSIP, and will make recommendations on closing the 35 percent gap between cost of service and tariffs.

The decision by the interstate council between Togo and Benin to dissolve CEB in March 2021 means that if the proposal is adopted by the two heads of State, each country will need to put in place a national transmission company and a national system operator, but this also means finding an agreement on debts and future working relations between the two countries to manage common infrastructure including interconnection transmission lines, the Nangbéto dam, and hydro projects in the Mono river. The implementation of such reform is likely to take two to three years to be completed, meaning the new structures are operational.⁹¹

The cost of electricity remains among the highest in the region, a situation which directly affects the competitiveness of activities that are heavily dependent on energy, and more broadly the private sector as a whole. At 20 cents per kilowatt-hour for households and 19.2 cents per kilowatt-hour for businesses, electricity costs are lower than neighbor Burkina Faso but significantly higher than Ivory Coast (13 cents per kilowatt-hour), Ghana (6.1 cents per kilowatt-hour), and Nigeria (5.9 cents per kilowatt-hour) (for households).⁹² Togo end-user tariffs are close to the double of global average.⁹³ AGET also reports higher costs than neighbors (albeit lower tariff rates): CFAF 84 per kilowatt-hour in Togo (about 15 cents), against CFAF 51.93 per kilowatt-hour in Ivory Coast (9.2 cents), CFAF 56.12 per kilowatt-hour (10 cents) in Niger, and CFAF 64 per kilowatt-hour (11 cents) in Mali.⁹⁴

According to the Regulatory Indicators for Sustainable Energy (RISE), the framework for decentralized solar energy in Togo is not adequate, particularly with respect to the financial and regulatory framework in place for minigrids, although some reforms have been put in place recently.⁹⁵ For instance, it is not clear how private initiatives to set up new large solar generation capacity will be integrated into the overall grid.

The ambitious electrification strategy of Togo implies important private sector investments. As mentioned earlier, Togo has experience with IPPs since the first independent power producer, ContourGlobal, started commercial operations in 2010 with a 100 MW heavy fuel power plan. With the focus mostly on minigrids to cover

part of the generation gap while increasing access, the government of Togo set a very ambitious target with over 300 minigrids. One issue with so many projects is the economic viability of serving the poorest zones economically. While minigrids in areas with sufficient economic activity and ability to pay for electricity services (both consumer and firms), the government's project may require acceptable levels of subsidy, this is probably not the case for many poorer areas.

The government of Togo issued an RFP for the development of minigrids. The first phase of the program, however, was met with a certain number of difficulties for prospective investors, including uncertainties regarding the levels of government subsidies (as only part of the overall subsidy needed for the project was secured), and land tenure in some areas. Another potential issue was the relatively small size of the lots tendered which may diminish the opportunity to realize economies of scale.

TABLE 3.1 MATRIX OF PRIORITIES FOR THE ELECTRICITY SECTOR

Priority measures and investment opportunities	Short-term	Medium term
Solar and renewable generation	<p>Measures Pursue the implementation of the regulatory framework for decentralized solar for minigrids. Review investment plans for minigrids to a lesser ambition.</p> <p>Opportunities Solar generation for free zones. Off-grid solar with CIZO. Solar kits.</p>	<p>Measures Implement the least-cost power development plan using competitive procurement method.</p>
Reform of CEB	<p>Measures Put in place a transitional arrangement to ensure the operation and management of existing transmission infrastructure following the breakup of CEB. Establish a roadmap and provide technical assistance to conduct analysis, including an audit of assets and debt/arrears.</p>	<p>Measures Set in place and operationalize the new structures (NTC and NSO) if CEB is dissolved or improve the performance of CEB through the implementation of a management service contract.</p>
Reform of CEET	<p>Measures Finalize, adopt the turnaround plan, and commence its implementation. Pursue the implementation of smart metering and e-payments. Prepare and implement a performance contract for 2022–24.</p>	<p>Measures Restructure the debt of CEET.</p>
Tariffication	<p>Measures Finalize the study on electricity tariffs. Implement the new methodology for the determination of the revenue requirement for CEET.</p>	<p>Measures Adopt new tariffication models, including a mechanism for protecting vulnerable households on recommendations of the electricity tariffs study.</p>

Note: CEB = Communauté Electrique du Bénin; CEET = Compagnie Energie Electrique du Togo; CIZO = government program to support electricity access; NSO ; NTC.

Finance

Current performance

Togo enjoys a competitive financial sector. The banking sector dominates the financial system, with total assets to about 80.0 percent of GDP, above the regional average for Sub-Saharan Africa of 60.6 percent and compared to 56.0 percent in Kenya, 119.5 percent in South Africa. At the end of 2020, the financial system in Togo comprised 13 commercial banks.⁹⁶ Other financial institutions are also present: the Caisse Régionale de Refinancement Hypothécaire de l'UEMOA (CRRH-UEMOA) and the African Guarantee Fund for SMEs (former Fonds GARI), as well as 13 insurance companies, two pension funds, and 34 insurance brokerage firms.

The government and the banking sector have worked to restore Togo's reputation as a regional banking center, which was weakened by political upheavals from 1991 to 2005, and several regional and subregional banks now operate in Togo, including Orabank, Banque Atlantique, Bank of Africa, Diamond Bank, International Bank of Africa in Togo (BIAT), and Coris Bank. Additionally, Togo is home to the headquarters of the ECOWAS Bank for Investment and Development (EBID), the West African Development Bank (BOAD – the development bank of the West African Economic and Monetary Union), Oragroup, and Ecobank Transnational Inc., the largest independent regional banking group in West Africa and Central Africa, with operations in 36 countries in Sub-Saharan Africa.

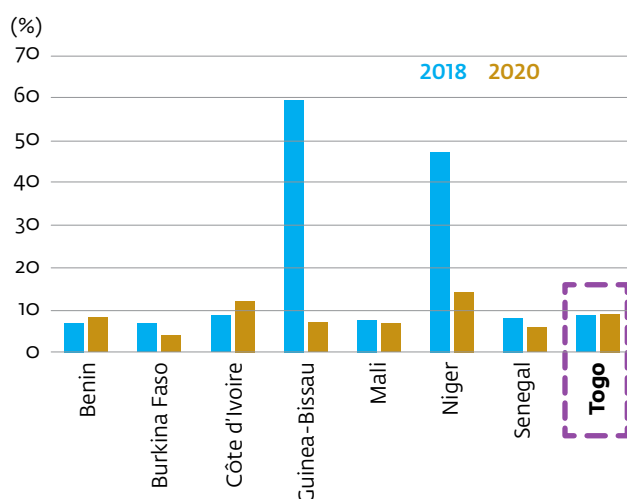
Evidence indicates that regional banks have beneficial effects on the host economy. A study of pan-African banks by the Overseas Development Institute (ODI)⁹⁷ finds that the banks' presence contributes to increasing access to finance for firms, with the strongest impact on small, large, and young firms. The impact on household access to finance is less clear. The banks also create added financial stability risks by lending more to smaller firms (while also providing benefits because their lending is less procyclical, so overall the impact is mixed), and adding to macro-financial risks because they increase the country exposure to shocks in other markets. Overall, however, the message is that they provide a different form of source of financing, contributing to deepening the supply of financial services.

Being part of WAEMU confers several advantages for the financial sector. Togo uses the CFA franc (CFAF), which is the common currency of the eight West African Economic and Monetary Union (WAEMU) countries with an exchange rate pegged to the euro. As a result, Togo's inflation rate is consistently below 2 percent. The WAEMU regulatory framework is sound and is transitioning toward Basel III standards.

Togo has shown some improvements on bank profitability. After registering losses from 2010 to 2015, the banking sector (to the exception of the public banks) appears profitable, but significant variations prevail between different banks. New regional regulations, including the introduction of consolidated supervision, provide adequate risk-based supervision and a bank resolution framework. The implementation of Basel II/III regulatory standards initiated in 2018 has started to improve bank balance sheets while enhancing liquidity buffers.

The financial sector was weakened by the delay in the privatization of the Togolese Bank for Commerce and Industry (BTCl) and the Union Togolese de Banque (UTB)—two state-owned public banks in difficulty. Nonperforming loans (NPLs) have been high and concentrated in the two problematic banks. Progress was registered before the COVID-19 crisis, as the rate of the NPLs declined to 15.6 percent of total gross loans in December 2019, from 18.3 percent at the end of June 2018, or about 13.0 percent when excluding UTB and BTCl. However, with the COVID-19 shocks, NPLs slightly increased to 16.7 percent at the end of June 2020. By regional standards, NPL in Togo are within the average. The overall capital adequacy ratio dropped to 2.4 percent at the end of 2019, far below the BCEAO’s regulatory requirement of 9.5 percent. This is due to the significant capital shortfall of the two public banks and excluding the two state-owned banks (about 19 percent of total assets), the aggregate capital adequacy ratio of the Togolese banking sector comfortably meets the regulatory requirement. The bank liquid reserves to bank assets ratio increased from 6.6 percent in 2019 to 9.1 percent in 2020 but fell back to 6.0 percent in 2021.⁹⁸

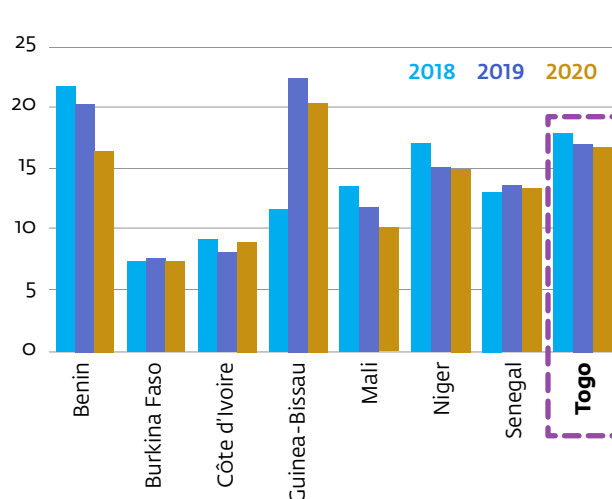
FIGURE 3.6 NONPERFORMING LOANS IN THE MICROFINANCE SECTOR IN WAEMU



Source: La Banque Centrale des États de l’Afrique de l’Ouest (BCEAO).

Note: WAEMU = West Africa Economic and Monetary Union.

FIGURE 3.7 NONPERFORMING LOANS IN THE BANKING SECTOR IN WAEMU



Source: La Banque Centrale des États de l’Afrique de l’Ouest. (BCEAO)

Note: WAEMU = West Africa Economic and Monetary Union.

Owing to the government's and BCEAO's measures, banking sector credit to the private sector in Togo was broadly maintained at 26.5 percent of GDP in 2020 as in 2019. In March 2021, the IMF estimated recapitalization needs as 6.5 percent of GDP. With the completion of the privatization process for the BTCL, which the Togolese company IB Holding has acquired with 90 percent of the shares as of June 2021, and the prospects to accelerate the call for tenders for the UTB, the banking sector is expected to improve. Nonetheless, the banking system remains exposed to the particularly affected service sectors such as hospitality, retail, and other services, which together account for more than 50 percent of total banking credit outstanding. Access to finance continues to be more difficult for MSMEs.

Togo has achieved a high level of financial inclusion, driven primarily by mobile money services used to access various social program benefits provided by the government. The Togolese government's efforts in the area of financial inclusion have been demonstrated by reforms that promote greater access to financial services for disadvantaged people. These efforts were accentuated with the creation, in 2013, of the National Fund for Inclusive Finance to bring opportunities necessary for the development of growth-enhancing initiatives. In this context, the National Strategy for Financial Inclusion 2021–2025 was adopted on December 8, 2021, with a view to strengthening the government's intervention framework by expanding the geographical coverage of financial services and the availability of digital services.

More Togolese have had access to financial services in the past five years thanks to mobile money development through new initiatives. According to the Banking Commission annual report, five banks provide digital financial services in collaboration with the two mobile network operators. Digital payments are dominated by mobile money, the uptake of which has been driving inclusion. The value of mobile money as a percentage of GDP grew exponentially over the past five years, from 4 percent to 28 percent. Unlike commercial bank branches, mobile money agent outlets continued to grow, almost 10-fold between 2015 and 2020, from 44 to 316 agents per 1,000 square kilometers. Adoption of mobile money has been growing significantly, with the number of registered accounts per 1,000 adults increasing from 834 to 989 between 2018 and 2019.⁹⁹ As in most developing economies, women in Togo have less access to an account at a financial institution than men do (a gap of 15 percentage points); however, the 2017 Findex indicates that mobile money might be helping to close the gender gap. The gender gap is also reflected in phone ownership, internet access, and personal identification.

The share of adults with a bank account has grown from 17.6 percent to 34.1 percent between 2011 and 2017, and more recent data from the BCEAO shows further improvements. The penetration of banking services in the country remains low, and the services are generally only available in major cities, even if Togo has one of the highest proportion of branches per habitant.¹⁰⁰ Sixty-five percent of bank branches are concentrated in Lomé and the Maritime region.¹⁰¹ Only a very small proportion of the population, largely consisting of those employed in the formal sector, had access to banking services, and those living in rural areas remain financially excluded. According to the Global Findex report, while mobile money accounts among the labor force rose from 1.4 percent in 2014 to 24 percent in 2017 (same level as the Sub-Saharan Africa average), credit/debit card ownership stood at 14 percent of the labor force in 2017, compared with the Sub-Saharan Africa average of 20 percent the same year. Other financial technology (fintech) dimensions that could support financial transactions among businesses and consumers—such as financial media and data solutions, use of insurance and health care technology, or e-commerce and marketing technology—remain underdeveloped in Togo as well.

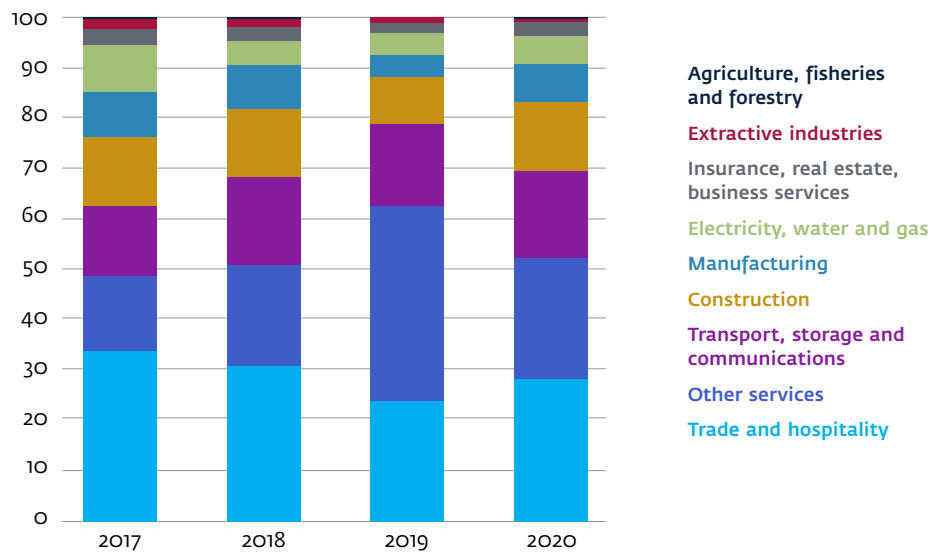
Overall, access to financial services is low. Branchless banking service remains low despite the growing number of institutions in the financial sector. Term financing and other credit products are limited: to access credit, Togolese predominantly rely on loans from family and friends, or on informal financial providers. In 2017, 40 percent of Togolese borrowed money, and those who did so chose family and friends as creditors. About 45 percent of Togolese saved primarily through savings clubs or outside the family, followed by accounts held at financial institutions. Banks transform deposits into lending, as shown by the high loan-to-deposit ratio, above 76 percent as of June 2020. The loan-to-deposit ratio has been decreasing over the years since 2013, when it had reached 98 percent.

Financing is still limited in some sectors, the level of public debt remains relatively high, and despite competitive trends in the banking sector, rates are relatively high. The government debt level was reduced from 70 percent to 51 percent in 2020, but it is important to highlight that Togo has undergone GDP rebasing and has the highest refinancing rate of WAEMU. Interest rate margins between deposit and lending rates slightly improved from 4.7 percent to 4.4 percent between 2019 and 2020,¹⁰² and stands lower than the WAEMU average of 5 percent (lending interest rate and deposit interest rate).

A strong concentration in bank credit per sector appears through the bank portfolio. Nearly 80 percent of bank credit goes to services sectors (figure 3.8). In 2020 bank credit was mostly allocated to trade and hospitality services (28 percent), followed by various services (24 percent), transport (17 percent), and construction (18 percent), whereas other sectors attracted very low credit. This is the case for energy and water (6 percent), agriculture (less than 1 percent). Operators explain that the low level of credit to the agricultural sector stems from the lack of credit history and organization/structuring as well as high informality in the sector.

FIGURE 3.8 CREDIT BY SECTOR, 2017–20

% Share of Togolese credit, by sector



Source: La Banque Centrale des États de l’Afrique de l’Ouest. (BCEAO).

Capital markets remain shallow, with essentially short-term government securities, low sovereign rating, and limited participation in the regional stock exchange (BRVM).¹⁰³ Indeed, the role of nonbank financial institutions remains very limited, and the legal and regulatory framework and financial infrastructure for financial services continue to suffer from major weaknesses that hamper the development and growth of the financial sector. Indeed, the lack of an adequate regulatory framework and of a regional zero-risk yield curve, as well as the limited base of long-term investors, has delayed the introduction of alternative asset classes—such as private equity/venture capital, real estate investment trusts (REITs), green corporate bonds, and innovative products such as multi-originator SME securitization funds or SME platforms—as venues for refinancing SME loans away from commercial banks. The WAEMU capital market is dominated by sovereign issuances, yet the lack of a streamlined mechanism for the issuance of sovereign bonds (to improve member states’ yield curve to help corporations in their pricing) as well as the lack of harmonization in the tax regimes across the states, limits the ability to attract institutional investors such as pension funds and insurance companies to the market.

Togo is one of the most active issuers on the WAEMU debt market. Like peers in the region, Togo’s issuances consist of T-bills and T-bonds with average maturities of 3.5 years over the past five years. Togo’s frequency of issuance on the market was about 15–20 times per years before the COVID-19 crisis. In 2020, Togo issued 17 times. Although it issued only four times in 2021, those issuances were of relatively longer maturity (three series of 10-year maturity T-bonds in April, July, and August, and a 15-year maturity T-bond in November). All the recent issuances were oversubscribed, indicating the market’s confidence in Togo. Moreover, Togo-based institutions such as Banque d’Investissement et de Développement de la CEDEAO, BOAD, Caisse Régionale de Refinancement Hypothécaire, Oragroup, and Oragroup S.A. are also active issuers on the regional stock market.

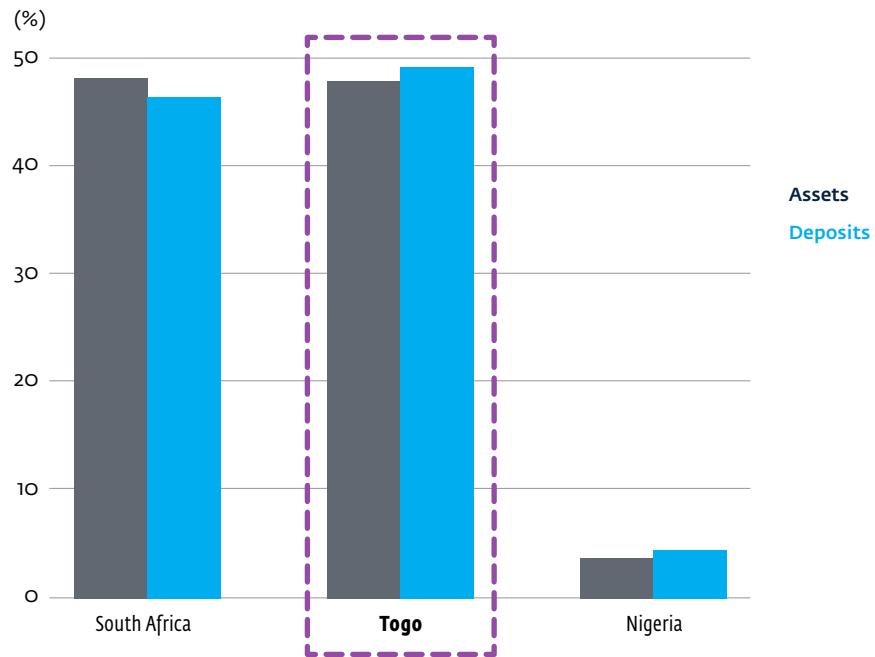
Opportunities

The absence of a guarantee fund is a key impediment to private sector development; meanwhile, the financing gap for MSMEs in Togo is estimated at US\$390 million.¹⁰⁴ Poor credit information and creditor protection foster adverse selection problems in Togo, which tends to exclude MSMEs and SMEs from access to credit and therefore from growth opportunities. Most banks do not see SMEs as a profitable and sustainable business line in relation to larger and more well-established companies. Given the considerably underused liquidity of Togolese banks, guarantee mechanisms could provide a cost-efficient incentive to lending and partially overcome these market tensions and increase opportunities.

In 2019, the government set up a guarantee mechanism for agriculture (Mechanisme Incitatif de Financement Agricole; MIFA) with the support of the International Fund for Agricultural Development. The initiative aims to address the structural underfunding of the sector. In June 2020, MIFA had mobilized CFAF 26 billion (about US\$45 million), on course to meet the year’s objective of CFAF 50 billion and up from CFAF 8.1 billion mobilized in 2019.¹⁰⁵ As part of their investment strategy in the agricultural sector in Togo, the PIA and ARISE entered in the capital of MIFA in June 2021.¹⁰⁶

Togo is home to over 40 percent of Africa’s regional bank assets and deposits, on par with South Africa (figure 3.9). Factors contributing to the attractiveness of a home country for a regional bank are unrelated to market size (a point well illustrated in the case of Togo) and focus more on features like macroeconomic stability. Furthermore, the concentration of pan-African banks in two countries reinforces their role as subregional hubs for financial services.¹⁰⁷ Although it might be difficult to predict that new regional banks would decide to establish in Togo, it would seem desirable to explore how Togo can better leverage its role as the home of larger and more sophisticated banks. Hosting a regional bank headquarters is not without increasing exposure to risks, however. Also, countries also face challenges in regulating regional banks (including the need for the increased capacity of authorities in the host country and their ability to cooperate with their counterparts in the home country).¹⁰⁸

FIGURE 3.9 HOME COUNTRIES OF PAN-AFRICAN BANKS (PERCENT OF TOTAL PAB ASSETS AND DEPOSITS OUTSIDE THE PARENT BANK COUNTRY)



Source: F. Arizala et al., “Regional Spillovers in Sub-Saharan Africa: Exploring Different Channels” (Spillover Note 18/01, International Monetary Fund, Washington, DC, 2018).

Note: PAB = pan-African bank.

Togo is renowned for its recent innovative developments in digital finance. Of particular note is the NOVISSI cash transfers service, which enabled 819,972 vulnerable Togolese to be served through a mobile money wallet. This program was an essential government response to the COVID-19 pandemic. The solidity and design of the back-end financial infrastructure of NOVISSI are among the top five best social payment transfers in the world, according to the McKinsey Global Institute, even though the service's performance could have been even stronger if the country had had better telecom infrastructure.¹⁰⁹ Another initiative, launched by “Societe des Postes du Togo”, is a digital savings account, ECO CCP, which remunerates at 2 percent and is interoperable with any mobile money provider. At the end of 2020, the service boasted 620,000 clients two years after its launch.

Other opportunities for financial sector development lie in leveraging digital technologies in areas like government services and payments. Government payments have helped boost access to financial services, and Togo has adopted new reforms.¹¹⁰ Several public institutions are embracing the digitization trend, which has the potential to enhance access to financial services. The Internal Revenue Service (Office Togolais des Recettes; OTR) has taken strong steps toward usage of digital financial services and process automation. A key reform was adopted as part of the response to COVID-19, to digitally collect small taxes. The national treasury is taking steps toward joining the regional switch platform as part of the regional financial sector DPO under preparation.

Digitizing government operations and payments is a cross-cutting opportunity to boost financial inclusion. Digitizing government operations and payments has the potential to help boost access to finance and the financial inclusion of individuals and microenterprises. This effort is aligned not only with the national strategy but also with World Bank Group regional priorities. Usage of the regional switch in Togo is currently limited to the banking sector with less than 500,000 cardholders and 10 million transactions in 2019.

It is expected that digitization of government payments through the new regional switch platform will help boost access to financial services in Togo by reducing the cost of services and improving the interoperability and scalability of payments. The national treasury is taking steps toward joining the regional switch platform. Under the same operation, Togo has adopted a decree to liberalize the Regulatory Authority of the Posts and Telecommunications Sector. The decree obligates operators to provide objective, transparent, and nondiscriminatory access to requests for access to cellphone USSD codes from value-added service providers and electronic financial service providers. Recent innovative developments have appeared as part of the government's response to the COVID-19 pandemic. For example, the NOVISSI cash transfer service provided financing to 819 972 vulnerable Togolese through digital payments.

A 2019 digital economy report for Togo noted that several fintech initiatives have emerged to present a myriad of opportunities for small firms to address their financial needs.¹¹¹ Several public Institutions are embracing the digitization trend, which could boost innovation in the private sector. OTR has taken steps toward the increased usage of digital financial services and process automation through partnering with the private sector. A key reform was adopted as part of COVID-19 relief efforts to digitally collect small taxes and deliver social payments. The post and social security administrations are also potential sources of digital transformation, however limited offerings in innovative business models hamper deployment of digital payments to account holders.

Constraints and potential solutions

The lack of diversification is a key challenge as is the fact that Togo's government relies on the banking sector as its primary source of financing for public spending. The rising share of government debt held by commercial banks has increased the banking sector's vulnerability to sovereign risks, and domestic credit to the private sector by banks has been falling for the past five years to 26 percent of GDP in 2020, down from 40 percent of GDP in 2015.¹¹² The concentration of credit in a few sectors and to a small number of borrowers—above regional averages—is another potential source of risk that should be monitored.

Access to credit is likely to improve thanks to the passing of the regulation on Credit Information Bureaus (BICs) in WAEMU.¹¹³ The regulation aims to collect data from financial organizations, public sources, and major utilities on customers' credit or payment history. The law entered into force and is now operational. Overall, 21 institutions in Togo will be involved: 13 banks, two financial institutions, and six microfinance institutions.

Adoption of the law relating to leasing in Togo¹¹⁴ should lead to progress with that option. The adopted decree specifies the accounting and tax aspects of leasing operations and thus now allows Togo to have a framework to promote and secure leasing operations. The law, which is harmonized with that of WAEMU, makes it possible to better regulate this still underused financing instrument and will further encourage SMEs.

Improvements are needed to make the financial infrastructure more accessible to nonbanks. The national payment system in Togo is quite well developed and is part of the WAEMU regional payment system, but access in Togo essentially serves the banks.¹¹⁵

Togo needs to set up a risk-sharing facility and strengthen mechanisms (such as the BLOC Impact Fund) established by the government. The CCIT was looking to set up an investment and guarantee fund for SMEs and small and medium industries. Togolese firms could also benefit from new financial instruments, such as venture funds and private equity, that are being promoted in WAEMU for its capital market development to provide firms with alternative sources of funding away from banks.

The presence of regional banks also calls for improved regulation from the host country, and for cooperation and exchange of information between the home and host regulators of regional banks.¹¹⁶ Regional banks also bring more financial sophistication with their presence, which requires advances in regulatory supervision as well.

For digital financial services (DFS), the major regional mobile network operators (MTN and Orange) are not present in Togo and, with comparatively smaller operators serving the country, growth is lower than in other markets. Bank-led DFS seem restricted to offering online access to existing customers at present. Around 21 percent of adults have used a mobile phone or the internet to access an account (the same number as have mobile wallets) and nearly one-third have made or received a digital payment in the past year.¹¹⁷

There is still room for further DFS development. Products on offer are basic: mainly cash in/out and person-to-person transfers, including international remittances and bill payments. Several aspects of the current framework impede the growth of second-generation digital financial services and products:

- Interest rate caps for banks and microfinance institutions (MFIs) applying to digital credit products (15 percent and 24 percent, respectively) are considered too low to encourage the development of digital loans.
- The Microfinance Institutions law limits revenues from non-savings and credit-related services to 5 percent of total revenue.
- The same law imposes high collateral requirements on MFIs.
- MFIs need authorization to recruit agents to participate in the remote banking system so that the MFIs could increase the supply of financial services offered in rural areas.

The adoption of a decree on government payment digitization would help streamline and further develop e-payment systems. Burkina Faso and other WAEMU countries have already done so. The decree would establish a High-Level Government Committee on Digital Transformation, cochaired at the top level of the executive, in charge of spearheading the digitization of select payments. The committee would help identify priority payments for digitization, such as civil service salaries and other social transfers, in collaboration with interested line ministries and public agencies. The OTR, the Treasury, and the Social Security Administration would be key players for revenue resource mobilization.

There is a lack of regulatory framework for fintech entities. Despite the identified potential, the absence of regulatory framework for fintechs is acute given the large number of initiatives in Togo and the increasing number of e-money users. Indeed, there is no framework to specify the conditions for exercising fintech activities. A 2020 study indicated a total of 17 new fintech start-ups in Togo specializing in crowdfunding (1), back-office banking (2), and payments (14).¹¹⁸

The rise of digital services as a means to accelerate financial inclusion is coupled with several cyberattack risks. West Africa is the scene of a series of incidents that derived from the diversion of personal data for the purpose of extorting users of DFS. Togo is drafting a National Financial Inclusion strategy, following on initiatives to boost financial inclusion such as the creation of the Fonds National de la Finance Inclusive (National Fund for Inclusive Finance) and the NOVISSI program. Togo has taken a lead on consumer protection with the May 2018 decree authorizing the implementation of the automated processing of personal data for the integration of major billers on the electronic platform to share credit information. This decision precedes the adoption by the National Assembly of the law on cybersecurity and the fight against cybercrime on December 6, 2018. The adoption of this law by the National Assembly is part of the implementation.

Togo's mobile money adoption should be further supported and expanded. Togo's fast progress in mobile money and digital financial services, can allow the country to expand financial inclusion. Scaling and expanding social protection programs, and other recent innovative programs engaged by the Government of Togo could be an entry to broader and deeper access to financial services. In this regard the adoption of the National Financial Inclusion Strategy is key. The strategy will need to include FinTechs into the national financial inclusion and literacy strategies by offering voice-based solutions.

TABLE 3.2 MATRIX OF PRIORITIES FOR THE FINANCIAL SECTOR

Financial sector		
	<p>Measures Finalize the privatization of Union Togolaise de Banque.</p>	
	<p>Improve the regulatory environment for digital financial services technologies beyond mobile money:</p> <ul style="list-style-type: none"> • Boost online purchases/payments through the use of credit and debit cards. • Promote e-commerce and marketing technology. 	<p>Enhance the development of</p> <ul style="list-style-type: none"> • Financial media and data solutions • Insurance and health care technology
	<p>Increase supervision capacity, in view of the specific role of regional banks.</p>	

Digital connectivity

Current performance

Togo is making progress on closing its digital gap, with several improvements over the past few years. The share of individuals using the internet increased from 0.8 percent of the population in 2000 to 19.3 percent in 2019. The biggest strides have occurred since 2012, when the rate was only 4.0 percent. Mobile subscriptions per 100 people drastically increased from 1.0 person in 2000 to 78.7 in 2020. This progress is due to recent reforms undertaken by the government in the sector and to the emergence of several fintech initiatives and spillover from global technological progress.

The sector has seen significant progress in the last five years with the government's award of two new internet service provider licenses in 2017 and the privatization of the public incumbent TogoCom in 2019. On November 6, 2019, the government of Togo announced that it had accepted the offer submitted by Agou Holding, an international consortium composed of Axian Group and Emerging Capital Partners, a private equity firm, to acquire a 51 percent stake in TogoCom. Agou Holding announced an investment program of €245 million (about US\$270 million) over the next seven years. Privatizing TogoCom contributes to improving the quality of services and to enhancing the company's ability to invest in service expansion and maintenance. Operators have significantly invested in recent years, with TogoCom and Moov (a subsidiary of Maroc Telecom) having deployed a fiber backbone, and fiber-to-the-home (FTTH) networks deployed in Lomé and several other cities.

TogoCom remains the largest player in telecommunications in Togo in both the fixed and mobile markets. The market share of operators is as follows: (a) subscribers of mobile operators, Moov has 51.9 percent and TogoCom, 48.1 percent; (b) subscribers of mobile broadband internet, Moov has 38.2 percent and TogoCom, 61.8 percent; (c) subscribers of fixed-broadband internet, TogoCom has 61.50 percent; GVA has 34.60 percent; CAFE Informatique has 3.35 percent; and Teolis has 0.48 percent.¹¹⁹

The government is finalizing its Digital Strategy 2025 to establish its objectives and ambitions regarding the digital economy for Togo.¹²⁰ The Digital Strategy 2025 comprises nine key complementary programs grouped into three pillars: (a) three programs to identify all individuals and households and accelerate Togo's connectivity; (b) three programs to improve the digital delivery of public and social services; and (c) three programs to support and accelerate the digital transformation of the economy. The strategy provides a roadmap on how to achieve the overall digital target set by the government to achieve near-universal broadband penetration by 2030.

The Government of Togo issued a decree in December 2020 mandating the deployment of fiber-optic networks over nontelecom utilities (such as electric networks).¹²¹ The decree makes it mandatory for nontelecom utilities to systematically deploy, at their own cost, fiber-optic infrastructure for significant civil works (such as the deployment of electricity, water, and road infrastructure). The fiber optics deployed by the nontelecom utilities is then transferred to the Société des Infrastructures Numériques (SIN), a public company whose goal is to hold strategic assets in the telecommunications and information technology sector, in particular those of the data center, the internet exchange point and the optical fiber.¹²² The vision of the decree is to support the expansion of the geographic coverage of digital infrastructure, but it still needs to be operationalized.

Togo still lags on both mobile and internet use compared with WAEMU peers and aspirational countries like Ghana. In Togo, there is limited competition in both the mobile and internet markets, where both effectively operate as duopolies. Although the affordability of internet service has improved, it remains expensive, especially for the poorest households. The domestic fixed-broadband internet market (ADSL, fiber) covered 3.7 percent of households in 2021, compared with 5.3 percent in Côte d’Ivoire and 10.7 percent in Senegal.¹²³

The unique penetration of the mobile broadband market now stands at 34 percent and remains below the government’s aspiration and the potential of the Togolese market. Compared to other ECOWAS coastal countries, the Togolese telecommunications market has significant room for improvement. 3G and 4G cover 99 percent and 70 percent of the population respectively, which shows that the challenge now is to increase the adoption of mobile broadband. Togo is one of the African countries where the internet connection is expensive according to the International Telecommunications Union, in 2020 (latest available data), the monthly cost of a mobile broadband access of 1.5 GB for data only accounted for more than 15 percent of gross national income per capita, compared to African continent average 4.4 percent.¹²⁴ Users attribute the low coverage to the high costs of the devices and the services, whereas the providers blame high unit prices on the high import tax on devices and the cost of internet infrastructure combined with the small domestic market size. These factors increase operation costs to firms and limit their ability for e-commerce/e-marketing, expanding their operations, or both. Digital banking and digital-based entrepreneurship also remain underdeveloped owing to limited digitization in the country. However, the likelihood of achieving the near-universal broadband penetration target by 2030 is low given the current rate of progress, unless more aggressive reforms in the markets—including opening competition to new players—are undertaken.

Key challenges

The limited extent of ICT penetration affects business operations and economic performance in the country. According to World Bank Group estimates, “universal and affordable access to the Internet will increase GDP growth in Africa by 2 percentage points per year and would boost employment opportunities, regardless of education level, between 6.9 percent and 13 percent.”¹²⁵ The low percentage of connectivity is reflected in the country’s response to the recent pandemic. The World Bank Group’s June 2020 survey on the impact of the COVID-19 crisis on the private sector reveals that only 2.8 percent of the Togo workforce has been working remotely since the beginning of the crisis and that only 8.6 percent of companies use digital platforms for sales, which slowed down most firms’ operations and resulted in a sharp decline in real GDP growth. Because modern transformation of agricultural products, logistics operations, and transport and tracking and even proper functioning of all government operations depend heavily on enhanced ICT services, a low rate of digitization potentially limit opportunities for economic transformation in the country. This suggests that Togo must tackle its infrastructure gap, including through increasing competition among providers by delivering the adequate licenses and authorizations, in order to close its digital gap and boost growth.

The recent privatization of TogoCom reflects a positive development, however, the scope of privatization raises competition issues. The deal includes control of the access to the West Africa Cable System (WACS) submarine cable, and TogoCom still holds significant market power in certain segments (such as in fixed broadband). In summer 2021, the second-largest mobile operator, Moov, deployed a second submarine cable station in the capital Lomé, but competition concerns remain.

Togo inaugurated in 2022 the new landing station of Google's Equiano submarine cable¹²⁶—a new generation of fiber-optic telecommunications cable fully funded by Google. Equiano runs from Portugal to South Africa along the west coast of Africa with connecting points in Lomé, Lagos, Swakopmund, and Cape Town. Equiano is the second major undersea telecommunications cable to reach Togo, after WACS. The new cable is expected to provide approximately 20 times more network capacity than previously. Services from this new cable to the country will be managed by a joint venture between CSquared (owned by Google, Mitsui, South Africa's Convergence Partners Fund, and IFC) and the Togolese state-owned SIN.

Opportunities for private investment in the ICT sector

Opportunities for ICT development are especially abundant in digital financial services. For instance, the digital banking and e-commerce and marketing technology have potential for economic transformation. Using DFS for government payments and similar services that could facilitate transfers and financial inclusion for citizens. Digitizing sectors such as agriculture to enhance the availability of market information for the players also would enhance private sector development. To this end, IFC advisory services and investment in value chains can contribute to supporting digitized payments to farmers.

Reform priorities in the ICT sector

Key reforms in the Togolese telecommunication sector should target measures to mitigate the potential negative impacts on competition. The government recognizes the need for such mitigation and is taking actions to encourage greater competition in the sector. The government could consider putting in place (a) a stronger regulatory framework to identify significant market power and regulate access conditions and prices to essential facilities, (b) a framework for lowering the costs of investment and for creating incentives for infrastructure sharing, (c) a study of the opportunity to grant a third mobile license in the country.¹²⁷

Infrastructure-based competition could be strengthened. On the international connectivity side, a second submarine cable was deployed by the operator Moov and has been operational since summer 2021, and the government has plans for a third submarine cable. To ensure that the arrival of new cables will translate into lower wholesale prices for international connectivity (and thus lower retail prices), the government could ensure that all Togolese telecom operators are able to access to submarine cables (new and future) on an open access basis (a wholesale access that is nondiscriminatory, transparent, fair, and effective).

To increase domestic backbone capacity, the government could accelerate the operationalization of the eGouv fiber backbone network owned by SIN. On the national connectivity side (fixed access networks), several operators have started to deploy FTTH or are willing to do so, and the government could ensure that all the licenses, authorizations, and rights-of-way are delivered to stimulate FTTH deployment.

The West Africa Unique Identification for Regional Integration and Inclusion (WURI) program is another important ongoing initiative that benefits the Togolese telecommunication sector. The program, which is at its second phase of implementation in collaboration with the World Bank Group, aims to increase the number of people in participating countries (Benin, Burkina Faso, Niger, and Togo) who have government-recognized proof of unique identity to facilitate their access to services.

TABLE 3.3 MATRIX OF PRIORITIES FOR ICT

Priority measures and investment opportunities	Short term	Medium term
<p>Invest toward reducing the digital infrastructure gap to lower costs and boost the use of digital platforms to unleash economic transformation</p>	<p>Measures Increase competition in the national backbone segment by leveraging existing capacity available under the eGouv network. Study the opportunity to grant a third mobile license. Stimulate facilities-based competition (open access policies for all submarine cables, licenses, authorizations, and rights-of-way to stimulate FTTH deployment).</p>	<p>Measures Lower the cost for investment and create incentives for infrastructure sharing.</p> <p>Opportunity Grant a third mobile license.</p>

Note: FTTH = fiber to the home.

Notes

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3. World Bank, Togo: Future Sources of Growth (Washington, DC: World Bank, 2020).
4. Association des Grandes Entreprises du Togo (AGET), Livre Blanc : « Analyses et Perspectives de l'économie Togolaise », 2020
5. Including relatively unskilled foreign construction workers from Nigeria in an instance where a large project required workers who were able to work on a project managed by non-French speakers.
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4. TRADABLE SECTORS WITH COMPARATIVE ADVANTAGE

TRANSPORT AND LOGISTICS

Current performance

Togo has historically played an important role as a trading hub. The Port Autonome de Lomé (PAL) enjoys one of the deepest quay infrastructures in the region and has received important investments in the past decade: it has since become the premier transshipment port on the west coast of Sub-Saharan Africa (Lomé Container Terminal; LCT). The port of Lomé is also the gateway to a transit corridor serving mainly Burkina Faso, but also other neighboring countries. Trade is also fueled historically by important entrepôt trade flows to and from neighbors Benin, Burkina Faso, Ghana, and Nigeria, taking advantage of various policy distortions existing in the region and fiscal arbitrage. Finally, Togo became a regional air transport hub when Asky, a subsidiary of Ethiopian Airlines, selected Lomé as its main base of operations.

The sector's growth has led to a doubling of its contribution to GDP since 2000, from 6.9 percent of GDP to 12.5 percent, with a sharp increase in 2013–14 (the commencement of operations of LCT in December 2014), although figures do not allow to distinguish between transport and communication sectors, and the latter has grown too. This trend has reversed, however, after 2014.

Key infrastructure investments in the transport sector have been central to its expansion. Significant investments in recent years include the expansion of the PAL, including the opening of LCT, the construction of a new passenger terminal at Tokoin International Airport, and the refurbishment of two main roads, the RN1 linking Lomé to the border with Burkina Faso in Cinkansé and the RN2 connecting the border with Ghana (Aflao border) and Benin (Hillaconji border). Two dedicated rail lines serve phosphate mining (Tabligbo-Dalavé, 40 kilometers) and a cement factory (a 3-kilometer link between Lomé and Aflao).¹

The main employer in the sector is by far road transport. In 2014, the number of trucks operating in Togo was estimated between 15,000 and 20,000, of which 40 percent were operating on transit trade.² There are also large numbers of smaller vehicles and motorcycles operated for urban and interurban transport. The overwhelming majority of firms operating in the sector are small firms owing/operating 5–10 trucks³ and less than 2 percent have more than 20 trucks.⁴ Other activities create a limited number of jobs: for instance, according to IFC and Proparco, the LCT would create around 700 permanent jobs and generate €5 million in direct revenues to the government.⁵

A vast amount of trade passes through Togo, representing an important economic activity for the country. Entrepôt trade is less important than in neighboring Benin, but nevertheless it is brisk. Oil and gold are the two largest reexports and account for more than half of recorded exports (Togo does not produce oil and is only a modest producer of gold).⁶ Togo is also home of an important transit corridor to Burkina Faso and Niger. The 2010 World Bank CEM estimated that the value added of transit and reexport trade was between 10 and 15 percent of GDP. In 2019, this would amount to US\$550 million–US\$820 million.⁷ This large figure is more closely linked to the large volumes of trade than to the value added created in the trade going through Togo, which is thought to be relatively low. Additionally, part of the value captured by Togo is due to rent extraction rather than value creation. The potential of value created by this trade in Togo includes the fact that most of the goods are temporarily stored (trade transit) and then resold to the final customer and that business is generated by foreign buyers who travel and lodge in Togo. For used cars, the value added may reach 40 percent.⁸

The government of Togo has the ambition to make the country the logistics hub of the sub-region. The NDP 2018–2022 first strategic axis is to develop the country as a logistics and business hub in the subregion. Under the NDP the government aims to pursue (a) reforms and the modernization of the management of the PAL; (b) the development of airport infrastructure; (c) the improvement of road infrastructure promoting connectivity with hinterland countries, as well as SEZs and zones serving strategic hubs; (d) the development of a railway line from Lomé-Cinkassé and other lines to production areas, supported by the establishment of two dry ports (Blitta and Cinkassé); and (e) the strengthening of ICT infrastructure and the digitalization of services.⁹

Maritime shipping

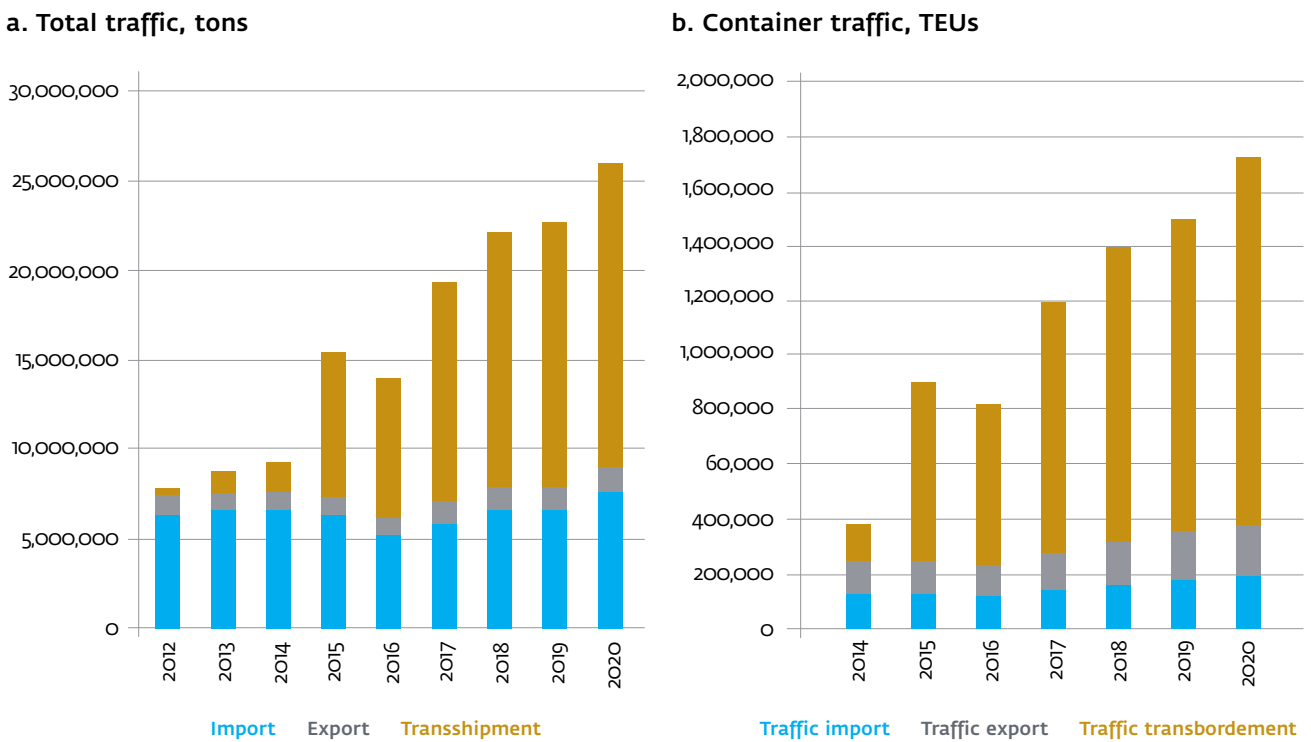
The port of Lomé has three functions: serving the domestic market, transit, and, since 2014, transshipment. The port has two container terminals, the LCT operated by a joint venture between Terminal Investment Limited (a MSC subsidiary) and China Merchant Holdings, which does transshipment,¹⁰ and the recently expanded Togo Terminal operated by Bolloré Ports.¹¹ Bolloré also operates the multipurpose terminal (bulk, conventional, and roll-on, roll-off). The PAL's recent growth was spurred by investments including the following:

- A third quay for container ships at a depth of up to 15 meters for Togo Terminal (began operating in October 2014): the capacity achieved is 850,000 TEUs with a theoretical capacity of 1.1 million TEU;¹²
- A 1,050-meter quay at a depth of 16.70 meters (started operation in October 2014) for LCT. The planned capacity is 2.2 million TEU and can accommodate vessels up to 14,000 TEUs;
- Extension of the mineral wharf; and
- A new fishing terminal.

With these recent improvements a remaining weakness in the port is the small size of the two bulk terminals compared with other ports in the subregion, which leads to more frequent congestion.¹³

The opening of the LCT transshipment terminal led to very significant growth in container traffic (29 percent year-over-year between 2014 and 2020) to 1.7 million TEU in 2020. Total freight volume has also grown significantly to exceed 25 million tons (figure 4.1), making Lomé the highest-volume port in West Africa. Transshipment accounts for three-fourths of the total volume (1.3 million TEU).¹⁴ Even outside of transshipment, container traffic increased by a robust average of 7.5 percent year-over-year over the same period, spurred by the increase in transit volumes (see the following section). Government revenues gained from the large transshipment activities remain modest at US\$15 million.

FIGURE 4.1 EVOLUTION OF TRAFFIC AT THE PORT OF LOMÉ



Source: Port Autonome de Lomé (PAL).

Note: TEU = twenty-foot equivalent unit.

Other recent port improvements include reducing road congestion in and around the port area. Roads inside the port were renovated with the support of BOAD.¹⁵ A 20,770-square-meter parking area has been designated in the port area, and there is an additional buffer parking area of 26,065 square meters; trucks can remain in the port area only for a maximum of 48 hours. A system for truck entry/exit has been implemented. The container unloading area has been moved from the container terminal to a new 30,000-square-meter area nearby.¹⁶ The port community system became fully digital in 2021, enabling online procedures and payments, and is part of the already existing external trade single window (GUCE).¹⁷ Consequently, ships’ waiting time has declined from an average of 37 hours to 27 hours according to the ministry in charge of maritime economy.

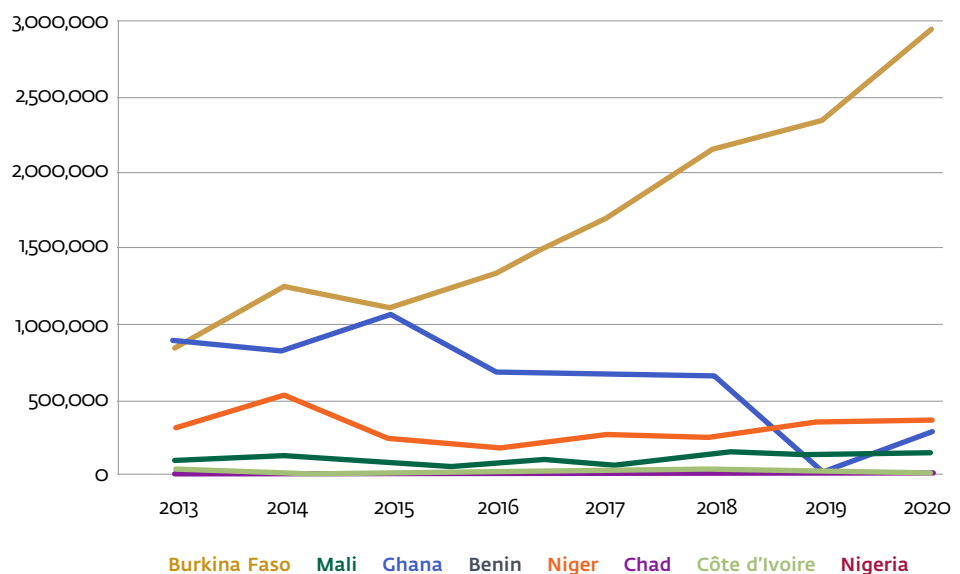
Transit

The Lomé corridor handles about 40 percent of all cargo entering Burkina Faso (37 percent in 2017). In Niger, it plays a significant role in the country’s external trade, carrying 11 percent of Niger’s import transit (2017) through the port of Lomé (Togo) and offering an alternative to the Cotonou (Benin)–Niamey (Niger) trade corridor, which has historically been the most used.¹⁸ Transit to Mali is more modest, 4 percent of total transit to the country (2017).

Because Togo is a comparatively small domestic market, transit freight accounted for a much higher share of total volume at the port (non-transshipment) than in other transit countries, reaching 42 percent of total volume and 3.8 million tons in 2020, with an average growth rate of 9 percent in the period 2013–20. Burkina Faso is by far the main transit destination market, with 76 percent of all traffic, and Niger accounts for 10 percent. Transit to Burkina Faso has been growing by 23 percent yearly on average, picking up significantly since 2014 (figure 4.2).

Import and export traffic volumes, outside of transshipment and transit, have stagnated since 2013 from 4.7 million tons to 5.1 million tons in 2020.

FIGURE 4.2 LOMÉ TRANSIT VOLUME (TONS)



Source: Port Autonome de Lomé (PAL).

Roads and freight transport

There are two key roads. The N1 connecting the Lomé logistics hub (the port, airport, and logistics facilities) and the border with Burkina Faso at Cinkassé. It is the main axis for transit to the hinterland, and it is part of the main transit corridors identified by the WAEMU. Major investments by the World Bank are ongoing on the Lomé–Ouagadougou–Niamey corridor¹⁹ to rehabilitate the sections of road in bad condition, including 110 kilometers between Aouda and Kara, and to improve the quality of transit on the corridor, in particular at the Cinkanse border. The other axis is the N2 between Aflao (border with Ghana) and Hillacondji (border with Benin). The road has been improved (2x2 lanes) between Aflao and the periphery of Lomé in Avépozo, as well as between Avépozo and the Rond Point in the port. The government is planning to divert part of the traffic (transit goods) with Ghana to the Noepe–Akanu Joint Border Post (built in 2016), 30 kilometers from Lomé to the north of Aflao. An important complement to the two axes is the Great Lomé bypass road, already built between the Port of Lomé and the control post of Noépé-Akanu. Other parts of the road network are in poor condition. Substantial improvements are needed in maintaining the roads, controlling the axle loads, and building roads to improved standards.

Unlike for other countries in West Africa, international routes are critical for the survival of transport and logistics operators in Togo. Togo has a limited domestic market, unlike other coastal countries for which international routes are mostly seen as marginal activity. In 2015, 46 percent of traffic on the N1 was made up of heavy goods vehicles. The market is characterized by a small number of formal operators (operators of 5–10 trucks, accounting for 50 percent of the freight supply²⁰).²¹ The fragmentation of the sector creates many inefficiencies (on the N1 axis, for example, 75 percent of the heavy goods vehicles traveling from Cinkassé to Lomé were running empty) prevents the emergence of a more modern transport service.

Efforts to improve the sector are under way with the creation of an observatory of road transport and a project to improve competitiveness in the sector supported by the European Union and the World Bank.²² Support includes the review and modernization of regulations governing the sector, the modernization of the road transporter profession, and improvements to the capacity for vehicle certification controls. A program of fleet renewal is also under preparation.

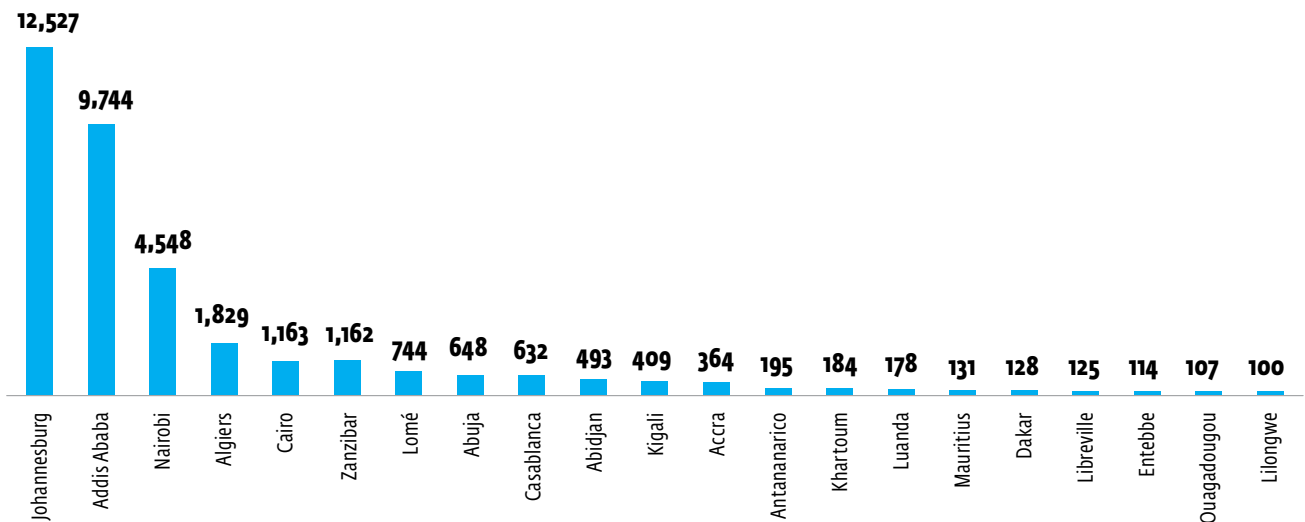
Airlines

Lomé is the hub of the regional airline Asky, in partnership with Ethiopian air which is Africa's most successful airline. A new airport passenger terminal in Lomé, Tokoin, was commissioned in April 2016 and is managed by SALT.²³ The new terminal has been built for a planned capacity of 2.0 million to 2.5 million passengers after the planned extension of the terminal, with an expected 1.84 million passengers by 2032 under a high growth scenario, and a freight capacity of 50,000 tons. In the north of the country in the Kara region, the Niamtougou International Airport is also under expansion. Despite ambitious objectives, the potential for airfreight is limited. Airport traffic reached 916,932 passengers and 14,582 tons of cargo in 2019, according to the government. Lomé is the second-largest airport in WAEMU. Data availability does not enable clear trend comparisons, but it seems that traffic (passenger and cargo) has been growing over the past decade.

Lomé is served by eight airlines with flights to over 30 destinations. The airlines serving Lomé are Asky Airlines (with 23—soon 24—regional destinations), Ethiopian Airlines, Air France (which the main freight operator), Brussels Airlines, Air Burkina, Air Côte d’Ivoire, Royal Air Maroc, Kenya Airways (cargo), CEIBA Intercontinental, and Overland Airways. Traditional courier operators DHL, FedEx, and UPS also have services to Lomé.

IATA Air Connectivity Index ranked Togo 169th (out of 219 countries) in 2019, a modest improvement from its 2009 rank (175th), but Togo is well connected regionally (figure 4.3). In West Africa, Togo ranks behind Nigeria (79th), Ghana (103th), Senegal (108th), Côte d’Ivoire (135th), Mali (155th), and Burkina Faso (168th). While Togo’s air connectivity witnessed a substantial increase between 2009 and 2014, it has stagnated since (decreasing 1 percent). On the other hand, Togo scores better in terms of measures of intraregional connectivity. According to the African Airlines Association,²⁵ Lomé, while having far from the levels of connectedness of continental hubs like Johannesburg, South Africa; Addis Ababa, Ethiopia; and Nairobi, Kenya, scores higher in regional of connectivity than its neighbors, including Abuja, Nigeria; Abidjan, Côte d’Ivoire, and Accra, Ghana.

FIGURE 4.3 INTRA-AFRICAN CONNECTIVITY INDEX, 2020



Source: African Airlines Association (AFRAA).

Logistics services and facilitation of trade

Togo has significantly improved its logistics performance in recent years. For example, the concession to modernize and expand the Autonomous Port of Lomé came into effect in 2014; during the same year, the OTR became operational leading to improvements in the functioning of customs. These initiatives boosted the logistics performance of Togo. In 2016, Togo's ranking in the World Bank's Logistics Performance Index (LPI) was 92nd among the 160 countries studied, up from 139th in 2014 (while in 2018 it ranked 118th). Logistics infrastructure in Togo consists mainly of logistics facilities (warehouses) located in Lomé (in the port and around it, at the airport, and near the Aflao border).

Trade facilitation in Togo has benefited from the World Bank Trade Facilitation West Africa Program. Togo has made progress in the trade and transport facilitation sector in the following ways:

- Implementation of ASYCUDA World customs management software
- Development of an authorized economic operator (AEO) regime that strengthens the provisions and facilities granted to trade operators
- Establishment of a single window for foreign trade (SEGUCE platform)
- Implementation of computerized system for the management of goods in transit (SIGMAT) for a single transit declaration
- GPS tracking of transit
- Placement of scanners in the port and at borders

Opportunities

Both transit and transshipment activities are expected to continue to grow because of Burkina Faso's economic growth and investments in transshipment infrastructure. Transport and logistics are among the three priority sectors of the economic pillar of the government strategy 2020–2025 with the following flagship projects:²⁶

- Construction of a highway on the transit corridor between Lomé and Cinkansé
- Development of the logistics sector, digitalization, and reform of port governance
- Consolidation in the positioning of the airport

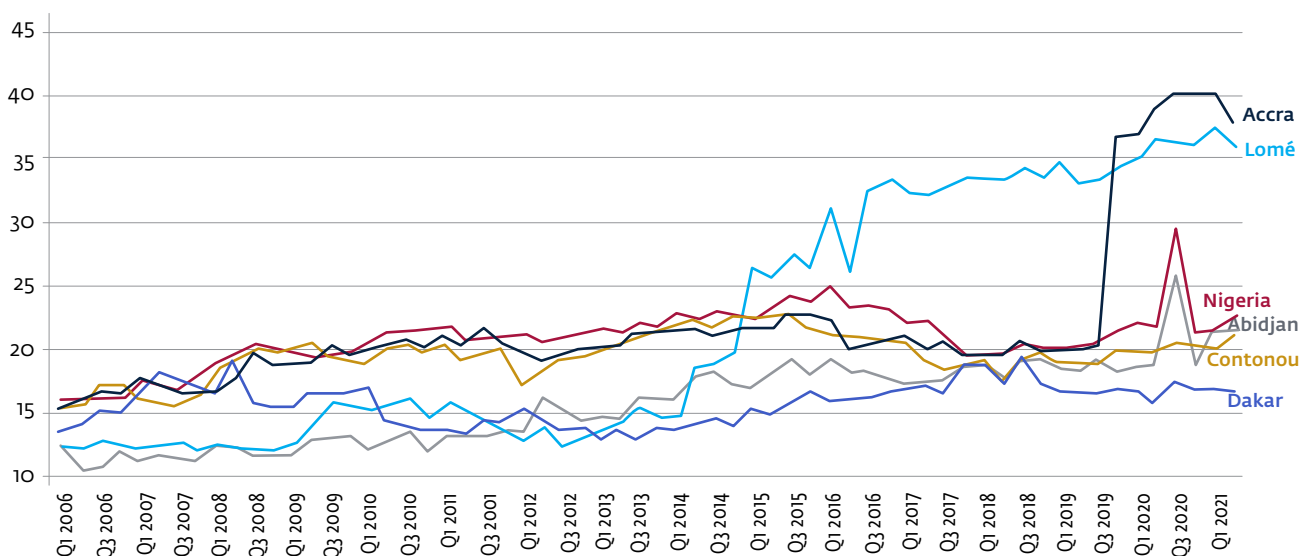
The highway project (autoroute de l'unité) connecting the south of the country to the northern border with Burkina Faso is a very large project, estimated between CFAF 1,000 billion and CFAF 1,100 billion, with a sought-after share of private sector investment of between CFAF 850 billion and CFAF 930 billion.²⁷ Whether such a large investment would enable the government to recover investment costs will require very careful consideration given potential traffic levels (prefeasibility studies are ongoing), and also the fact that toll charges may reduce the competitiveness of the corridor for transit traffic, the main user of the road. Aspire and Africa Finance Corporation have signed a memorandum of understanding with the government and have set up a special purpose vehicle.²⁸

As part of the governmental Feuille de Route, the institutional framework governing the Port of Lomé is slated for review, including the governance of the port, the scope of the PAL, improvements to the management of the PAL, continued digital transformation, and review of concession contracts.²⁹ These initiatives may open the door for additional participation of the private sector, as well as improvements in how PPPs are being conducted.

While the direct value added of transshipment is relatively limited, the presence of LCT significantly improved the port’s connectivity index rating above most of Togo’s regional neighbors. Improved connectivity induced by transshipment activities can be a source of competitiveness for other activities such as transit and logistics activities, but the major challenge is “to integrate the development of shipping routes and ports with logistics, free trade, and industrial zones—and more generally with hinterland connectivity.”³⁰ Looking forward, strategies around the future development of Lomé could follow three potential growth paths: (a) an increase in transshipment activities, (b) development of captive cargo-related activities near the port (logistics and transformation), and (c) hinterland-related activities (transit and expansion of economic activities that can benefit from better maritime access). A handful of firms in the Port Free Zone currently offer value-added logistics services such as assembly of motorbikes. IFC noted that at least 15 institutions offer logistics training which, although focused on maritime and port logistics, could possibly quickly adapt the training offer to the changing demand for Value Added Logistics Services.³¹

The role of Lomé as a transshipment hub seems primed to expand. According to press reports, MSC has ambitious investment plans for the next 10 years. MSC, a global container shipping company, plans to invest €30 million in the development of the LCT by 2022, to boost its capacity from 2.2 million TEU to 2.7 million TEU.³² While this will bring added revenue and may create a small number of jobs, the impact on the overall connectivity of Lomé is yet to be seen. While Lomé connectivity increased significantly according to measures such as the United Nations Conference on Trade and Development (UNCTAD) Liner Shipping Connectivity Index (figure 4.4), this may overstate the true increase in connectivity, which would translate into increased availability of destination and line calls, and lower shipping costs. The reason is that transshipment is only done by MSC, which represents only a medium share of Togo’s shipping market and mainly for freight connecting with Asia (East and South Asia accounted for 38% of Togo’s imports and 20% of exports in 2019).³³ Thus, the increase in connectivity only impacts a smaller part of Togo’s overall trade.

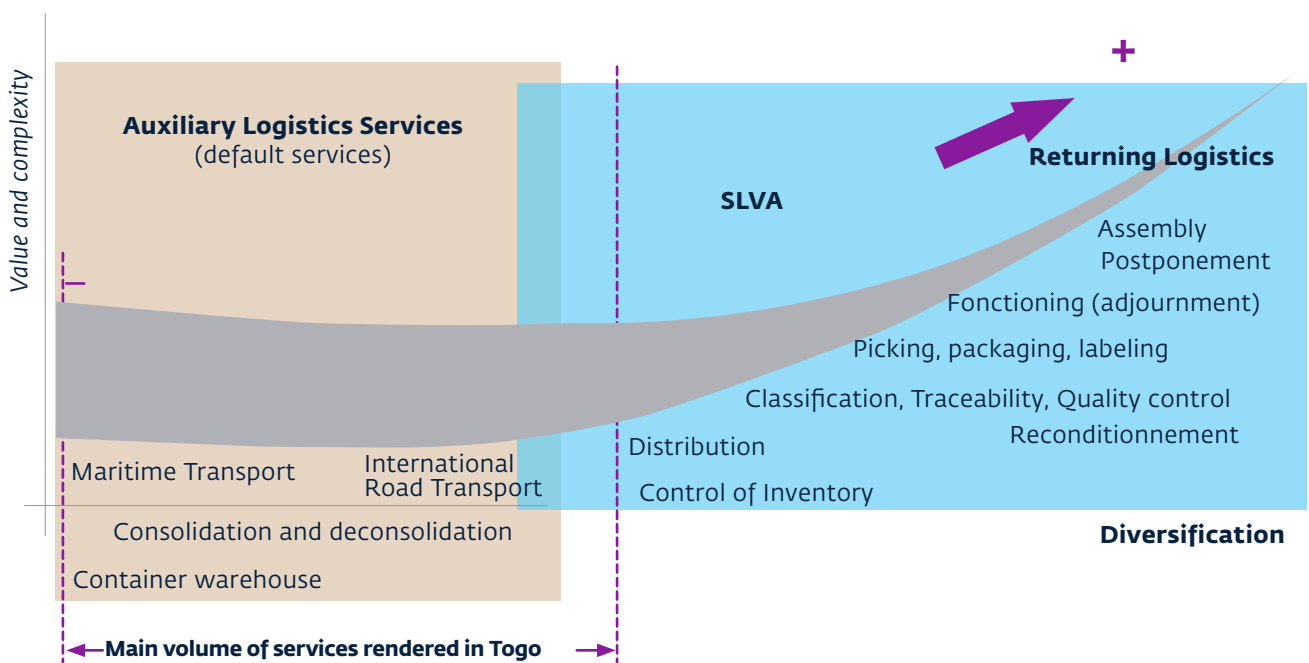
FIGURE 4.4 LINER SHIPPING CONNECTIVITY INDEX



Source: United Nations Conference on Trade and Development (UNCTAD).

A second line of opportunity could be through the development of value-added activities around transshipment goods. These activities could potentially include (a) auxiliary logistics services (freight forwarders, cargo handling companies, trucking companies, and so on) and value-added logistics services, such as inventory management, packaging, and labeling, and (b) intermediate manufacturing activities (figure 4.5). According to World Bank,³⁴ 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, the logistics industry in Togo is mostly limited to the provision of auxiliary logistics services, except for a few value-added logistics services such as the reexport of used cars and a few experiments into value-added logistics targeting primarily domestic demand (for example, assembly of motorbikes, packaging for textiles, and recondition of agricultural products are activities that are taking place in Lomé).

FIGURE 4.5 RANGE OF LOGISTICS SERVICES



Source: IFC (2017).

IFC identifies several market segments that a Lomé logistics hub could potentially attract.³⁵ These include consolidation of cash crops (cotton, shea) and light transformation such as cosmetics; repackaging of dry products such as rice and wheat; packaging and conditioning of nuts and coffee and transformation of nuts; consolidation, packaging, and cold storage of perishables; and production of fruit products. Beyond agribased products, activities could include light manufacturing of textiles and shoes (garment sector) and advanced conditioning and repairs of used goods; packaging and distribution of new goods destined to external markets; and various logistics services (packaging, conditioning, tracking, and inventory management) for pharmaceuticals, vehicles, and fertilizers.

Transit trade is augmenting robustly (+9 percent per year), which suggests that the Lomé corridor to Burkina Faso should consolidate its role in the future. The economy of Burkina Faso is expected to grow by 4.3 percent in 2022.³⁶ Improvements along the corridor would help meet growth objectives.

Both transit and value-added services around transshipment would benefit from the development of new logistics platforms and industrial zones. The Port de Lomé acquired 60 hectares in Adétikopé, North of Lomé on the national road. The free zone dry port was established by a presidential decree issued in May 2021. The Adétikopé Industrial Platform (PIA), a PPP between the government and ARISE Integrated Industrial Platforms, a subsidiary of OLAM,³⁷ was inaugurated on June 6, 2021. The zone contains a 20-hectare inland container depot (ICD) that can receive up to 12,500 containers.³⁸ Another logistics zone planned by the government is a dry port located in the north of the country near the Cinkassé border crossing with Burkina Faso.

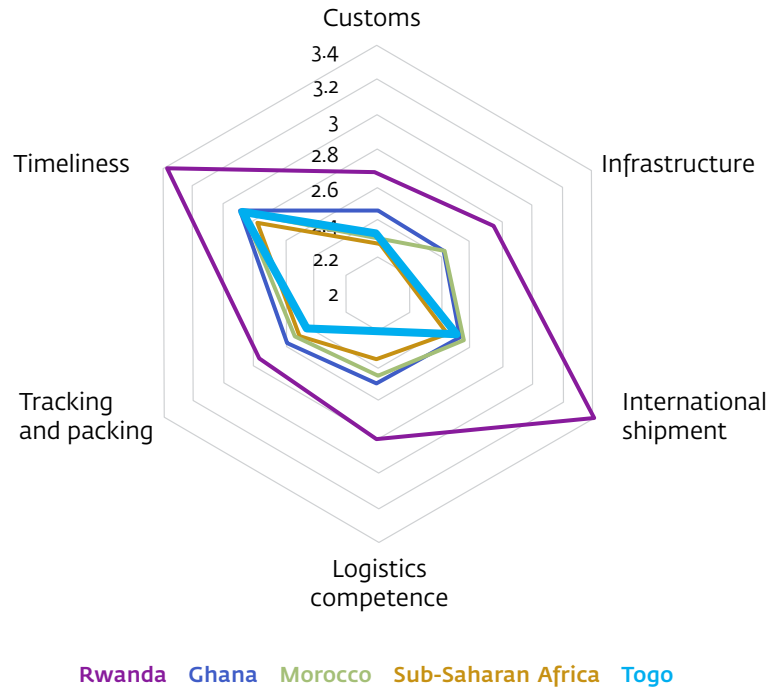
Constraints and solutions for the transport sector

Important gaps remain to improve further the country's logistics performance and to leverage the country's potential as a trade and transit hub, including the need for improvements in the efficiency of customs and border clearance and for dedicated logistics zones. The country's customs performance continues to be hampered by poor quality and costly ICT services.

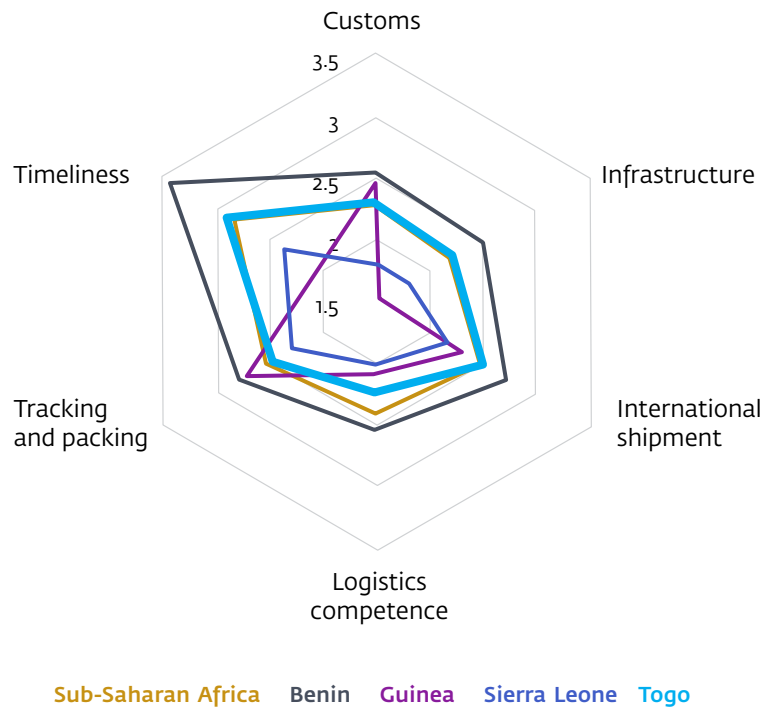
Togo's LPI scores are low both when compared with countries from the region and with aspirational peers like Ghana or Rwanda. Togo performs low in all categories, but compared with Ghana, Morocco, and Rwanda, three gaps stand out: logistics competence, infrastructure, and international shipments. This is not entirely surprising because Togo has yet to develop more sophisticated logistics services, and infrastructure improvements have mostly concerned the port and airport but without real integration with other infrastructure and multimodality. Finally, the international shipment score reveals Togo's relative lack of competitiveness with respect to pricing, although Togo is close to or above prices of regional neighbors (including Ghana). Although price competitiveness is not yet a major factor regionally, it may become an issue in the future when regional port, airport, and transport corridor competition becomes a reality. With respect to regional and structural peers, Togo's performance is more in line with the region's levels, although one should note that Benin is outperforming Togo in all categories (figure 4.6).

FIGURE 4.6 TOGO 2018 LPI SCORES

a. Compared with aspirational peers



b. Compared with structural peers



Source: World Bank Logistics Performance Index.

New logistics platforms offer an opportunity to rationalize freight flows (freeing space in the port) and procedures, but this will depend on adequately coordinating the multiple initiatives. The relationships between various current projects under development in Togo are not always clear. For instance, the industrial and logistics zones under preparation do not seem to be integrated into a comprehensive masterplan. The involvement of different agencies contributes to the lack of coherence. The interface between logistics and industrial platforms and the port must also be improved. For instance, there are uncertainties or disagreements regarding where cargo should be stored between the port and the new PIA. Also, the attractiveness of logistics platforms depends on the quality of public services and infrastructure surrounding them—adequate access to electricity, information technology infrastructure, road infrastructure, and sanitation services being among the key elements.

The relative weakness of other transport modes (air and road, the near absence of rail) contributes to the overall weak potential of Togo as a logistics hub. Since the implementation of the Asky hub in Lomé, connectivity does not seem to have significantly improved. High airport taxes have dissuaded operators: DHL, for instance, decided not to establish its hub in Togo.³⁹

For the development of Togo as a trade hub (through transit, value added logistics, and regional trade), a major challenge remains the implementation of regional facilitation agreements. These include (a) coordination at the borders and operation of the Joint Border Post; (b) abolition of controls on transit traffic and implementation of the single guarantee on transit; (c) establishment of regional corridor management committees; (d) Togo–Burkina customs interconnection on the Lomé–Ouagadougou corridor. Several of these actions are under consideration by Togo.

Lomé’s role as a transit hub to Burkina Faso has been growing robustly, but the corridor is competing with others in the region. Besides, the development of recent security risks in Burkina Faso and the Sahel region may create additional uncertainties that could require reinforced cooperation to avoid potential disruptions and reassure private investors. Togo is also competing for hub status with other countries; significant port investments have been made in Abidjan, Côte d’Ivoire, and Tema, Ghana, and both countries also benefit from larger domestic markets and a more significant airport hub. Benin is also positioning Cotonou owing to its proximity with Nigeria and as a gateway to Niger.

Progress remains to be made for customs services in Togo. The lack of an integrated risk management system hampers Togo. On the positive side, OTR has initiated joint tax and customs controls and audits of businesses, which is a best practice. Customs and tax agencies share risk databases, but this exchange of data is upon request and not systematic nor through a tax and customs systems interface. For instance, tax agents in Togo may have access to the customs litigation database (PVS), but data from the PVS do not trigger any treatment systematically in the tax system. In that sense the risk management system is not integrated; implementation of the AEO program is late (OTR conducts a simplified AEO pilot project for four companies, but advance declaration is not a common practice). Several agencies involved in international trade are not yet computerized.

Table 4.1 offers an array of priority measures and investment opportunities for the transport sector.

TABLE 4.1 MATRIX OF PRIORITIES FOR THE TRANSPORT SECTOR

Priority measures and investment opportunities	Short term	Medium term
Improve the operating conditions on the Lomé–Ouagadougou corridor	<p>Measures</p> <ul style="list-style-type: none"> Implement a single transit guarantee. Reduce control posts on the corridor. Operationalize the road safety office (Office national de la sécurité routière). Improve road infrastructure with road signaling equipment 	<p>Measures</p> <ul style="list-style-type: none"> Improve conditions for transporters on the corridor (such as rest areas). Improve road safety on the corridor. Improve the interconnectivity of services operating on the corridor.
Modernize the customs system	<p>Measures</p> <ul style="list-style-type: none"> Interconnect with Burkina Faso customs. Implement more broadly the AEO program. 	
Pursue the modernization of port operations	<p>Measures</p> <ul style="list-style-type: none"> As part of the government's strategy (NDP 2020–2025): Review port concessions. Review PAL institutional arrangements. Review PAL rules for storage and unbundling. 	
Improve the competitiveness of the airport	<p>Measures</p> <ul style="list-style-type: none"> Reduce airport taxes. Evaluate how to attract more companies as alternatives to Asky. 	
Ensure the harmonious development of new logistics zones.	<p>Measures</p> <ul style="list-style-type: none"> Develop a logistics masterplan. 	<p>Measures</p> <ul style="list-style-type: none"> Review the institutional framework for government-sponsored economic zones.
Provide a conducive environment for value-added logistics services	<p>Measures</p> <ul style="list-style-type: none"> Offer training. Develop a strategy for value-added logistics services (alongside Invest in Togo). <p>Opportunities</p> <ul style="list-style-type: none"> Attract investments in the PIA. 	<p>Measures</p> <ul style="list-style-type: none"> Review the incentive framework for value-added logistics services.
Modernize road transport	<p>Measures</p> <ul style="list-style-type: none"> Improve enforcement of axle load control rules. Operationalize the road transport observatory. Operationalization of the training center for road transport professions. 	<p>Measures</p> <ul style="list-style-type: none"> Improve transparency in freight management and allocation. Support fleet renewal. Digitalize transport documentation. Operationalize the database of road transport.

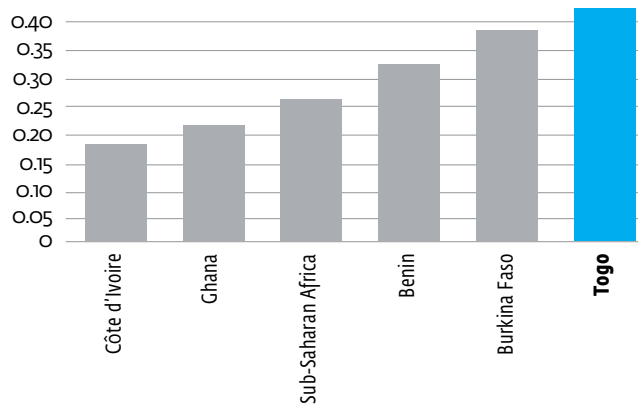
Note: AEO = authorized economic operator; NDP = National Development Plan; PAL = Port Autonome de Lomé; PIA = Plateforme Industrielle d'Adétikopé.

AGRICULTURAL SECTOR

Current performance

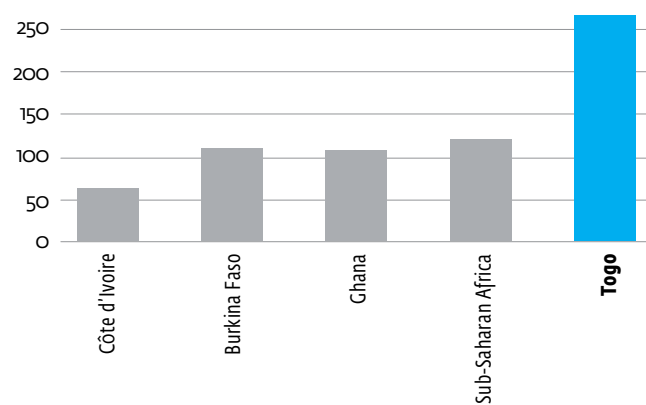
Togo has good potential in agricultural production in view of the diversity of its climate and the availability of arable land. The combination of tropical weather with an average annual precipitation of 1,168 millimeters and arable land estimated at 48.7 percent of total land in 2018, provide a favorable environment to produce varieties of crops ranging from cotton to diverse food crops such as cereals (maize, sorghum, millet, and rice), tubers (yam, cassava, and sweet potato), and legumes (cowpeas, peanuts, peanuts, and soybeans, “voandzou” and many others). Agricultural land accounts for more than 70 percent of the total land in Togo, and only about 40 percent of that was being used, as of 2016. Lowlands are estimated at 175,000 hectares and irrigable land at 86,000 hectares, of which 2,300 hectares are equipped with a total or partial hydroagricultural development system—an equipment rate of 2.6 percent. The country has one of the largest arable land per capita in West Africa, with about 0.4 hectares of arable land available per person, compared to an average of 0.23 hectares in Sub-Saharan Africa and 0.2 hectares in peer countries (figure 4.7). Even though depletion of soil nutrient due to farming is occurring very fast, especially in the northern regions, Togo has one of the richest soils in West Africa, with higher yields of cereals compared to peers for the same quantity of fertilizers (figure 4.8). A vast amount of the country’s arable land remains untapped with only 7 percent of the arable land utilized permanently for crop production.

FIGURE 4.7 AVERAGE ARABLE LAND (HECTARES PER PERSON), 2000–18



Source: World Bank, World Development Indicators.

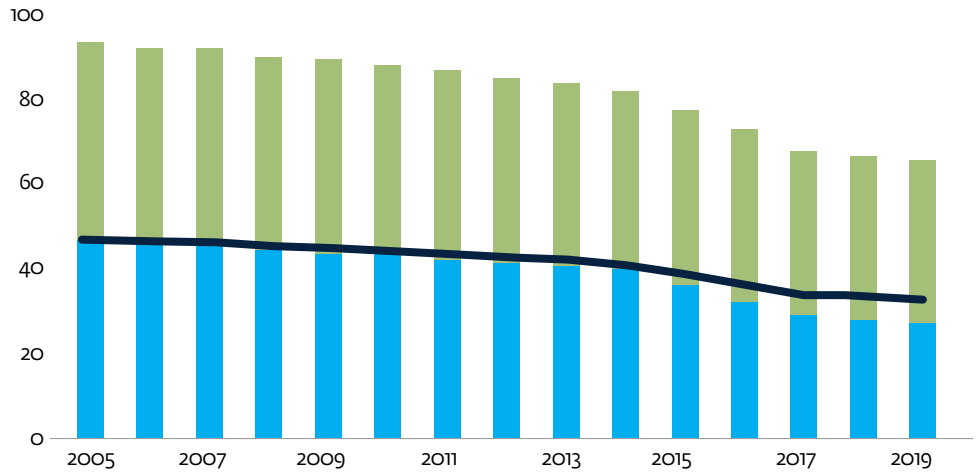
FIGURE 4.8 AVERAGE CEREAL YIELD PER KILOGRAM OF FERTILIZER, 2010–18



Source: World Bank, World Development Indicators.

Agriculture is the main source of income for a considerable share of the population, with the sector employing half of the country’s labor force, although the share has been declining in recent years (figure 4.9). The sector’s contribution to GDP stood at 35 percent in 2005–13 before gradually declining to about 19 percent in 2018, reflecting the combination of low productivity and labor relocation toward other sectors like services and manufacturing (figure 4.10). However, in absolute terms, real income in the agricultural sector grew from US\$1.2 billion in 2005 to US\$1.5 billion in 2019, reflecting an average annual growth of 2 percent over the period. Agriculture also accounts for an important share of the country’s export basket (figure 4.11).

FIGURE 4.9 EMPLOYMENT IN AGRICULTURE

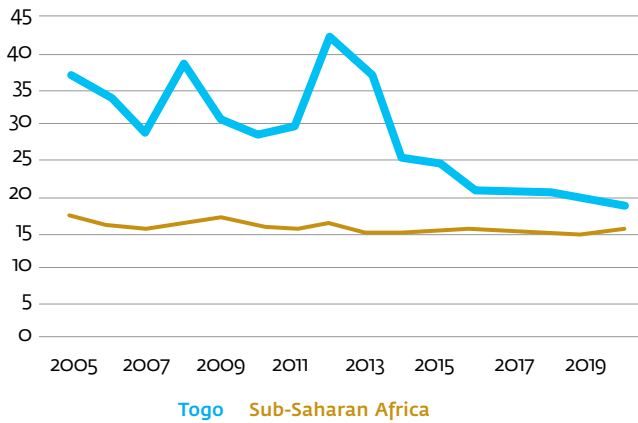


Employment in agriculture, male (% of male employment) (modeled ILO estimate)
 Employment in agriculture, female (% of female employment) (modeled ILO estimate)
 Employment in agriculture (% of total employment) (modeled ILO estimate)

Source World Bank, World Development Indicators and CEPII BACI export database.

Note: ILO = International Labour Organization

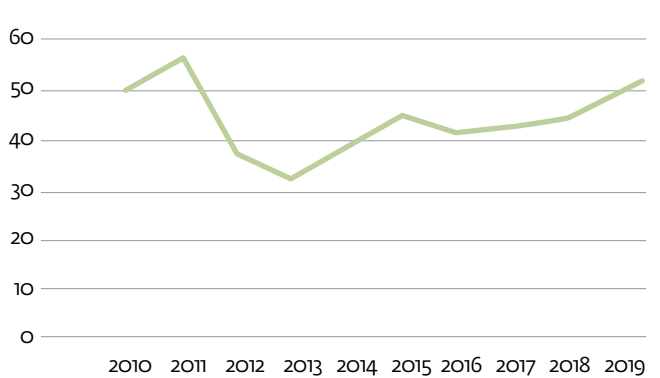
FIGURE 4.10 TREND OF AGRICULTURE VALUE ADDED (% GDP)



Source World Bank, World Development Indicators and CEPII BACI export database.

Note: ILO = International Labour Organization.

FIGURE 4.11 AGRICULTURAL SHARE IN TOTAL GOODS EXPORTED (%)



Source World Bank, World Development Indicators and CEPII BACI export database.

Note: ILO = International Labour Organization.

Opportunities

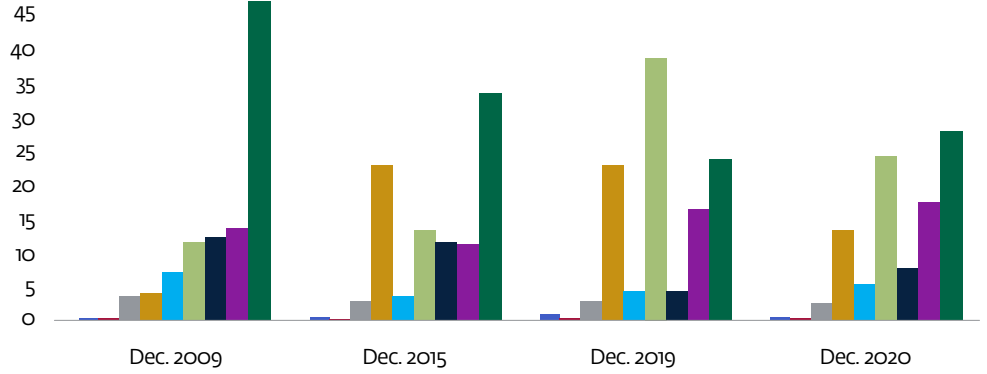
Togo's agricultural export basket has historically accounted for 50 percent of the overall goods export basket and its top five products accounted for one-third of the country's overall goods export in 2019, reflecting the importance of the sector. Exports have been growing in recent years, after a slowdown in 2011–13 due to weather shocks, driven by the growth of crops such as soybeans and cashew nuts, accompanied with traditional crops like cotton (appendix D).

Trade figures, however, should be interpreted with caution because some of Togo's recorded exports do not seem to be sourced from local production, but rather are re-exports from neighboring countries. As mentioned earlier, entrepôt trade of some products (either for exports to overseas markets or imports into the region) explain the presence of some agricultural products among leading exports. For instance, palm oil appears among the top-10 export goods. According to US Department of Agriculture's Foreign Agricultural Service, Togo production of palm oil was only 9,000 tons, largely behind Côte d'Ivoire (515,000 tons), Ghana (365,000 tons), and Benin (70,000 tons).⁴⁰ We also note that Togo imported US\$154 million worth of palm oil and exported US\$39 million in 2019.⁴¹ Likewise, some of the exports of cashew nuts are in fact reexports from Burkina Faso and possibly sesame seeds as well. "Sesame exports" rose from 1 percent in 2010 to 24.6 percent of Togo's agriculture exports in 2019, according to international trade data. However, Togo's production levels recorded by the Food and Agriculture Organization of the United Nations are only a fraction of this.

Nevertheless, exports of some agricultural products increased substantially in recent years owing to good weather conditions and increasing external demand. Overall agricultural exports reached 50 percent of total goods exports in 2019. Raw cotton alone accounted for 40 percent of agricultural exports, on average, over the past two decades, though the rate has been declining (down to about 25 percent in 2019; see appendix D, figure D.1). Even so, exports of cotton have grown quite robustly, averaging 9 percent per year since 2010. Soybeans, an emerging crop, stood at 6.4 percent of the agricultural basket in 2019 from less than 1 percent in 2010.

Despite the sector's potential, investment inflows have been extremely low. Agriculture's share of investment in the total official financial sector credit to the private sector has been not only insignificant compared to other sectors (figure 4.12), but also volatile and declining, from 0.28 percent in December 2009 to 0.14 percent in June 2020 (figure 4.13). Yet the sector has been sustainably growing over the decades. The income and export growth in recent years reveals the sector's natural endowment, including factors such as good-quality soil and good weather, which result in higher yields despite limited investment. For most producers, low levels of investment have meant low use of inputs (improved seeds and fertilizers), the lack of water control, insufficient and poor-quality rural infrastructure, and continued use of rudimentary equipment for production. Although decentralized government agencies, civil society organizations, and local private sector institutions exist and operate in the sector, they have limited resources to manage projects and to provide quality services to producers. The poor organization of the value chains exacerbates the lack of access to credit. The sector is characterized by the predominance of small-scale farming that is not well aggregated, despite the existence of a sector strategy—PNIASAN 2017–2026—which was prepared with the support of ECOWAS and Food and Agriculture Organization of the United Nations. Other constraints faced by the sector include the insecurity of land tenure and the insufficient dissemination of market information.

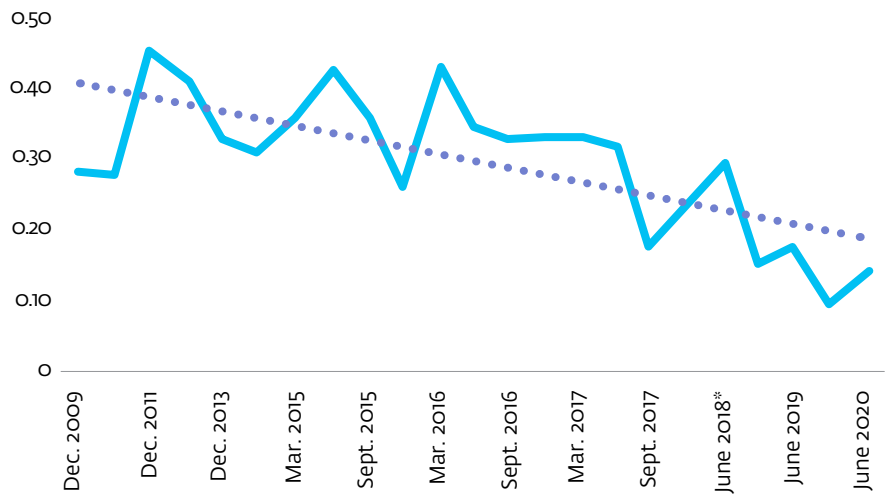
FIGURE 4.12 PRIVATE SECTOR CREDIT SHARE BY SECTOR



Industries and extractives Agriculture Insurance, real estate and services to enterprises Construction
 Electricity, water and gas Other services Manufacturing Transport, warehouse and communications
 Shops, restaurants, hotels

Source BCEAO (La Banque Centrale des États de l’Afrique de l’Ouest).

FIGURE 4.13 FINANCIAL SECTOR CREDIT TO AGRICULTURE (% TOTAL CREDIT TO PRIVATE SECTOR)



Source BCEAO (La Banque Centrale des États de l’Afrique de l’Ouest).

*2018 is the year of the first declaration of data in accordance with the provisions of Basel II/III

Agriculture is one of the key sectors within the government’s development vision.

Agricultural development is one of the three key pillars of the government’s national development roadmap 2020–25.⁴² Under the fourth of the 10 ambitions stipulated in the roadmap 2020–21, the government intends to make agriculture an engine for growth and job creation. To this end, the government aims to (a) improve agricultural yields, (b) extend the rural road network, (c) accelerate the Mécanisme Incitatif de Financement Agricole (Agriculture Incentive Financing Mechanism; MIFA) based on risk sharing that was launched in 2018 (the MIFA could become more instrumental in financing the sector as ARISE now holds a stake in it), (d) develop an agropole—the Kara agropole, which it intends to expand in partnership with the private sector, and (e) reform of the agricultural land policy. The government has a clear vision to place the agricultural sector at the center of jobs and income generation. The Togolese government plans important reform on land access for agricultural development and it has identified specific potential agriculture value chains, such as cotton-to-textile and soybeans, for projects development. However, deeper analyses of these value chains need to be carried out with an eye to private investment opportunities.

The agricultural sector is at the heart of Togo’s nationally determined contribution (NDC), both for climate mitigation and adaptation. The objective of Togo’s NDC for climate action is to embark on a low-carbon and climate-compatible development pathway and to make its production systems more climate resilient. The country’s unconditional NDC is a reduction of greenhouse gas emission by 11.14 percent below business-as-usual by 2030 and a conditional NDC of greenhouse gas emission reduction by 31.14 percent below business-as-usual by 2030. The key sectors for mitigation under the NDC include energy; agriculture; and land use, land use change, and forestry, whereas the adaptation sectors include energy; water; agriculture; forestry and land use; human settlements; and coastal zones. From this perspective, agriculture is a critical sector for both economic and climate sustainability, suggesting that private investment in the sector must prioritize climate-smart solutions.

In this context, the CPSD considers four products for potential value chain development and private investment opportunities. These include cotton, soybeans, and cashew which have maintained strong export performances throughout the past decade to either maintain their ranking among the top-ten or rise to the top-10 ranking. The CPSD also assesses horticulture products like pineapple, which has not yet emerged among the top-10 export goods but is growing and presents high potential for biofarming and export to European and American markets.

Cotton value chain

Recent performance

Togo's seed cotton (not carded or combed) production has significantly increased over the past decade. Between 2010 and 2019 the cotton farming area⁴³ increased from 41,700 hectares to 180,600 hectares. The volume of output also rose significantly, reaching 116,000 tons⁴⁴ in 2019 from 29,000 tons in 2009/2010 season. Cotton in Togo is grown by small-scale farmers, who are organized and coordinated through the National Federation of Cotton Producers. Prior to the PIA, NSCT—the former state-owned cotton company—was the sole ginner in Togo, buying cotton from farmers and selling the produced lint cotton locally and regionally. Togo now processes its cotton to a limited extent. Two-thirds of its exports consist of minimally processed cotton (that is, lint cotton, not carded or combed, obtained after ginning). The country also exports cotton fiber, which comes from a second-stage process. Although lint cotton exports grew at 9 percent on average per year between 2010 and 2019, with earnings rising from US\$37 million in 2010 to US\$81 million in 2019, it remains below potential. The limited extent of lint cotton production and export is due to high energy costs that reduces the cost-effectiveness of production.

The cotton subsector has been the engine of the agricultural sector and an important source of employment and income, a key agricultural export. Much of the income and employment generated in the agricultural sector stem from the cotton subsector. The sector share of the national GDP is estimated at up to 4 percent and generates about 500,000 jobs. Cotton accounted for, on average, 10 percent of Togo's overall export basket of goods in 2010–19. The share of cotton in agricultural exports declined in recent years as new products emerged. (Cotton accounted for 70 percent of the agricultural export basket in the 1990s. See appendix D, figure D.1, panel b).

The cotton sector has suffered from volatility due to both external and internal factors. Cotton production sharply declined in the late 1990s and the first decade of 2000s as the Multi-Fiber Arrangement (1974–94) and the Agreement on Textile and Clothing (which expired on January 1, 2005) came to an end. Production stabilized and picked up over the decade of the 2010s, but past years have seen slower growth. The 2020/2021 harvest is estimated at 67,000 tons, reflecting a sharp decline of 43 percent from the 116,000 tons produced in 2019/2020 season. Two factors explain the drop in production, according to the NSCT. First, the lowering of the price of seed cotton from CFAF 265 to CFAF 225 per kilogram led many producers to shift to the production of other crops. Second, bad weather conditions (flooding in the northern region, which is the hub for cotton production) contributed to reducing production.

To seize the cotton sector's potential, the government is looking to revitalize the sector through privatization and industrialization. In its new development roadmap for the horizon of 2025, the government emphasizes agricultural development, where domestic transformation of cotton is at the center. The country has also engaged in the privatization of the NSCT. In December 2020, Togo sold 51 percent of its stake in the NSCT to the Singapore-based agricultural conglomerate OLAM International. With OLAM International's rich expertise in agribusiness in the more than 50 African countries in which it operates, NSCT expects to increase the production up to 225,000 tons by 2025, much of which is aimed to be organic. Togo also developed and inaugurated in July 2021 the PIA in Adétikopé—a public-private partnership between the government and ARISE Integrated Industrial Platforms (ARISE IIP), in which Olam international is a shareholder. The platform aims to foster the domestic transformation of cotton and the export of textile and finished garments (as well as other products).

Private investment opportunities

The large amount of unprocessed lint cotton that Togo exports is an investment opportunity to add value domestically before exporting. Togo is an African Growth and Opportunity Act (AGOA)-eligible⁴⁵ country and has preferential access to the large United State market for textile and clothing products. Yet taking advantage of such an opportunity requires being competitive in textile production (yarn and fabric), given that many other developing countries are already benefiting from AGOA preferences. Being competitive, in practice, requires access to competitively priced energy, which is the main source of costs alongside capital for textile and fabric production, or access to cheap and efficient labor for clothing and apparel production. Togo has access to the raw material (cotton) at competitive prices. In addition to potential export markets, there might be opportunities to capture a portion of the domestic demand for fabrics, as African fashioning and branding has been regaining popularity within and outside the region.⁴⁶ Togo also imports an important amount of fabric products; the market is very competitive and no country in West Africa has yet managed to develop substantial fabric production. Further stages of processing of clothing and garment require different factors of competitiveness, including large pools of trained and cheap labor and significant know-how that may be more difficult to achieve for Togo.

Despite this situation, investments in garments and clothing are expected as well. Press sources have announced that Togo Clothing Company, a subsidiary of ITCRmg, an Indian textile manufacturer, will invest US\$35 million to set up a knit garment factory with 750 machines in the PIA. The factory would generate 2,000 jobs, according to reports. This announcement will need to be verified if it is likely to lead to actual investments.⁴⁷

Investment in renewable energy sources will be key to the emergence of the downstream cotton sector. The main challenge for Togo's competitiveness in the textile industry remains the cost of energy. It is estimated that for the PIA to be competitive, the cost of electricity should be brought down to less than US10 cents per kilowatt-hour from the current 15–19 cents per kilowatt-hour. As the world embarks on decarbonization, climate-friendly energy sources will be important. As such, developing renewable, reliable, affordable energy sources is an investment opportunity to support textile development in Togo. A recent World Bank Post shows that the textile industry is the second-largest polluter after the oil and gas industry, contributing about 10 percent of global carbon emissions.⁴⁸ Thus, developing cotton-to-textile industries means ensuring renewable energy sources and other environmentally friendly sustainable practices while maintaining a competitive cost. To make it fully operational while putting sustainability at the center of operations, Togo's agro-processing platform (PIA) intends to use 100 percent renewable energy and ARISE IIP, the developer, has already planned for 390 MWp of solar energy to fully power the 400 hectares of the PIA.

Investment in organic cotton production, whose global demand is growing, would take advantage of Togo’s preexisting favorable natural environment for the crop. Although cotton production dropped to 66,000 tons during the 2020/2021 season from 117,000 tons in 2019/2020—apparently because of the combination of weather conditions and a lower market price for seed cotton—cotton remains an important export crop that dominates the agricultural sector and is a critical source of income for most farmers. The presence of the industrial zone for textile production in the country should be a stimulus to increase cotton production going forward, tapping into the favorable soil and climate. Togo’s cotton production remains far smaller than its West African peers, despite Togo’s potential, and its current level of production (56,000 to 66,000 tons per year) is insufficient to supply a fully operational PIA, thus suggesting a gap to be filled with investment in cotton production. Yet boosting cotton production may require the right incentives in terms of seed cotton price to farmers, access to quality inputs, and new production techniques. Many factors support cotton growing as an opportunity for investment in Togo:

- Togo has a favorable business environment, and the government is committed to involving the private sector in agricultural development.⁴⁹
- Togo has a strong base for cotton production like its regional peers, considering the favorable climate. However, natural factors such as soil quality are much better in Togo, making agricultural yield per kilogram of fertilizer higher in Togo than for peer countries.
- Seed cotton pricing in Togo follows the same trend as in peer countries in the region (appendix D, figure D.3) and all the countries face the same international price for lint cotton, which has been broadly flat over the past half century (figure 4.14). However, the trend of prices has been upward sloping since 2000, even in 2020, despite the pandemic. Thus the current environment for cotton is quite favorable. The recent assessment of cotton lint prices and production costs by ARISE-IIP shows that lint production in Togo is profitable and carries long-term competitiveness, considering the free-on-board price of lint as the benchmark for the selling price to local mills.⁵⁰

Investment in organic fertilizer production is a potential investment opportunity in Togo, considering the emerging demands for organic products. A recent study by the European Union⁵¹ states that Togo is suitable for promoting organic farming if it uses organic fertilizers and natural phytosanitary treatment products. Indeed, Togo’s favorable soil could be reinforced with organic fertilizer for mass biofarming in various crops, including horticulture, nuts, and cereals. The development of biofarming in the country and the required inputs represent investment opportunities that can be seized by the private sector.

Investment in irrigation is important to Togo. Making hydroagricultural infrastructure, such as boreholes with solar pumps and irrigation kits, is an important opportunity for private investment in the cotton value chain and in the overall agricultural sector in Togo. The lack of irrigation systems to help cotton growers and enhance the ability of off-season agriculture to cope with climate change makes investments in irrigation infrastructure a timely opportunity to support key value chains. However, while irrigation could make a difference in reducing seasonal effects on the agricultural sector, a cost-benefit analysis will be required to assess the sector’s profitability under irrigation.

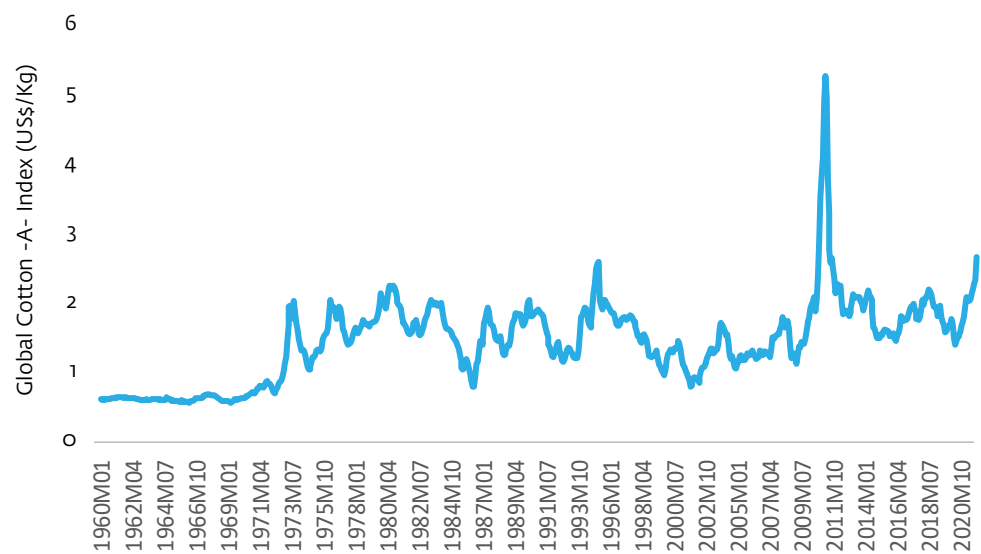
Key constraints

Sustainability is the first constraint to cotton-to-textile development because of the high environmental risks that textile manufacturing poses. More than ever, sustainability is an important goal to address environmental issues. Yet, textile dyeing and finishing can cause high levels of pollution⁵² because of the use of large amounts of chemicals and the need for large quantities of water in cotton production and manufacturing. As such, like other industries, textile industries are increasingly required to mind sustainability by adopting innovative and environmentally friendly practices. Such practices require incurring new costs for newcomers like Togo entering textile development. Adopting modern technologies for cotton production, for instance, requires using organic fertilizers to produce organic cotton, applying irrigation, using renewable energy sources, and adopting methods using recycling.

The high cost of energy in Togo is a competitive disadvantage for agro-processing in Togo. Although Togo’s current cost of energy (US19 cents per kilowatt-hour) is competitive compared with peers like Côte d’Ivoire (US22 cents per kilowatt-hour) or Benin (US20 cents per kilowatt-hour), Togo needs to reduce its cost of energy below US10 cents per kilowatt-hour for its agro-industrial zone to be competitive at global scale in relation to big players like Bangladesh, China, Ethiopia, and Vietnam.

Small farm sizes and limited private investment are further constraints. Most farmers in the cotton sector are smallholders who make limited use of fertilizers. Cotton production is carried out by multiple smallholders, while the national cotton company, NSCT, operates as the aggregator that purchases the cotton from farmers to gin for export. Private investment to support the production of crops remains limited in the sector. The advent of ARISE in collaboration with OLAM could be a game changer.

FIGURE 4.14 INTERNATIONAL COTTON PRICE DYNAMIC



Source: World Bank Commodity Price Data.

Note: The Global Cotton A Index is an average of the cheapest five quotations from a selection of the principal upland cottons traded internationally. kg = kilogram.

As noted, the farming sector lacks irrigation. Cotton is one of the crops whose cultivation requires important amounts of water. The United Nations Environment Programme estimates that it takes 3,781 liters of water to make a pair of jeans, from cotton production to the delivery of the final product. Cotton also uses more water in the field than any other crop (3 percent of all total water used in agriculture). The excessive use of water leads to soil depletion, which in turn requires other means such as irrigation to support farming. However, irrigation practice in Togo is limited and requires more effort.

Because of its small domestic market size, Togo needs to reach outward to expand its market. Togo's membership in the WAEMU provides an opportunity for firms to reach economies of scale by selling on the regional market. But nontariff barriers prevail in the region and border compliance remains one of the binding constraints to cross-border trade within the WAEMU.

Soybeans value chain

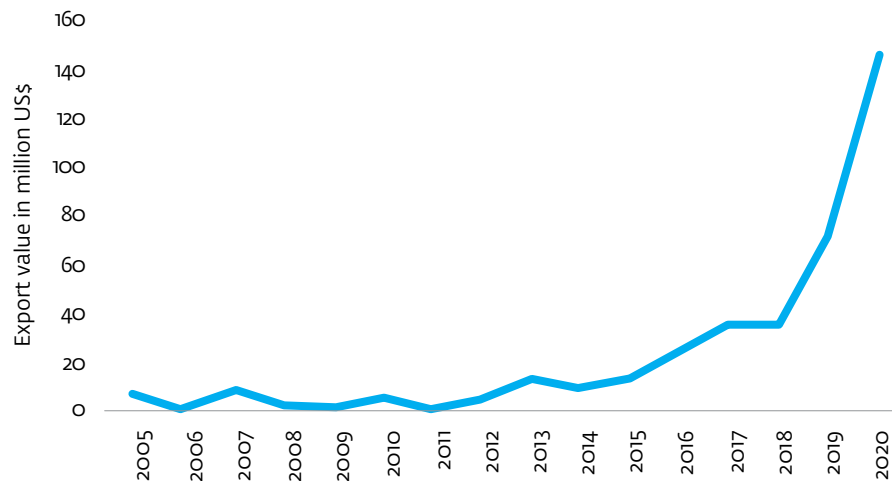
Recent performance

Soybean has emerged as an important part of Togo's export basket in recent years, owing to national promotion of its cultivation. Togo's Nutrition and Food Technology Division has continued the promotion of soybean consumption in recent years given its multiple nutritional qualities. The government's strategic documents, such as the Diagnostic Trade Integration Study (DTIS) in 2010 and the Strategy for Accelerated Growth and Promotion of Employment (SCAPE 2014–2016), identified soybeans as a crop with high export potential, and Togo has launched into several large-scale soybean cultivation projects. The most important to date is the “*projet de renforcement des capacités productives et commerciales de la filière soja*” launched by the Ministry of Trade and Private Sector Promotion in 2014 and cofinanced with a trust fund from the United Nations. This significantly boosted soybean production in Togo, leading to a strong increase in exports over 2015–20 (FIGURE 43). Togo also created the Conseil Inter-professionnel de la Filière Soja au Togo (CIFS-TOGO) to improve the sector organization by linking the farmers, the processors, and traders. Further steps were taken by the trade ministry to search out new export markets by linking sector players to the International Trade Centre (ITC).

One of the big players in Togolese soybean production is Jonction de Croissance Agricole au Togo (JCAT).⁵³ JCAT was founded in 2011 and currently accounts for almost half of the sector's production, focused on organic soybeans. JCAT facilitates market access by collecting soybeans from farmers. An important booster of the JCAT has been the financing through the African Development Bank of the *Projet d'Appui à l'Employabilité et à l'Insertion des Jeunes dans les Secteurs Porteurs (PAIEJ-SP)*.⁵⁴ By 2018 the PAIEJ-SP had created 35,000 jobs, including 14,225 direct jobs. Another key player in the sector is Agrocom, which also produces, processes, and distributes soybeans under the financing of the PAIEJ-SJ. The PAIEJ-SP is a national initiative to facilitate the financing of MSMEs in the agricultural sectors, especially those operating along the value chains of enriched corn, soybean and cassava flour, and organic soybeans. The PAIEJ-SP and stakeholders like the JCAT and Agrocom represent a structuring framework for further intervention and investment in the soybean sector in Togo. Orabank has been one of the key partners in financing through the PAIEJ-SP.

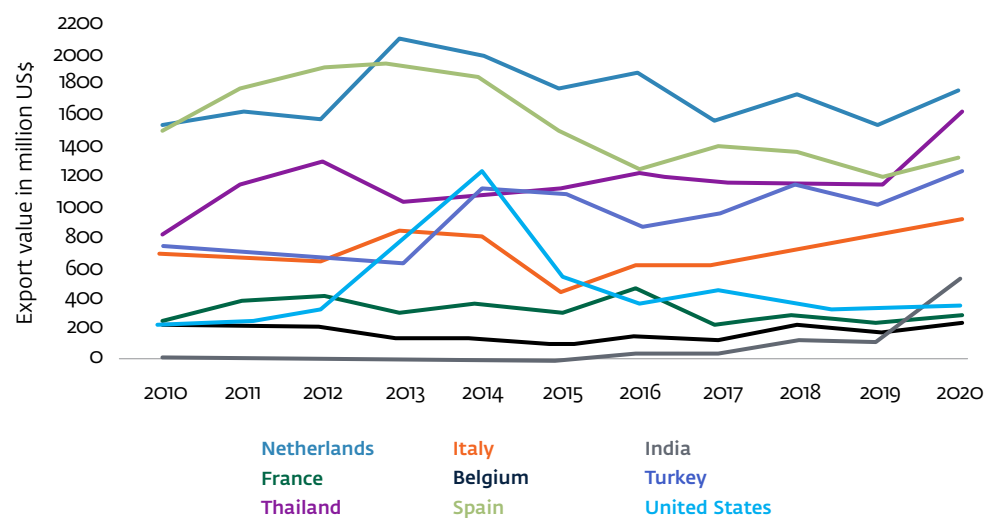
Efforts to promote soybeans have been bearing fruit in recent years, with increasing exports and the country becoming one of the Euro area’s top suppliers of organic soybeans. The share of soybeans in Togo’s overall goods export basket stood at 3.2 percent in 2019. Much of Togo’s soybean crop is organic, making it competitive on the international market. The main destinations of Togo’s soybeans include the euro area, the United States, India, Turkey, and Asia Pacific countries like Thailand (figure 4.16). Between 2010 and 2020, Togo’s exports of organic soybeans to Europe increased by 20.9 percent from 44,684 tons to 54,017 tons, placing Togo as the 13th-largest supplier of Europe’s organic soybeans.⁵⁵ At the global level, Togo remains a marginal exporter with 0.13 percent of world exports in 2020.⁵⁶

FIGURE 4.15 TREND OF TOGO’S SOYBEAN EXPORTS



Source: World Bank calculations from CEPII BACI data.

FIGURE 4.16 TOP DESTINATIONS FOR TOGO’S SOYBEANS



Source: World Bank calculations from CEPII BACI data.

Opportunity for private investment

Promoting investment in organic soybean cultivation is a top opportunity for private investors. Togo's favorable natural endowment (soil quality, climate, and availability of arable land) present an opportunity to invest in more organic soybean cultivation in the country.

Whereas Togo currently exports most of its soybeans unprocessed, it expects to start transforming soybeans at the newly operationalized industrial park (PIA). The opening of the PIA is expected to mark the start of the local transformation of soybeans before export. Locally transforming soybeans could increase the price to farmers through competition between exporters and local transformers, as each player tries to secure enough quantities for their activities. Higher prices to farmers would stimulate cultivation and boost the value chain. Yet initial plans for transformation within the PIA are at this stage modest, with production of 1 ton of soybeans per day. On November 4, 2021, Coris Bank international Togo (CBI-Togo) announced that it will invest CFAF 20 billion to finance soybean oil processing at the PIA, in a refinery currently under construction.⁵⁷ This first investment of its kind demonstrates that the existence of the industrial park will attract investors and stimulate agro-processing while enhancing the agriculture value chains. A key issue will be to ensure that the soybean market remains competitive and that there is no government intervention in the market to guarantee the supply of soybean to some processors, which may distort the level playing field.

Constraints

Limited resources in the local private sector are a constraint for Togo. The promotion of soybeans in the country has made it attractive to private players and the sector is well organized with established linkages between farmers, processors, and traders. However, the sector remains characterized by small-scale farmers because of limited resources.

Lack of a prefinancing mechanism for nonorganic soya is an additional constraint in the soya sector. Organic soya seems to be emerging at the detriment of the nonorganic subset of the sector. Financing of the sector focuses on organic soya production, leaving nonorganic soya, which also is important, with no mechanism of prefinancing that could help farmers acquire the needed inputs to expand their production. The development of value chains in the soya sector would require paying attention to both organic and nonorganic crops in terms of investments and structuring to maximize the sector's potential.

Energy cost is another impediment for processing that may depress prices to farmers. The emergence of new players in the processing sphere, especially firms at the PIA, could create competition over supply acquisition (between export-orientated buyers and those processing for domestic consumption) and increase prices paid to farmers. However, the still high cost of energy may continue to reduce processing cost-effectiveness and keep prices paid to farmers low.

Cashew value chain

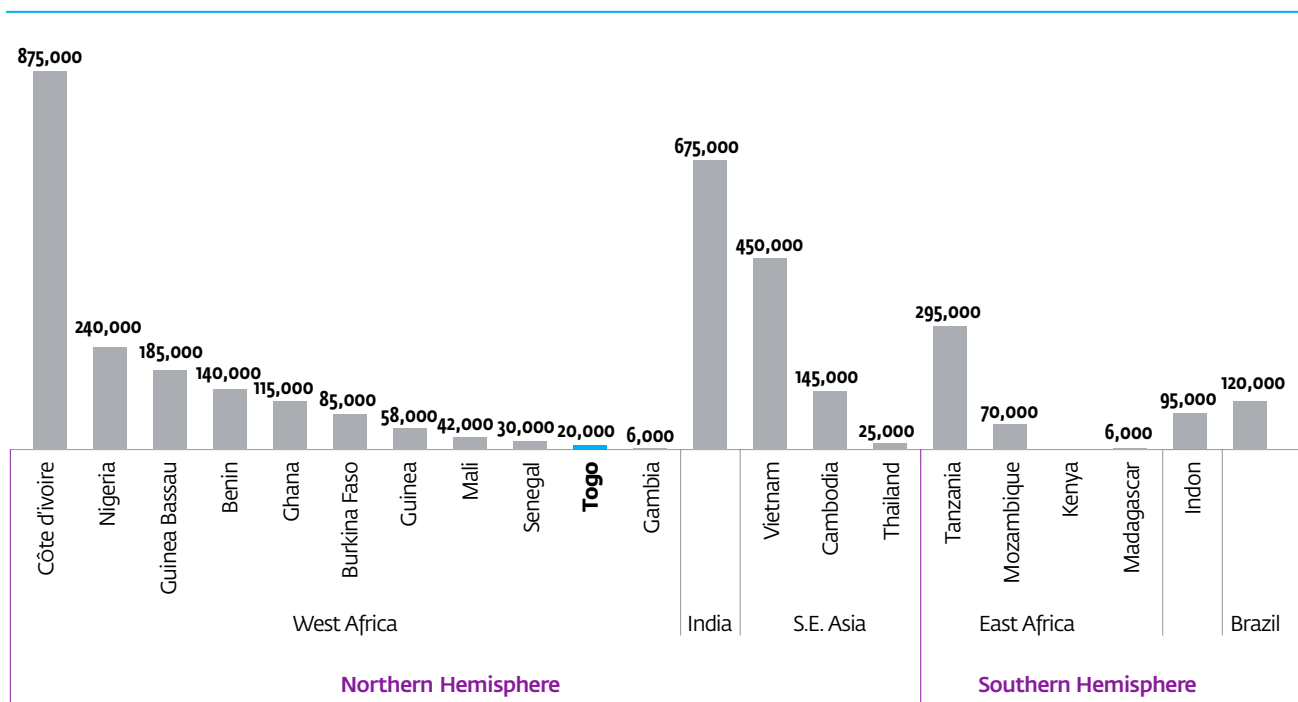
Current performance

Cashew is the fourth-largest rent crop in Togo after cotton, coffee, and cocoa. Large-scale cashew farming in Togo started in the 1960s, with collective fields managed by SORAD companies supplying the para-state company TOGOFRUIT. Both companies subsequently closed. Cashew production took off because it is not technically demanding and yet quite profitable.⁵⁸ Although the situation is not ideal, production can manage without inputs or maintenance once the trees are mature. International buyers are easily found, even without prior processing of the nuts, thus making it an attractive crop for farmers. Like cotton, cashews can thrive in the poorer northern regions of Togo, thereby contributing to poverty reduction.⁵⁹

Recent figures from the cashew alliance put official production in Togo for the year 2018 at 13,500–15,000 tons, whereas in 2019 Nitidae estimated production closer to 20,000 tons. Some reports estimate the production level at 24,000 tons,⁶⁰ and the government has set an ambitious target of 60,000 tons by 2022.⁶¹ Most of the production (89 percent) comes from the central region and the Région des Plateaux. Average cashew yields of 350 kilograms per hectare per year are low compared with the yields of other neighboring countries, which are 800–1,200 kilograms per hectare.⁶²

Togo production is a tiny fraction of the production in West Africa and quite far below most regional neighbors (figure 4.17). Côte d’Ivoire is by far the largest producer, with 875,000 tons, followed by Nigeria (240,000 tons), Guinea-Bissau (185,000 tons), and Benin (140,000 tons). Burkina Faso produces an estimated 85,000 tons.

FIGURE 4.17 CASHEW SUPPLY IN 2018 BY PRODUCING COUNTRY, IN METRIC TONS OF RAW CASHEW NUTS



Source: Nitidae, “The West African Cashew Sector in 2018,” (Nitidae, Lyon, France, 2019) with data from n’kalô Service, nkalô.com.

Cashew nut exports have grown rapidly, by 26 percent yearly on average since 2011.⁶³ Exports averaged US\$83 million over the period 2017–19, the fifth-largest export of Togo. Cashews are mostly exported raw. The main destination is India, followed by Vietnam and China. It should be noted, however, that Burkina Faso exports some its production of raw cashew to Togo, according to Nitidae.⁶⁴ The volumes quoted (15,000 tons in 2018) suggest that over 40 percent of Togo’s exports would be Burkinabe reexports.

Since 2005, part of the Togolese cashew nut crop has been processed locally before export by the Cashew Espoir factory in Tchamba in the central region. In 2015 Cajou Espoir created a new unit in Blitta prefecture, an investment increasing the processing capacity to 6,000 tons and employing 800 people.⁶⁵ According to Nitidae,⁶⁶ only 10 percent of the production was processed locally in 2018, and out of the total processing capacity of 6,000 tons only 2,000 tons was used. In 2020 Cajou Espoir reported processing 3,000 tons of cashews, suggesting an improvement in the local processing of cashews. The other producer in Togo is Cajou du Centre, established in 2015. Local processing competes with exports of raw nuts to Asia and Benin.

Government support benefits processed cashews by offering lower taxes than for raw cashews: 5 CFAC per kilogram against 40 CFAC per kilogram.⁶⁷ In 2021 Togo’s MIFA provided CFAF 600 million to Cajou du Centre to acquire equipment.⁶⁸

Opportunities and constraints

According to Nitidae,⁶⁹ expected production growth is 1,500 tons per year for the next five years and production of raw cashew could reach 31,000 tons by 2025. With better farming practices, improved seedlings, and some fertilizer, profits could triple.⁷⁰ Yields are far below their potential: 400 kilograms per hectare in Togo versus 800 kilogram per hectare in Ghana. Progress is being made thanks to a partnership between the Togo Institute of Agronomic Research and the German GIZ-funded Program for Rural Development and Agriculture, along with support from the Africa Cashew Initiative. Further training through farmer business schools would help sustain growth in the sector.

Expansion of processing is problematic given the lack of real competitive advantage for local processing. Current capacity is not fully used. Local processors compete with buyers of raw nuts, who typically export to India or Vietnam, as well as to competitor and neighbor Benin, which has superior processing capacity. Asian countries are very efficient and have the advantage of being able to buy locally 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.⁷¹

While processing is labor intensive, it does not create large amounts of jobs and yields modest value addition. According to USAID,⁷² 0.38 jobs⁷³ can be created per metric ton of cashews processed (corresponding to 5 metric ton of raw cashews) with US\$300–\$400 value addition per metric ton. Using these estimates, and assuming an objective of transforming all production by 2025, Togo would yield 6,200 tons of shelled cashews and create 2,350 jobs for value addition of a bit over US\$2 million (taking the median of US\$350 per ton). These remain modest numbers in the context of Togo’s future economic transformation.⁷⁴ Shelling by hand is more labor intensive (creating about three times as many jobs) and produces higher-quality cashews, but it seems to remain a relatively marginal economic activity.

Cashew farming remains weakly organized, despite efforts to support it.⁷⁵

The World Bank suggests that the sector could benefit from concerted support from the government in the following areas:⁷⁶ (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 subsector; and (e) an efficient warehouse receipts system to address the financing obstacle. Such a system would allow a processing company to borrow using its stocks of raw nuts as collateral.

Horticulture: Pineapple value chain

Recent performance

Horticulture crops produced in Togo mostly concentrate on the production of tomatoes and pineapples, but the country also produces mangoes, papayas, bananas, oranges, avocados, guava, peppers, onions, okra, carrots, cucumbers, cabbage, and lettuce.⁷⁷ Several notable production regions include the Maritime and Plateaux regions, which have good availability of water, thus offering the right conditions for market gardening crops.⁷⁸

In Togo, the pineapple (Cayenne and Brazza/Sugarloaf varieties) value chain was revived in 2015 with support from GIZ.⁷⁹ Half of the production is in the Maritime region, and 65 percent of the production (19,500 tons) is organic. According to the European Commission,⁸⁰ Togo has a comparative advantage in organic pineapple production and for the Smooth Cayenne variety, which are sought after in niche markets.

Between 2017 and 2019, Togo’s pineapple output grew by 5.7 percent yearly, from 27,000 tons to 30,149 tons. According to government sources, the sector generated over CFAF 6 billion per year (a bit over US\$10 million) between 2017 and 2019.⁸¹ The European Commission estimated that production in 2018 was already 30,000 tons, supplied by 3,200 producers. In total the sector is estimated to provide 10,000 jobs (producers, traders, and processing).⁸²

Exports followed the growth of production, increasing by 4.7 percent per year over 2017–19.⁸³ In 2019 Togo exported US\$4 million of fresh pineapples, most of it to Europe, and US\$1.38 million of fruit juices, about 70 percent of which went to the region.⁸⁴ Among the main exporters of air-freighted pineapple to the European Union, Togo is the origin that has experienced the most growth, with a 43 percent growth between 2015 and 2019.⁸⁵ This success is explained by the repositioning of Togo toward the Smooth Cayenne variety. Togo reached levels of exports similar to Cameroon and the Dominican Republic. (Ghana remains the main supplier, but its exports decreased over the period.) In Togo 32 percent of pineapple is exported fresh by a dozen companies. Over two dozen companies produce more than 1 million liters of pineapple juice (20 percent of which is organic) and 476 tons of dried pineapple. Eleven percent of the total production (3,300 tons) is transformed into juices.⁸⁶

Opportunities

The sector has received foreign investments, which suggests potential for the sector to grow. In 2017 the Moringa Fund created a subsidiary in Togo, Jus Délice, which opened its biomanufacturing facility in Gbatopé in 2019, a CFAF 2 billion investment.

Challenges

Organic producers are organized in cooperatives, but the organization of the sector remains a challenge. For certification, producers depend on downstream processors or exporters. The EU's future ban on the use of calcium carbide could lead to the loss of organic certification in the absence of an alternative.⁸⁷

The sector also faces decreasing soil productivity and difficulties in attracting labor for organic production. The sector also is not very innovative, which reflects the small size of its actors.

Other pressures facing the sector include land disputes, which remain an issue and the challenges of air connectivity, which is key to access export markets. According to Labaste, the main cost for fresh pineapple exports is by far air transport.⁸⁸ Togo pineapples are more expensive than competitors (ITC, 2020).

Matrix of priorities for agriculture

The Enabling Business of Agriculture (EBA) indicators, 2019, show that Togo lags in most of the agricultural development indicators.⁸⁹ Togo scores 25.0 out of 100 on the overall EBA, much lower than regional peers like Benin (32.9), Ghana (50.5), Mali (33.7), Burkina Faso (35.3), or Côte d'Ivoire (45.9). Togo falls far behind on key indicators like accessing finance in the agriculture sector, supplying seeds, protecting plant health, or registering fertilizer (Appendix D, table D.5 provides the definition of what each indicator measures, while table D.6 presents Togo's scores compared to peers in the region across the indicators). Togo's performance on these indicators highlights the constraints faced by the sector and suggests the types of reforms that are required to unleash the sector's potential.

The urgency is to promote investment in the agricultural sector to stimulate the production of crops while supporting the preservation of the natural capital through restoration of degraded lands and watersheds and through the integrated management of soil fertility and water resources. The government’s MIFA program and recent irrigation kits as well as recent national and regional programs for agricultural development supported by the World Bank (PASA and WAAPP) have paved the way but are not enough. Private solutions are needed to increase agricultural productivity while remaining climate friendly.

Table 4.2 provides agricultural priorities.

TABLE 4.2 MATRIX OF PRIORITIES FOR AGRICULTURE

Priority measures and investment opportunities	Short term	Medium term
Agropoles	<p>Measures Intensify agricultural production at the level of the Kara agropole through the development of large-scale planned ZAAPs (300 to 700 hectares per ZAAP). Facilitate producers’ access to agricultural inputs (seeds, fertilizers, and phytosanitary products). Continue the construction of CTAs. Develop a strategy for implementing PPPs in agro-poles. Strengthen communication and investor prospecting around agropoles.</p> <p>Opportunities Use the ZAAPs for production under management in the Kara agropole. Aggregate production for industrial processing. Support input suppliers (such as packaging, logistics services) and processors (such as oil and feed, chicken factories, fruit juice factories).</p>	<p>Measures Continue the development of large-scale ZAAPs in the Kara agropole. Build the agropark of the Kara agropole. Carry out the technical and socioeconomic feasibility study of the two other agropoles (Oti, Haut-Mono).</p> <p>Opportunities Install processing units in the agropark of the Kara agropole Use the ZAAPs for production under management in the Kara agropole. Aggregate production for industrial processing.</p>

Note: CTA = agro-food processing center; PPP = public-private partnership; ZAAP = agricultural development zone.

Priority measures and investment opportunities	Short term	Medium term
Organic production	<p>Measures Assess the current state of organic production in Togo, including identification of the main production areas, crops, and actors involved.</p> <p>Implement the national strategy for the development of agro-ecology and organic farming in Togo, 2021–2030.</p> <p>Develop knowledge on organic production within the Ministry of Agriculture.</p> <p>Facilitate access to biological inputs (seeds, pesticides, and organic fertilizers) while strengthening the ability for farmers to obtain them locally.</p> <p>Opportunities Strengthening of existing production (soya, pineapple, sesame, fonio, and so on).</p>	<p>Measures Increase the production capacity of organic seeds in all categories (prebasic, basic, and certified).</p> <p>Strengthen the capacity of extension services in the dissemination of best practices favorable to organic agriculture.</p> <p>Strengthen the capacities of farmers in organic production, in particular through training on good practices and certification systems.</p> <p>Promote Togolese organic products abroad and in markets where demand is growing rapidly.</p> <p>Opportunities Investment in new crops.</p>
Processing	<p>Measures Support producers in concluding commercial agreements.</p> <p>Support the development of information technology solutions to increase market information and transparency.</p> <p>Refrain from any regulatory intervention that could distort prices in currently open markets.</p> <p>Identify value chains, including regional sourcing, where local processing could be competitive.</p> <p>Opportunities Local processing of agricultural products such as raw cotton, soybeans, and sesame in dedicated industrial zones.</p> <p>Investments in renewable energies in order to make national agro-food industries competitive and respectful of the environment.</p>	<p>Measures Support the development of irrigation infrastructure and agricultural mechanization.</p> <p>Facilitate the establishment of an agricultural stock exchange.</p> <p>Support the implementation of a certification system for agricultural products.</p> <p>Opportunities Investment in continuous production both in quantity and quality of agricultural products.</p> <p>Investment in the management company of the agricultural stock exchange.</p> <p>Access to agricultural product markets.</p>

Note: CTA = agro-food processing center; PPP = public-private partnership; ZAAP = agricultural development zone.

Notes

1. There is also a small railway link for cement.
2. AfDB 2014
3. (WB 2014 quoted by IFC 2017)
4. AfDB 2014
5. "Lomé Container Terminal, Togo," IFC.org; Proparco Groupe, Agence Française de Développement, "Loan to LCT to Build a Container Terminal in the Port of Lomé to Serve the Entire Region," December 29, 2011, <https://www.proparco.fr/en/carte-des-projets/lome-container>.
6. Togo's estimated gold production was 20,000 kilograms in 2018, which would correspond to about US\$27 million at that year's international prices (around US\$1,300 per kilogram), which is not commensurate with the reported figure of US\$365 million exports. See also <https://www.reuters.com/investigates/special-report/gold-africa-smuggling/>.
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9. Government of Togo, National Development Plan 2018–2022 (Lomé, 2018).
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13. USAID 2021
14. Source: Port Autonome de Lomé
15. <https://www.republiquetogolaise.com/logistique/1808-5879-le-port-de-lome-refait-sa-voirie-et-ameliore-sa-competitivite>
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17. <https://classe-export.com/index.php/actus/36594-le-port-autonome-de-lome-dematerialise-ses-procedures/>
18. Source: LON PAD, 2021 https://wbdocs.worldbank.org/wbdocs/component/drl?objectId=090224b08872794f&standalone=true&Reload=1630594183924&__dmfClientId=1630594183924&respositoryId=WBDocs&__dmfTzoff=240
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20. Quoted by IFC 2017.
21. Please suppress this footnote (reference is in footnote 20)
22. "Projet d'Appui à la Compétitivité des Services Logistiques pour le Commerce and Programme d'appui à la gouvernance dans le secteur des transports au Togo," 2017.
23. Société de l'Aéroport de Lomé Tokoin, with the government of Togo and CCIT as shareholders.
24. Earlier reports (IFC 2017) say that private operators pointed out that air traffic was decreasing due to the higher airport rates as compared to competitors. This decrease began in 2007.
25. AFRAA 2020
26. Feuille de Route Gouvernementale Togo 2025.
27. Feuille de Route Gouvernementale Togo 2025, project #16.
28. <https://www.togofirst.com/fr/transport/2112-7017-apres-le-parc-industriel-d-adetikope-olam-et-l-afc-lorgnnet-l-autoroute-lome-cinkasse>
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39. IFC 2019
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5. APPENDICES

APPENDIX A: REVIEW OF THE MINING SECTOR

SECTOR OVERVIEW

Mining has long been central to the Togolese economy, resting on two main subsectors: phosphate and limestone extraction. Phosphate rocks are an important ingredient for fertilizer production, especially phosphorous (P) as one of the macro nutrients of compound fertilizers needed for farming (the others being nitrogen/ammonia and potassium, which Togo does not produce), while limestone is processed into clinker for cement production.

Beyond phosphate and limestone, extraction of other precious metals such as gold, iron ore, and diamonds is small. Iron ore mining was piloted around 2010, but because of disappointing exploration campaigns, low production capacity that failed to achieve scale efficiencies, and a fall in world prices, production ceased in 2015. The Togolese production of gold is recorded at between 10 and 20 tons a year. Although significant in per capita terms, this production remains insignificant compared with regional peers like Burkina Faso or Ghana. Statistics for gold production and export over the years can be misleading because large amounts of gold have in some years come from producing neighbors Burkina Faso, Ghana, and Mali. Despite multiple exploration campaigns, no industrial-scale deposits for gold and diamonds 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 some rural populations.

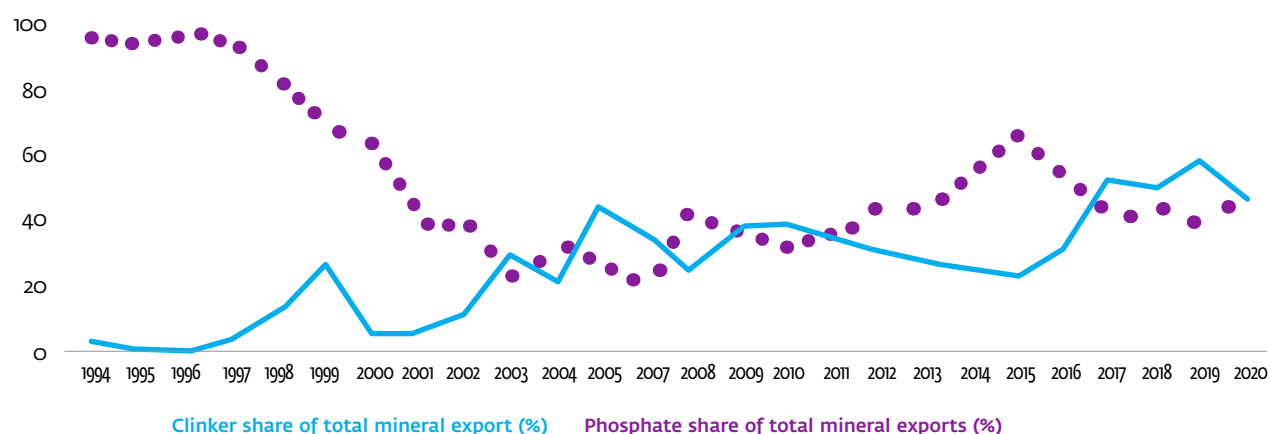
Total sales from the mining sector rose in the early 2010s owing partly to a rise in phosphate prices, before experiencing a partial reversal in 2016. From a fiscal perspective, revenue to the Treasury remained constant at around CFAF 17 billion per year until 2016 (about US\$30 million), around 1.5 percent of total government revenue. As of 2018, the mining sector accounted for about 1 percent of GDP, 18.2 percent of exports, 2.2 percent of government revenues, and 0.6 percent of total employment in the country.¹

TABLE A.1 MINERAL PRODUCTION STATISTICS, 2010–18

		2010	2013	2014	2015	2016	2017	2018
Phosphates (tonnes) SNPT		695	1,214	1,086	1,150	850	733	1,020
Limestone(tonnes)	WACEM	1 656	1 608	1 808	1 011	1 424	1 049	
	Scantogo Mines	—	—	353	1 676	2 054	2 288	1 456
Iron. ore (tonnes)		—	79 868	88 574	—	—	—	
Gold (kilograms)		10 451	21 086	20 582	15 372	15 663	19 320	
Diamonds (carats)		—	23	22	46	—	2	
Aggregates (cubic meters)		128,341	239,726	420,502	369,923	560,968	294,446	143,757
Value of sales (millions of CFAF)		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	.	.

Source: EITI (Extractive Industries Transparency Initiative) and DGMG (General Directorate of Mines and Geology), Togo.

Note: SCAN-TOGO = SNPT = Société Nouvelle des Phosphates du Togo; WACEM = West African Cement.

FIGURE A.1 TRENDS OF TOGO'S CLINKER AND PHOSPHATE SHARE IN TOTAL MINERAL EXPORTS, %

Source: WITS (World Integration Trade Solutions) data

RECENT REFORMS

The government has increased licensing in the mining industry, with the aim of contributing to the diversification of operators in the sector. Mining operations have been historically dominated by the national enterprise (SNPT) and few contractors. However, the number of mining permits almost doubled from 27 in 2010 to 66 permits in 2018. 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 mining sector can be divided into three types of operations:

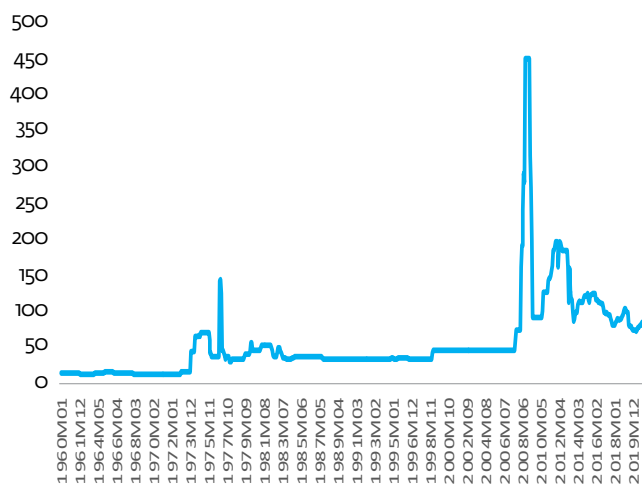
- Industrial-scale mines extracting phosphates, limestone, marble, and, until recently, iron ore
- Small-scale quarrying companies, which are exploiting sand and aggregates for the construction industry
- Artisanal and small-scale miners of gold and diamonds as well as construction material

Players consist mainly of small-scale operators. For small-scale and quarrying operations, although the value of this production is negligible, the recent increase in the number of licensing and the formalization of the players have led to improved inspection and compliance with environmental and labor standards. The increase in artisanal permits has also accelerated their formalization and increase in activities. The structural changes in the mining industry, as more diversified groups of operators enter the market, promise a more resilient industry that is less reliant on a single dominant operator (SNPT). The sector features the potential for greater accountability and a private sector–driven growth model, which could attract much needed foreign investment and add more value through subcontracting and arms-length governance practices.

PHOSPHATE

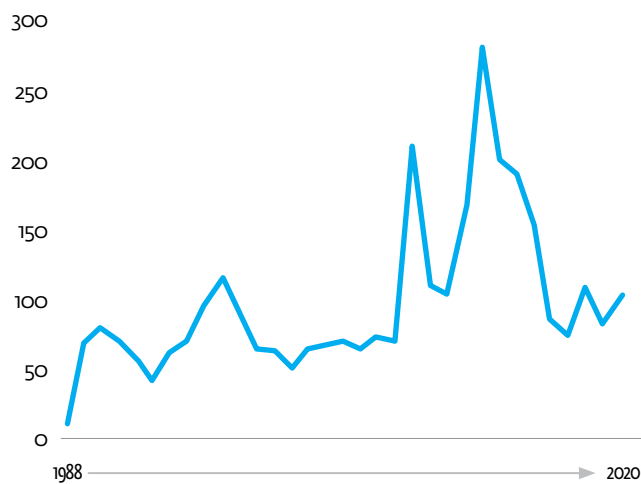
Phosphate has long been one of the key pillars of Togo's economy. The national phosphate company, which 100 percent public owned—Société Nouvelle des Phosphates du Togo; SNPT—is the only company mining phosphate in the country in two mines, in Hahotoé and Kpogamé. Phosphate production and its contribution to the economy have evolved over the years, diminishing in importance. From the early years of independence to the 1980s, phosphate mining accounted for over 80 percent of Togo's total goods exports and was the main source of the country's foreign exchange. Production reached over 3 million tons in 1988/1989, and the company briefly ranked fifth globally in terms of annual production. Phosphate accounted for 10 to 20 percent of Togo's GDP during those years.

Phosphate production and export receipts have been volatile over the years as markets fluctuated. Global market prices not only have been volatile over the past decade, but also have been declining owing to excess supply from large producers. Prices rose from US\$45 per metric ton in 2006–07 to briefly surpass US\$400 in 2008, stabilizing around US\$120 in 2015–16, before dropping to below US\$100 in 2019. Phosphate prices have been rising again recently, reaching US\$153 per ton in November 2021 (figure A.2). Higher prices in 2020 translated into higher phosphate revenues for Togo, whose phosphate output significantly rose between 2019 and 2020, from about 800,000 tons to 1.3 million tons. This output suggests that Elenilto Group has not started production or is not at full production (5 to 10 million tons of output were planned). Togolese phosphate exports grew accordingly from US\$83 million in 2019 to US\$103.5 million in 2020 (figure A.3). Yet the current increase in global phosphate price may be short-lived because it results from China's temporary suspension of phosphate exports to support the domestic supply.⁴

FIGURE A.1 GLOBAL PRICE OF PHOSPHATE ROCK (US\$/MT)

Source: World Bank Commodity Price Data, <https://www.worldbank.org/en/research/commodity-markets#1>.

Note: MT = metric tonne.

FIGURE A.2 TOGO'S PHOSPHATES EXPORT VALUE (US\$, MILLION)

Source: World Bank Commodity Price Data, <https://www.worldbank.org/en/research/commodity-markets#1>.

Note: MT = metric tonne.

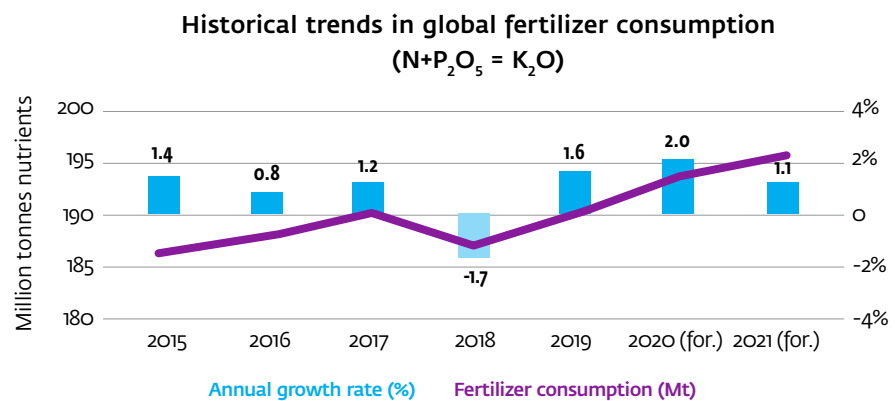
Large deposits of carbonated phosphates (which are more complex to mine than phosphate rock) are found adjacent to existing operations around Kpémé. These resources are estimated to allow at least 100 years of production at a scale that would be 3 to 10 times larger than current production levels, according to the sector authorities. In 2015 the government awarded a project⁵ to develop a phosphate mining and fertilizer production plant to Elenilto Group, owned by the Israeli firm Jacob Engel. The owners estimated the plant's potential at 2 billion tons, with the possibility of producing 5 million to 10 million tons annually of phosphate rock, phosphoric acid, and fertilizers (including diammonium phosphate [DAP], monoammonium phosphate [MAP], and granular triple superphosphate [GTSP]). Elenilto is in partnership with Wengfu, one of the global leading phosphate and fertilizer groups.

Prospects for downstream transformation do not appear economically realistic at the moment. The main use of phosphate is to produce phosphorus, one of the three macronutrients used in NPK compound fertilizers (the others being potassium and nitrogen). However, the process from phosphate mining to fertilizer is complex and requires a careful assessment of the cost structure and competitiveness. Phosphate rock is mined, cleaned up, dissolved in various acids to produce water-soluble forms, and packaged for use as fertilizer.⁶ The production of high-quality compound fertilizers necessitates reacting several ingredients together in various acids and pelletizing the compounded material, a process that involves high capital and operation costs. Large-scale production of high-quality fertilizers is required to reduce unit costs and achieve competitiveness, which is a challenge for Togo as a small phosphate producer relative to countries like Morocco and Asian players, and other large chemical producers of nitrogen or potassium.

THE GLOBAL MARKET FOR FERTILIZERS.

The global supply of fertilizers has been rising in recent years, inducing a decline in market prices. The supply of fertilizers has been rising over the past six years, given the need to increase agriculture productivity to tackle food insecurity and rising demand. There is now a surplus of production capacity at the global level. The International Fertilizer Association assessed the global use of fertilizers to be about 193 mta⁷ (nutrient tons) in 2020, reflecting a growth of 2 percent from 189.8 mta in 2019. However, the demand was projected to increase only to 195.6 mta in 2021—a slower growth (1.1 percent), compared to the previous year (figure A.4). As far as phosphate is concerned, the global consumption of phosphate fertilizers is expected to grow moderately, at about 1% per annum over the next 5 years, from about 47 mt in 2020 to about 51 mt in 2025 (table A.2). Although the price of fertilizers such as DAP and TSP have been rising recently, this is due to the increasing phosphate price caused by China's ban on phosphate export. The rise in fertilizer prices could be short lived; the phosphate and fertilizer prices may stabilize once the ban is lifted. The projected slow growth in fertilizer prices implies for Togo, as a phosphate exporter, a corresponding slower growth in phosphate revenues, unless production volume increases.

FIGURE A.3 GLOBAL FERTILIZER CONSUMPTION



	2019	2020	2021	2019	2020	2021
N	106.7	108.4	109.5	2.7%	1.6%	1.0%
P ₂ O ₅	47.1	48.6	49.0	2.5%	3.2%	0.9%
K ₂ O	36.1	36.6	37.0	-2.8%	1.4%	1.3%
Total	189.8	193.5	195.6	1.6%	2.0%	1.1%

Source: IFC Phosphate review, February 2021, using Commodity Research Unit (CRU) BCinsight data, available at https://bcinsight.com/fertilizer_international.asp.

Note: DAP = diammonium phosphate; MAP = monoammonium phosphate; P₂O₅ = phosphorous pentoxide; SSP = single superphosphate; TSP = triple superphosphate.

TABLE A.2 GLOBAL PHOSPHATE DEMAND AND CONSUMPTION, MT P₂O

	2019	2020	2021	2022	2023	2024	2025
DAP demand	16.3	16.7	17.1	17.3	17.4	17.5	17.6
MAP demand	13.6	14.2	14.8	14.9	14.9	14.9	14.9
TSP demand	2.6	2.6	2.7	2.8	2.8	2.9	3
SSP demand	3.6	3.6	3.5	3.5	3.5	3.6	3.6
Total P ₂ O ₅ fertilizer consumption	45.8	47.1	48.1	48.6	49.4	50.2	50.9

Source: IFC Phosphate review, February 2021, using Commodity Research Unit (CRU) BCinsight data, available at https://bcinsight.com/fertilizer_international.asp.

Note: DAP = diammonium phosphate; MAP = monoammonium phosphate; P₂O₅ = phosphorous pentoxide; SSP = single superphosphate; TSP = triple superphosphate.

Big players on the global phosphate market and Togo's potential

Togo is not a large producer of phosphates worldwide. The top 10 phosphate producers worldwide are Morocco, the United States, China, the Russian Federation, Jordan, Saudi Arabia, Vietnam, Brazil, Egypt, and Peru, whose production together has accounted for about 90 percent in recent years. Togolese production remains very insignificant relative to these global giants. The global market is also characterized by large producers of phosphate fertilizers, which are linked to the world's big phosphate producers. Dominant players of the fertilizer market include OCP of Morocco (20 percent of the market share); Mosaic (about 15 percent) and Nutrien (about 3 percent) of North America; Ma'aden (about 6 percent) of Saudi Arabia; PhosAgro and EuroChem of Russia and Yara of Norway (all with about 1 percent). These companies control a significant share of global supplies of fertilizers on the basis of their comparative advantage of vast, low cost, and high quality phosphate reserves in the key countries. Togo does not seem to be in the country coverage of major West African regional players such as OCP and YARA because they have their own raw material and do not need to source from small phosphate rock producers like Togo. Nonetheless, Elenilto Group, which is in partnership with Wengfu, one of the leading international players in phosphate and fertilizer, is present in Togo.

Although Togo's phosphate reserves are smaller than those of global big players, the viability of the sector could be improved to contribute to generation of government revenue and could support other sectors such as agriculture through fertilizer production. As demonstrated in previous decades, phosphate can serve as an important income generator for the economy. Visibly, the recent collapse of the sector has been triggered by the lack of efficient governance of the sector and entrenched political economy (high involvement of government authorities in the sector) and the lack of

transparency. This situation suggests that if the governance of the sector were improved with an efficient exploration strategy, the sector could recover. With degrading soil an issue while agriculture is at the center of the national development plan, the phosphate sector could support sustainable production and income generation in the agricultural sector through the production of fertilizer at low cost for farmers.

Improved production efficiency and better sector governance and strategy could help Togo derive increased revenues from its phosphate through phosphate rock export, decarbonization, or organic fertilizer production for domestic agricultural development. Such revitalization could put the sector at its traditional vital role of revenue generator for the country.

Key constraints

The lack of complete information on the extent of Togo's total phosphate reserves and its production cost structure is an impediment to assessing the viability of the sector and its competitiveness at the global and regional level. Key constraints to private investment include

- Lack of proper assessment of the reserves/mapping and their quality
- Relatively small reserves compared with global and regional producers, making it difficult for Togo to reach economies of scale to compete globally
- Lack of modern infrastructure for phosphate exploration
- High costs for high-quality fertilizer production, which could make Togo's product uncompetitive
- Sector governance and political economy issues related to heavy involvement by the government

LIMESTONE

Recent performance

Endowed with deposits of limestone, Togo has developed a strong clinker and cement industry, furthering the central role of the mining-based sector in the economy. Limestone production volumes increased in 2015 when the Heidelberg Cement Group invested in Scantogo, a clinker production factory, to process the limestone extracted nearby in Tabligbo. WACEM and Scantogo are the two companies exploiting the limestone deposit. Construction materials, dominated by clinker, cement, and marble, account for 2.2 percent of GDP. Foreign capital and technology have been attracted from Germany and India. Additionally, several marble companies are extracting marble and dimension stones, which have 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 (table A.1) Foreign capital and technology have been attracted from Germany and India. Additionally, several marble companies are extracting marble and dimension stones which have 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 (table A.1).

Since 2016, the clinker and cement industry has surpassed phosphates in value of exports. Cement exports declined recently as neighboring countries built their own cement factories, but this then increased the demand for clinkers. Clinker export reached more than half of Togo's total mineral exports in 2019, with revenues increasing from US\$90.5 million in 2016 to US\$115.4 million in 2020. Togo's clinker exports have been focused on the West Africa region, with Ghana, Burkina Faso and Benin being the top destinations. The three countries accounted for 85 percent of Togo's clinker exports between 1994 and 2020. Other West African countries (Guinea, Mali, and Niger) accounted for about 10 percent over the same period. Clinker from Togo accounts for the largest share of West African countries' total clinker imports. Although the clinker trade has been volatile, the dominance of Togo clinker on the regional market could suggest a potential for Togo to specialize around an industry of construction materials (noting also that Togo has a growing scrap metal industry) to serve the regional market. However, this potential remains difficult to assess in the absence of information on supply and demand developments in the sector in neighboring markets. Further, some uncertainty exists as to Togolese reserves of clinker, which while they last may create incentives to cluster construction material manufacturing activities nearby. The performance of the Port of Lomé is also a factor in all these considerations to the extent that it will facilitate access to imported inputs (because only a portion of the clinker is sourced in Togo, the rest being imported).

The major cement and clinker production company in Togo is Cimtogo-Scantogo, owned by the German group Heidelberg cement, which has been operating in Togo over the past 52 years, after acquiring Cimtogo from the Norwegian group Scancem. Until 2014, Cimtogo's activities focused on cement manufacturing at its Lomé factory, where it grinds around 1 million tons of cement per year while importing clinker (one of the two components of cement with gypsum). The rise and high fluctuation of clinker prices and the frequent shortage in supply led the company to build a limestone manufacturing plant at Tabligbo in 2014, next to the limestone deposit site northeast of Lomé. The Tabligbo factory currently produces about 1.5 million tons of clinkers yearly. In 2019, the company commissioned another clinker production factory in Kara to meet the market demand. The Kara plant production capacity is 300,000 tons per year. The main destination markets of Cimtogo's cement and clinker are Burkina Faso and Benin in addition to serving domestic production of cement.

Other players on the cement market in Togo include West African Cement, SA (WACEM), the Nigerian Dangote, and a newcomer from Burkina Faso, Kanazoe. WACEM is the other company that is exploiting the limestone deposit of Tabligbo and produces about 1 million tons of clinker in its nearby factory for the domestic market and exports to Ghana. The Nigerian company Dangote, which has large production capacity in Nigeria, does not produce its cement in Togo but imports from the Togolese market. In 2020, Dangote imported 450,000 tons of cement from the Togolese market. A new player, Kanazoe-Cim Métal Group, already active in Burkina Faso and Côte d'Ivoire, is establishing a new cement plant in Lomé with production capacity projected to be 2.5 million tons of cement a year.

Key Constraints in the limestone and cement industry

Limited reserves of limestone. The main constraint to this business is the limited reserves of limestone in the country. It is estimated that at the current level of clinker production, Togo's limestones reserve will deplete in about 35 years.

Affordability and reliability of energy. Clinker production occurs through a four-stage process: (1) limestone extraction, (2) two crushing processes, (3) progressive preheating with silicas, and then (4) burning the grains in the furnace to produce the clinker. The last stage is energy intensive, and coal is used to supply the furnace. The price of charcoal increased by two- to threefold since the COVID-19 pandemic broke out. Although the company can substitute 10 percent of the coal with ecological materials such as biomass (coke, cashew nuts, cotton balls, palm) to produce cement, the production of clinker remains solely based on coal. Moreover, the cost of fuel has been rising and electricity costs are high. Cimtogo's Tabligbo plant was supplied by CEB (an energy firm owned by Togo and Benin) at rates cheaper than those of CEET (the Togolese electricity company). However, with the current split between CEB and CEET, the company is looking for new sources of energy and intends to develop its own energy—through an 11-megawatt solar panel—to supply its production plants. Coal is the major source of energy used currently by the factories, which produces abundant carbon dioxide emissions and poses environmental sustainability concerns.

Excess supply on the market. With newcomers and Dangote's imports on the Togolese market, the supply totals about 5 million to 6 million tons of cement. Yet the market absorption capacity is 3.0 million to 3.5 million tons a year. This poses an excess supply issue on the Togolese market.

Border crossing constraint. Border compliance is one of the main challenges facing firms in the WAEMU region, despite the officially claimed space for free movement of goods and people. Above all, the border with Benin is the most challenging for Togolese exports.

Lack of technicians and engineers in the clinker and cement sector. The companies complain about the mismatch between skills required by the market and the specializations at the University of Togo. Skills such as electrical, electromechanical, process, and environmental engineering are scarce.

Investment opportunities

The search for new energy sources is generating a nascent value chain that connects industry to the agricultural sector. The cement and clinker sector is promoting the use of municipal waste as well as renewable energy sources such as solar to improve its carbon footprint. While the manufacturing companies do not directly deal with agricultural sector players for the supply of biomass, they have identified biomass collectors who collect from farmers and deliver it to the production plants. This process offers private investment opportunities toward expanding the capacities of biomass collection firms and the development of renewable energy sources to supply companies.

The extent of Togo's deposits in the two main components of its mining sector make Togo one of the small players at the global level. Thus, the sector is at less of a comparative advantage and is less competitive on a global scale. However, relative to the national economy, the sector could play a key role in contributing to government revenues and could serve as a source of input for the agricultural sector through fertilizer production and support for the construction sector through cement production. While the mining sector is not directly cited as one of the key sectors under the NDC for climate action,

mining is linked to agriculture, land, forestry, and water and to enabling sectors such as energy which are NDC priorities. Thus, mining can affect climate change, and private solutions for the mining sector should embed climate sustainability approaches.

Table A.3 offers priorities for mining.

TABLE A.3 MATRIX OF PRIORITIES FOR MINING

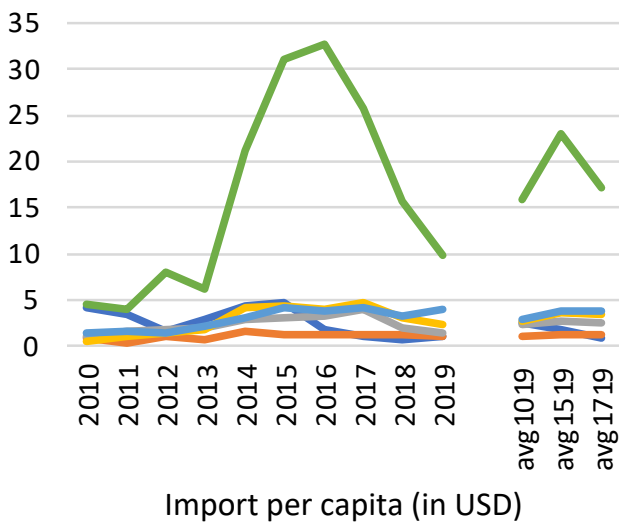
	Short term	Medium term
Phosphate Sub-Sector		
Sector policy and planning	<p>Measures Formalize and strengthen artisanal and small-scale operators.</p> <p>Encourage value addition and sector stabilization through phosphate fertilizer production in strategic partnerships to reduce the fertilizer price to farmers.</p> <p>Encourage small and medium enterprises that customize and distribute fertilizers fit for domestic crop-soil combinations and customize farmer education.</p>	<p>Measures Promote carbonated phosphate development, beginning with geological surveys. For instance, the Nigerian firm Dangote has recently shown interest in processing Togo's carbonated phosphate. A clear geological mapping will be critical to localize those deposits.</p>
Investment framework to encourage private sector exploration	<p>Measures Publish geological information, maps, and relevant industry events to raise awareness and interest among potential investors.</p> <p>Revise mineral permit procedures to meet best practices and ensure "security of tenure," to encourage necessary investments in exploration and research.</p>	<p>Measures Introduce transparent criteria for mineral permit applications and approvals.</p> <p>Proactively enforce permit holders' obligations to reduce the number of inactive mine sites, and cancel permits of inactive holders when warranted, to free up land for other investors.</p>
Taxation and fiscal terms	<p>Measures Conduct an in-depth modeling and analysis of fiscal terms to assess the impact and fiscal costs of any incentive to be applied.</p>	<p>Measures OTR and MME need to plan risk-based controls and audits of mining companies to verify tax declarations.</p> <p>Build the capacity of tax and mine site inspectors to avoid mining tax evasion.</p>
Limestone and cement sub-sector		
	<p>Measures At the regional level, engage in dialogue to ensure border fluidity, especially with Benin.</p> <p>Opportunities Invest in municipal biomass collection firms build their capacity to create a new source of energy.</p>	<p>Measures Introduce and promote the development of skills like electrical, electromechanical, process, and environmental engineering through professional training.</p> <p>Opportunities Invest in renewable energy to ensure movement away from charcoal use in clinker production.</p>

Note: MME = Ministry of Mines and Energy; OTR = Togolese Revenue Office.

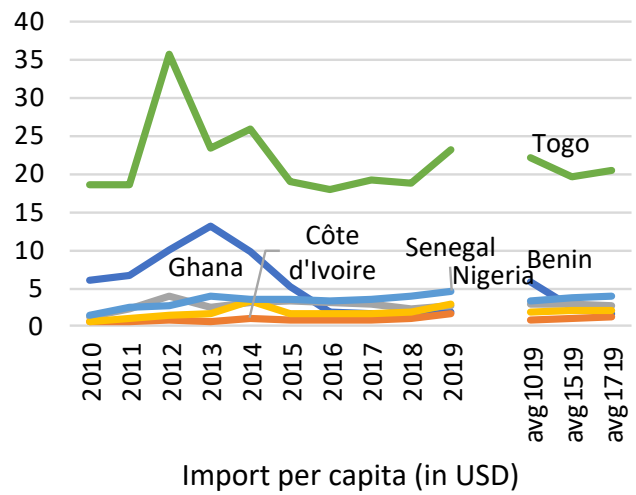
APPENDIX B: REEXPORT PRODUCTS

FIGURE B.1 IMPORTS PER CAPITA OF ARTICLES OF APPAREL AND CLOTHING ACCESSORIES

a. HS62 not knitted or crocheted

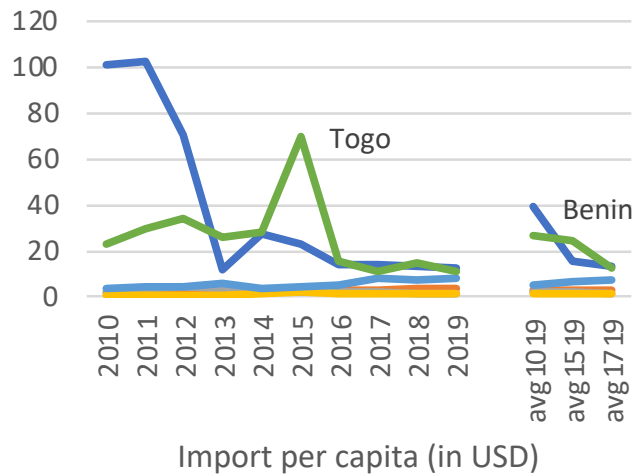


b. HS 61 knitted or crocheted)



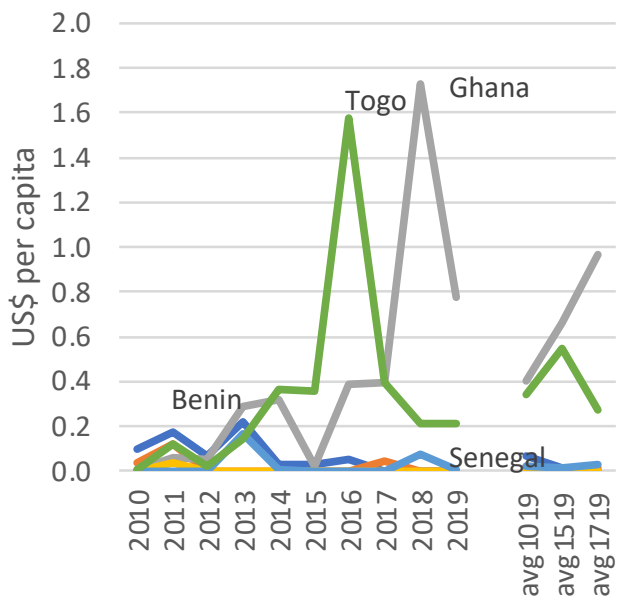
Source: Authors' calculation using BACI trade data

FIGURE B.2 IMPORTS PER CAPITA OF WOVEN FABRICS OF COTTON (85% OR MORE BY WEIGHT OF COTTON) (HS 5208)



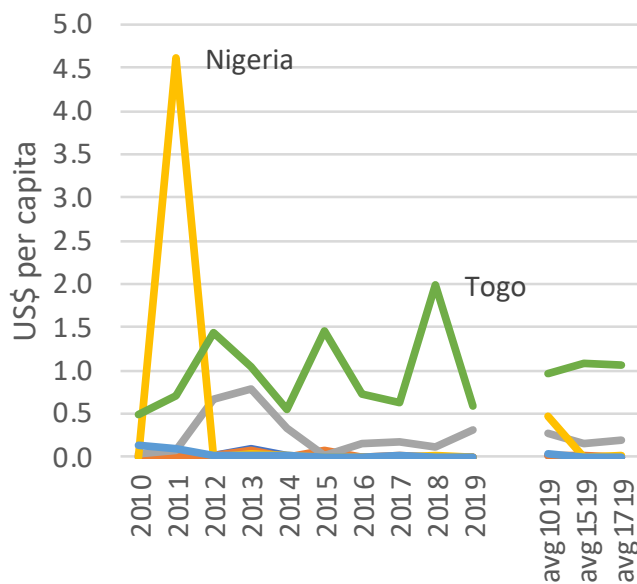
Source: Authors' calculation using BACI trade data.

FIGURE B.3 IMPORTS PER CAPITA OF CASHEW NUTS, IN SHELL, FRESH OR DRIED (HS 080131)



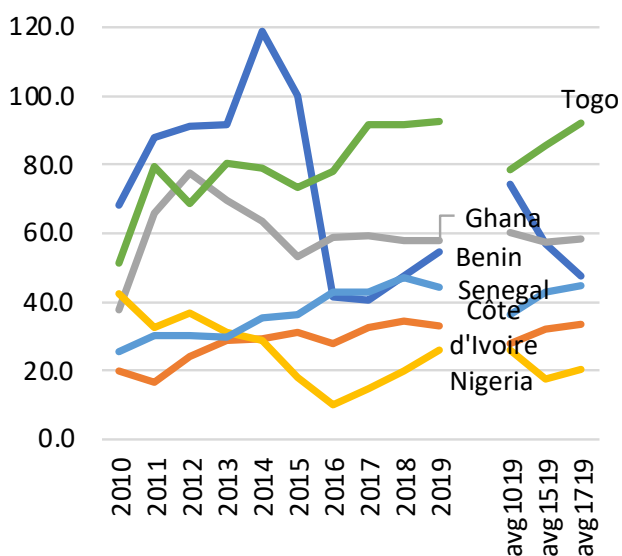
Source: World Bank calculations from CEPII BACI database.

FIGURE B.4 IMPORTS PER CAPITA OF SESAMUM SEEDS, WHETHER OR NOT BROKEN (HS 120740)



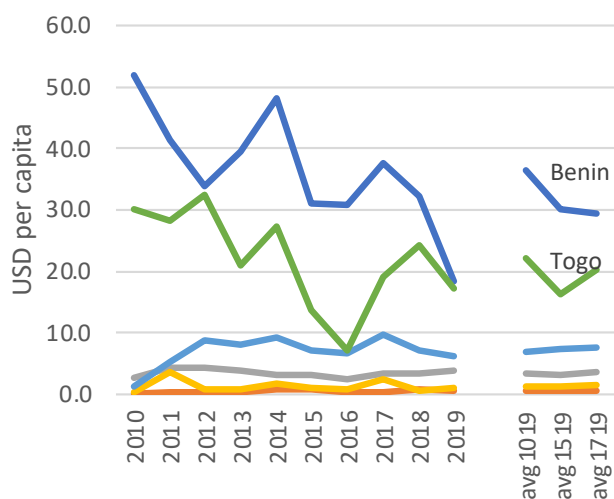
Source: World Bank calculations from CEPII BACI database.

FIGURE B.5 IMPORTS PER CAPITA OF VEHICLES OTHER THAN RAILWAY OR TRAMWAY ROLLING-STOCK (HS87)



Source: World Bank calculations from CEPII BACI database.

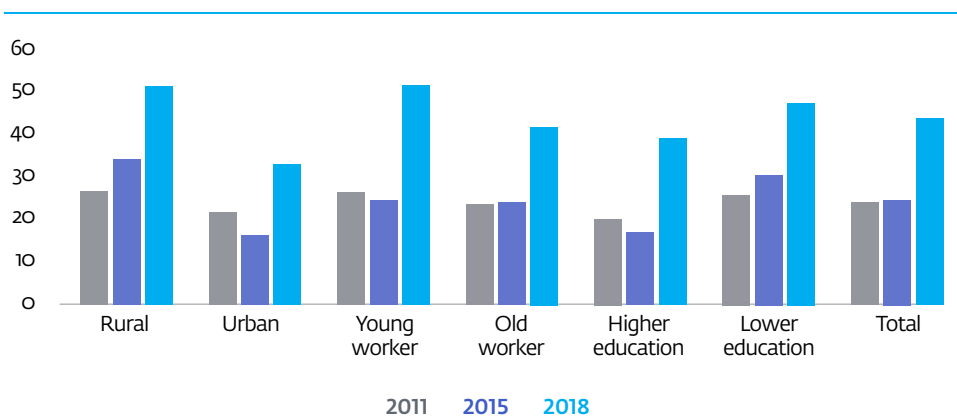
FIGURE B.6 IMPORTS PER CAPITA OF VEGETABLE OILS: PALM OIL AND ITS FRACTIONS (HS 151190)



Source: World Bank calculations from CEPII BACI database.

APPENDIX C: JOB DIAGNOSTICS

FIGURE C.1 IMPORTS PER CAPITA OF ARTICLES OF APPAREL AND CLOTHING ACCESSORIES

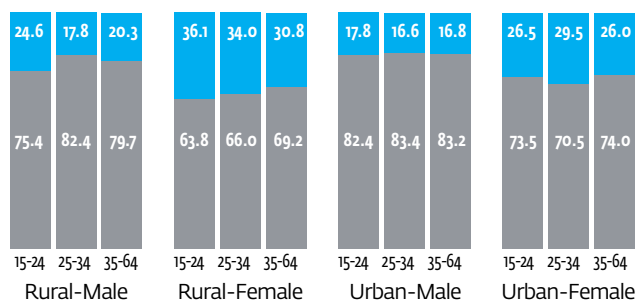


Source: World Bank Job Diagnostic 2020.

FIGURE C.2 UNDEREMPLOYMENT

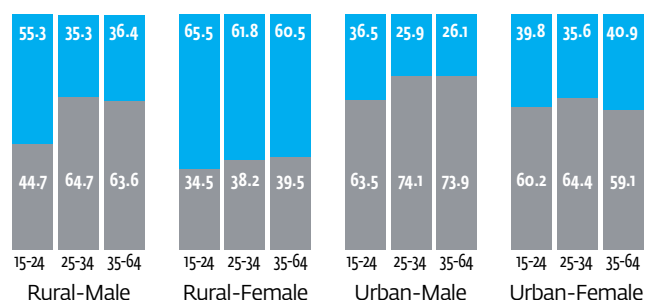
a. 2011

Underemployed: Works <35 hours/week



b. 2018

Underemployed: Works <35 hours/week



Not underemployed

Underemployed

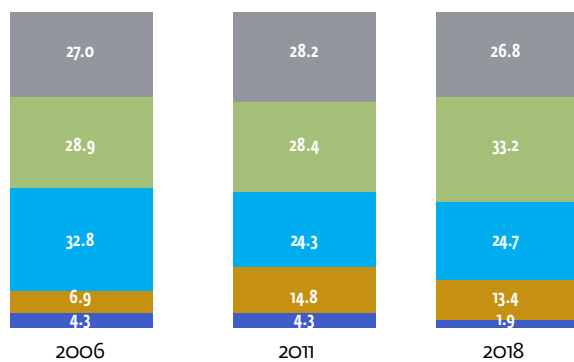
Not underemployed

Underemployed

Source: World Bank Job Diagnostic 2020.

FIGURE C.3 EMPLOYMENT OVER YEARS, AGE 15-64**a. Employment sector**

Employment over years, age 15-64



Wage public

Self-employed agriculture

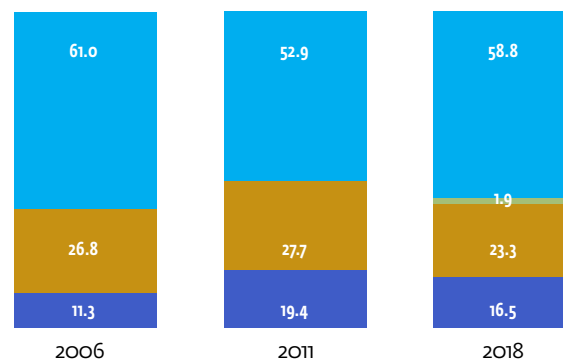
Other

Wage private

Self-employed non-agriculture

b. Type of employee

Employment over years, age 15-64



Paid employee

Non-paid employee

Employer

Self-employed

Source: World Bank Job Diagnostic 2020.

APPENDIX D:

PERFORMANCE IN THE AGRICULTURAL SECTOR

OVERALL EXPORT PERFORMANCE IN THE AGRICULTURAL SECTOR

TABLE D.1 TRENDS IN EXPORT OF THE TOP 20 AGRICULTURAL GOODS 2010-2019 (US\$, MILLION)

HS 6 code	Product description	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
120740	Oil seeds: sesamum seeds, whether or not broken	6.1	11.8	21.8	69.3	98.1	173.1	93.7	44.1	126.4	172.2
80131	Nuts, edible: cashew nuts, in shell, fresh or dried	0.3	14.8	7.7	13.0	21.7	27.7	28.2	70.5	77.0	88.9
520100	Cotton: not carded or combed	37.4	83.9	71.8	72.2	65.1	87.4	66.8	81.9	109.7	81.4
151190	Vegetable oils: palm oil and its fractions, other than crude, whether or not refined, but not chemically modified	1.4	1.5	6.5	27.4	23.2	29.2	18.7	28.9	35.2	57.0
120100	Soya beans: whether or not broken	1.6	0.6	2.3	6.0	4.9	6.4	12.1	20.8	20.8	44.8
180100	Cocoa beans: whole or broken, raw or roasted	242.4	422.7	72.0	47.8	53.6	39.0	34.9	22.6	21.6	30.6
520852	Fabrics, woven: containing 85% or more by weight of cotton, printed, plain weave, weighing more than 100g/m ² but not more than 200g/m ²	24.8	45.2	38.3	31.0	37.8	26.9	24.4	25.9	29.5	26.3
170199	Sucrose: chemically pure, not containing added flavoring or coloring matter, in solid form	0.2	1.7	0.4	0.5	0.7	2.5	0.8	1.8	12.8	16.1

HS 6 code	Product description	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019
151590	Vegetable fats and oils and their fractions: fixed, n.e.c. in heading no. 1515, whether or not refined, but not chemically modified	2.6	15.7	10.0	12.2	16.7	13.2	20.7	12.0	23.5	12.3
460199	Plaiting materials, plaits and similar products of plaiting materials: products of non-vegetable materials	2.5	11.9	11.6	5.2	5.1	4.4	3.8	4.3	5.6	10.6
90111	Coffee: not roasted or decaffeinated	50.2	100.5	53.9	28.3	11.0	22.9	14.5	9.2	15.7	10.4
440349	Wood, tropical: (as specified in subheading note 1, chapter 44, customs tariff), n.e.c. in item no. 4403.41, in the rough, whether or not stripped of bark or sapwood, or roughly squared, untreated	9.4	7.8	10.0	11.9	9.8	14.9	15.1	15.4	7.9	9.4
220300	Beer: made from malt	2.4	3.6	3.6	3.8	4.0	6.0	4.3	5.0	6.3	7.8
40299	Dairy produce: milk and cream, containing added sugar or other sweetening matter, other than in powder, granules or other solid forms	1.6	0.7	3.5	4.0	7.5	6.1	2.1	4.2	3.6	6.1
80132	Nuts, edible: cashew nuts, shelled, fresh or dried	0.0	0.2	1.3	2.4	2.6	4.3	2.9	3.7	3.9	5.6
630900	Clothing: worn, and other worn articles	1.1	0.9	0.8	3.2	3.9	3.6	3.4	4.8	4.6	5.6
220210	Waters: including mineral and aerated, containing added sugar or other sweetening matter or flavored	8.7	12.8	12.8	10.2	5.6	8.4	5.6	8.8	4.8	5.1
220421	Wine: still, in containers holding 2 liters or less	0.3	0.4	0.3	0.3	0.4	0.2	0.9	3.1	3.9	5.1
30551	Fish: cod (gadus morhua, gadus ogac, gadus macrocephalus), dried (whether or not salted but not smoked)								2.6	3.1	4.4
80430	Fruit, edible: pineapples, fresh or dried	1.5	2.4	1.8	2.1	2.9	3.3	3.2	5.0	5.1	4.0

Source: World Bank Job Diagnostic 2020.

TABLE D.2 SHARES OF THE TOP 20 AGRICULTURAL GOODS IN TOTAL EXPORT IN 2019

HS 6 code	Product description	Share in total export in 2019(%)	Change in 2019 relative to 2010 (US\$, million)	% change from 2010
120740	Oil seeds: sesamum seeds, whether or not broken	12.5	166.1	2727.6
80131	Nuts, edible: cashew nuts, in shell, fresh or dried	6.4	88.6	33722.9
151190	Vegetable oils: palm oil and its fractions, other than crude, whether or not refined, but not chemically modified	4.1	55.6	3916.9
520100	Cotton: not carded or combed	5.9	44.0	117.4
120100	Soya beans: whether or not broken	3.2	43.2	2761.5
170199	Sucrose: chemically pure, not containing added flavoring or coloring matter, in solid form	1.2	15.9	8408.6
151590	Vegetable fats and oils and their fractions: fixed, n.e.c. in heading no. 1515, whether or not refined, but not chemically modified	0.9	9.7	377.5
460199	Plaiting materials, plaits and similar products of plaiting materials: products of non-vegetable materials	0.8	8.1	319.8
80132	Nuts, edible: cashew nuts, shelled, fresh or dried	0.4	5.6	514296.0
220300	Beer: made from malt	0.6	5.4	224.4
220421	Wine: still, in containers holding 2 liters or less	0.4	4.8	1508.9
630900	Clothing: worn, and other worn articles	0.4	4.5	391.1
40299	Dairy produce: milk and cream, containing added sugar or other sweetening matter, other than in powder, granules or other solid forms	0.4	4.5	275.1
30551	Fish: cod (gadus morhua, gadus ogac, gadus macrocephalus), dried (whether or not salted but not smoked)	0.3	4.4	.
80430	Fruit, edible: pineapples, fresh or dried	0.3	2.5	164.6
520852	Fabrics, woven containing 85% or more by weight of cotton, printed, plain weave, weighing more than 100g/m2 but not more than 200g/m2	1.9	1.4	5.7

HS 6 code	Product description	Share in total export in 2019(%)	Change in 2019 relative to 2010 (US\$, million)	% change from 2010
440349	Wood, tropical: (as specified in subheading note 1, chapter 44, customs tariff), n.e.c. in item no. 4403.41, in the rough, whether or not stripped of bark or sapwood, or roughly squared, untreated	0.7	0.1	0.9
220210	Waters: including mineral and aerated, containing added sugar or other sweetening matter or flavored	0.4	-3.6	-41.3
90111	Coffee: not roasted or decaffeinated	0.8	-39.8	-79.3
180100	Cocoa beans: whole or broken, raw or roasted	2.2	-211.8	-87.4

Source: CEPII BACI.

PERFORMANCE INDICATORS FOR COTTON

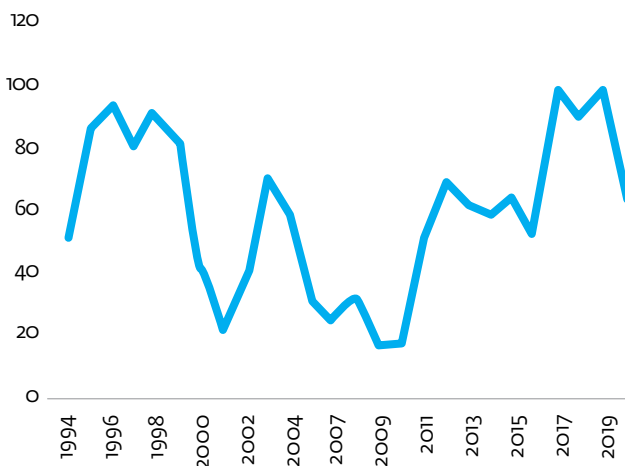
TABLE D.3 COTTON-SUB-SETS WITH HIGHEST REVEALED COMPARATIVE ADVANTAGE IN 2019

Priority code	Product description	RCA at 6-digits HS
520852	Printed plain cotton weave, with >=85% cotton	152.7
520100	Cotton, not carded or combed	120.2
520299	Cotton waste, nes.	47.0
520859	Printed woven cotton fabrics, with >=85% cotton	8.4
521159	Printed woven cotton fabrics, nes, with <85% cotton	8.4
521139	Dyed woven cotton fabrics, nes, with <85% cotton	7.7
520959	Printed woven cotton fabrics, with >=85% cotton	7.0

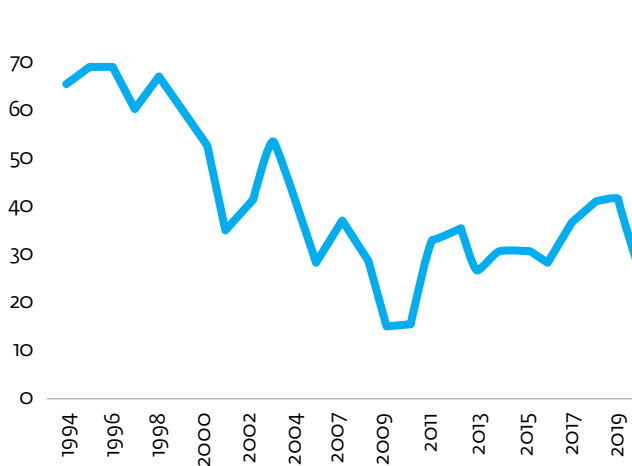
Source: WITS.

FIGURE D.1 COTTON EXPORTS

a. Cotton export value (US\$, million)

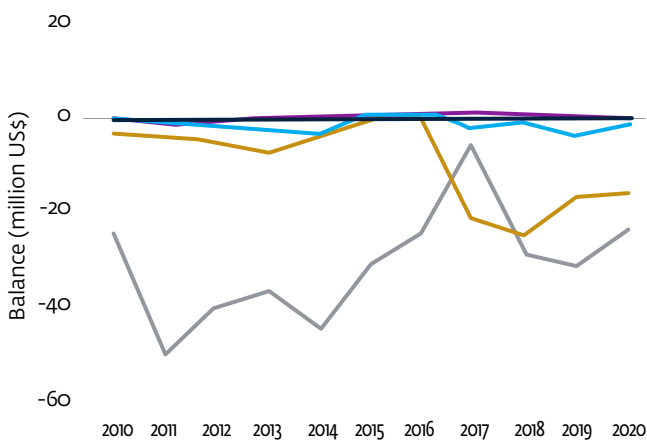


b. Share of cotton in total agriculture export (%)



Source: World Development Indicator and WITS.

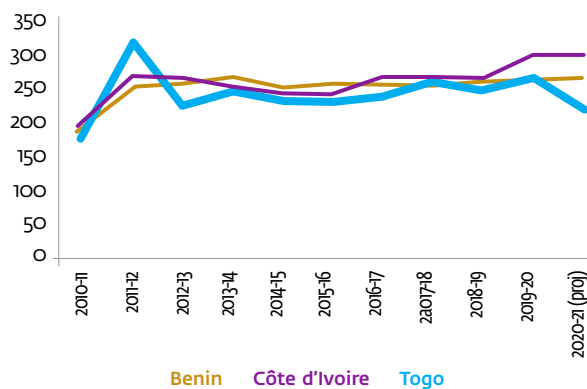
FIGURE D.2 TOGO'S TRADE DEFICIT IN TEXTILE PRODUCTS



Cotton waste, nesoi (HS-520299)
 Printed plain cotton weave (HS-520852)
 Printed plain cotton fabrics (HS-520859)
 Printed plain cotton fabrics (HS-520959)
 Dyed woven cotton fabrics, nesoi (HS-521139)

Source: BACI.

FIGURE D.3 COTTON PRODUCER PRICES: TOGO VS. BENIN AND CÔTE D'IVOIRE



Source: ARISE Assessment Chart, PIA Cotton, classM, 2021.

TABLE D.4 LINT PRICES AND PRODUCTION COSTS

CFAF/kg)	Benin	Côte d'Ivoire	Togo
Seed cotton price	265	300a	225
Ginning outturn	43.5%	43.5%	40.5%
Lint-equivalent	610	690	550
Variable costs (regional standard)	200	200	200
Fixed costs (regional standard)	125	125	125
Total costs FOB	935	1,015	875
Minus seeds value/kg lint (regional standard)	-100	-100	-100
Net production cost/kg lint FOB	810	915	775

Source: A RISE Assessment Chart, PIA Cotton, classM, 2021.

Note: FOB = free on board; kg = kilogram.

a. The subsidy has not been deducted.

ENABLING THE BUSINESS OF AGRICULTURE IN TOGO

The Enabling Business of Agriculture (EBA) framework helps assess Togo's performance on key farming indicators relative to peers in the region.

TABLE D.5 WHAT DOES ENABLING THE BUSINESS OF AGRICULTURE MEASURE?

EBA indicators	What they measure
Supplying seed	Time and cost to register a new cereal variety and the quality of the seed regulation
Registering fertilizer	Time and cost to register a new chemical fertilizer product and the quality of the fertilizer regulation
Securing water	Requirements for access to water information and opportunities to participate in water resources management decisions
Registering machinery	Time and cost to register a two-axle, four-wheel-drive agricultural tractor
Sustaining livestock	Quality of the regulations for manufactured feed and veterinary medicinal products
Protecting plant health	Quality of phytosanitary regulation
Trading food	Time and cost to obtain documents to trade agricultural goods and the quality of food regulation system
Accessing finance	Accessing finance laws and regulations

Source: World Bank, Enabling the Business of Agriculture data, <https://eba.worldbank.org/en/eba>.

TABLE D.6 TOGO'S SCORES ON THE EBA INDICATORS RELATIVE TO PEERS IN WEST AFRICA

	Togo	Benin	Ghana	Mali	Burkina Faso	Côte d'Ivoire
EBA topic score	25.4	32.9	50.5	33.7	35.3	45.9
Supplying seed	14.8	7.4	21.7	22.2	14.8	69.6
Registering fertilizer	0.0	0.0	52.7	73.3	5.6	5.6
Securing water	60.0	70.0	50.0	10.0	60.0	20.0
Registering machinery	0.0	0.0	82.3	0.0	41.2	94.6
Sustaining livestock	25.0	65.0	55.0	35.0	35.0	35.0
Protecting plant health	10.0	20.0	60.0	20.0	30.0	20.0
Trading food	63.6	70.5	42.2	79.1	65.8	42.3
Accessing finance	30.0	30.0	40.0	30.0	30.0	80.0

Source: <https://eba.worldbank.org/en/eba>.

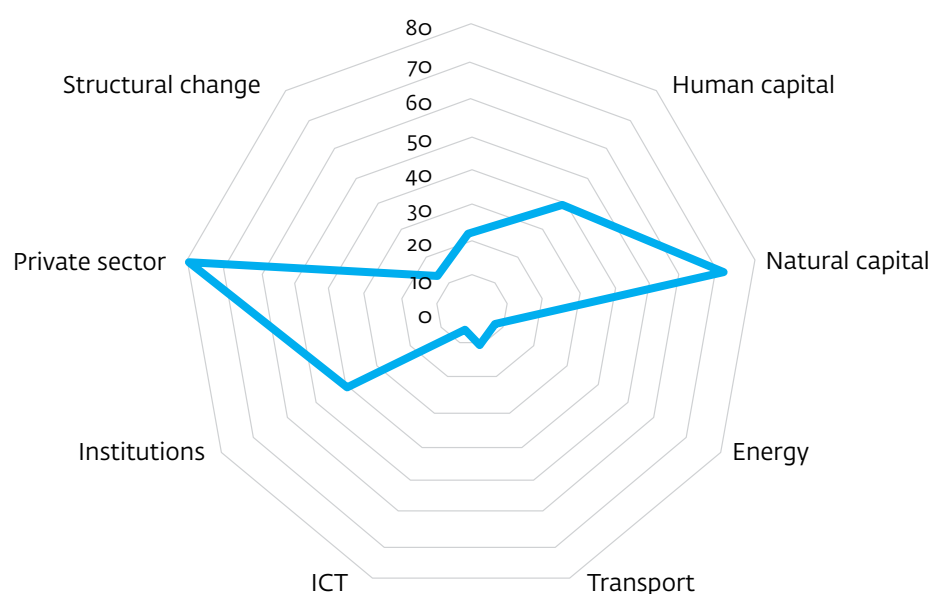
Note: All the component scores are equally weighted. A country's indicator score ranges from 0 to 100, where 0 represents the worst performance and 100 represents the best performance. The difference between a country's indicator score between report years illustrates the extent to which the country has improved over time.

APPENDIX E:

UNCTAD PRODUCTIVE CAPACITY INDEX

Togo is yet to improve its productive capacity along human, institutional, and production factors such as ICT, energy, its transport network, and structural changes. Togo scores below average on six dimensions out of the eight pillars of productive capacity. Although Togo's overall productive capacity index score of 21.8 out of 100 in 2018 compared well with the WAEMU average of 22.0, it lags compared to aspirational countries like Ghana (27.0) or Rwanda (25.0). Despite some strength in the private sector (measured as the ease of cross-border trade) and natural capacities (availability of extractive and agricultural resources), Togo's productive capacity is affected by weaknesses in ICT; energy (availability, sustainability, and efficiency of power sources); transport (capillarity of roads and the railway network and air connectivity); institutions (regulatory quality, effectiveness, corruption, freedom of speech); structural change (ability to move labor and other productive resources from low-productivity to high-productivity economic activities); and human capital (which measures the quality of education, skills, and health conditions possessed by the population, the overall research and development integration in the social fabric, and gender dimensions).

TABLE E.1: TOGO'S PRODUCTIVE CAPACITY INDEX, 2018



Source: UNCTAD, Productive Capacity Index.

Note: ICT = information and communication technology.

APPENDIX F:

METHODOLOGICAL APPROACH TO GROWTH ACCOUNTING

BOX F.1 GROWTH ACCOUNTING EXERCISE

The growth-accounting exercise assesses the contribution to growth from factors of production (human and physical capitals) and total factor productivity (TFP), where TFP is the residual (growth in GDP unexplained by observed increases in factor inputs). The model assumes that GDP can be expressed as a function of physical capital, Labor force, and human capital. The TFP calculation considers labor participation rate, return to schooling, average years of schooling, and share of the population that is in working age. Thus, it comprehensively assesses human capital. Whether the Cobb-Douglas (CD) production

function or a Constant Elasticity of Substitution (CES) between labor and capital is considered, the results show negative TFP on average in Togo since the 2000s but improved between 2015 and 2017. The negative TFP is consistent across the different assumptions on the return to scale (decreasing return to scale, DRS; constant return to scale, CRS; and increasing return to scale, IRS). The results of the growth accounting exercise imply that growth in Togo has been driven by capital accumulation. While the low shares of labor and human capital per labor reveal that growth has been less inclusive.

FIGURE 2.13 GROWTH DECOMPOSITION BY FACTOR

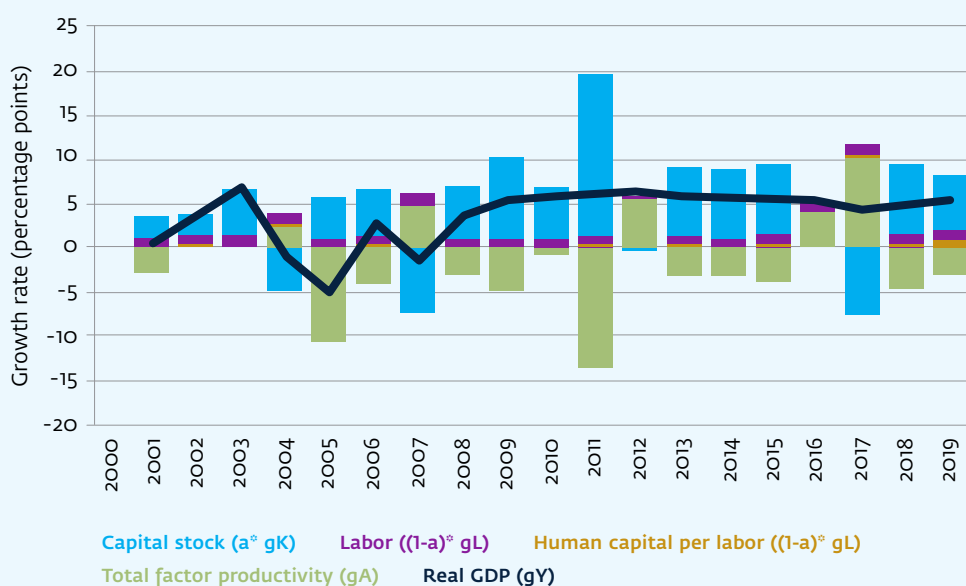


TABLE FI COMPOUND ANNUAL GROWTH RATES OF FACTORS (PERCENT)

Growth accounting		Contributions to growth ($\alpha=60\%$)† (%)‡					
		2000-17	2000-05	2005-08	2008-10	2010-15	2015-17
Capital stock	gK	100	178	70	130	137	-73
Labor	gL	31	106	59	20	19	24
Human capital per labor	gh	5	17	8	0	4	5
Total factor productivity	gA	-36	-200	-37	-50	-61	145
Real GDP	gY	100	100	100	100	100	100

The empirical framework of measuring growth in TFP

The model assumes GDP can be expressed as a function of physical capital and human capital (see Ghosh and Kraay, 2000) as follows:

$Y = AF(K, H)$, where: Y is gross domestic product (GDP data from World Bank, World Development Indicators)

A is an index of total factor productivity (TFP)

K is gross domestic capital stock (calculation is described below)

H is human-capital-adjusted labor input, defined as:

$$H = L \times D \times P \times \exp(\phi \times S),$$

where:

L is population (retrieved from the WDI),

“D” is share of population age 15-64 (retrieved from the WDI) P is labor force participation rate (data from UNPD, available at <http://hdr.undp.org/en/data#>);

“S” is number of years of education per worker (data from HDI at UNDP, <http://hdr.undp.org/en/data#>) “phi” is a parameter that measures the returns to education (computed to be 11 percent for Togo).

Two types of production functions are considered.

- The first is a Cobb-Douglas production function with possibly non-constant returns to scale,

where $F(K, H) = [K^\alpha \times H^{(1-\alpha)}]^\gamma$, where alpha (α) is a parameter between 0 and 1 that measures the relative importance of capital, and gamma (γ) is a parameter that measures the extent of returns to scale.

Reasonable values of alpha range from 0.3 to 0.5. If gamma=1 (gamma > 1) (gamma < 1) there are constant (increasing) (decreasing) returns to scale. A decreasing

return to scale is a condition when increasing factors of production (physical capital and human capital by X%, output increases by less than X%. Under a constant return to scale, an increase of factors by X% leads to increase in output by X%. If the production process exhibits an increasing return to scale, then an increase of the factors by X% generates an increase in output by more than X%. Reasonable values of gamma range from 0.8 to 1.2. In general, $\gamma = 0.8$, for a decreasing return to scale; $\gamma = 1$, for a constant return to scale; and $\gamma = 1.2$, for an increasing return to scale assumption.

- The second production function is a constant return to scale constant elasticity of substitution between physical and human capital:

$$F(K, H) = [aK^\rho + (1-a)H^{(1-\alpha)}]^{(1/\rho)}$$

where rho (ρ) = (sigma-1)/sigma is the elasticity of substitution between K and H. When sigma = 1 this reduces to the Cobb-Douglas case above with gamma = 1. Reasonable values of sigma range from 0.8 to 1.2. To obtain the limiting Cobb-Douglas case use a value of sigma = 0.9999 because values of sigma=1 will result in error messages (division by 0). K: Capital stocks are constructed using the perpetual inventory method. The calculation requires information on the initial capital output ratio in 2005 (kyo), depreciation rates (delta), and gross domestic investment. For most developing countries, reasonable values range between kyo=1 and kyo=2. The model assumes kyo=1.2. Reasonable values for the depreciation rate range from delta = 0.04 to 0.08. capital depreciation rate is in the calculation for Togo is set at 6 percent, a rate used widely for most developing countries. After calculating the initial capital stock (in 2000), capital stock for subsequent years is obtained using the following formula:

$$K(t) = (1 - \text{delta}) K(t - 1) + I(t).$$

Notes

1. EITI (Extractive Industries Transparency Initiative), "Togo 2018 EITI Report" (EITI, Oslo, Norway, 2021).
2. SNPT data not verified
3. SCANTOGO data not verified
4. Axonn Ltd. and MIC Customs Solutions, "Imports and Exports," October 4, 2021.
5. <https://www.elenilto.com/post/-Elenilto-Intends-to-Develop-the-World-Class-Phosphate-Concession-in-Togo>
6. IFC phosphate review.
7. Including 56 percent for nitrogen, 25 percent for phosphorous, and 19 percent potassium (the three primary nutrients for plants).

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